Telefónica Deutschland

Annual Financial Statements

Telefónica Deutschland Holding AG
Reporting year 2022

Contents

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

Reference to the Combined Management Report of Telefónica Deutschland Holding AG

The Management Report of Telefónica Deutschland Holding AG and the Group Management Report are published in the Telefónica Deutschland Annual Report 2022 in accordance with section 315 (5) German Commercial Code (HGB). The Annual Financial Statements and the Management Report of Telefónica Deutschland Holding AG for financial year 2022, which is combined with the Group Management Report, will be submitted to the operator of the Register of Companies and published in the Register of Companies. The Annual Financial Statements of Telefónica Deutschland Holding AG and the Annual Report of the Group for financial year 2022 are also available online at:

www.telefonica.de/investor-relations-en/publications/financial-publications

Telefónica Deutschland

Annual Financial Statements

for Financial Year 2022

Balance Sheet

Assets (in EUR)	As of 31 December 2022	As of 31 December 2021
A) Fixed assets		
Financial Assets		
Shares in affiliated companies	6,910,727,276.16	7,506,147,174.90
	6,910,727,276.16	**7,506,147,174.90**
B) Current assets		
I. Receivables and other assets		
1. Receivables from affiliated companies	114,660,700.84	83,038,896.04
2. Other assets	0.00	93,621.82
	114,660,700.84	**83,132,517.86**
C) Prepaid expenses	**246,106.89**	**253,361.65**
Total assets	**7,025,634,083.89**	**7,589,533,054.41**

Equity and liabilities (in EUR)	As of 31 December 2022	As of 31 December 2021
A) Equity		
I. Subscribed capital	2,974,554,993.00	2,974,554,993.00
II. Additional paid-in capital	3,406,104,489.66	3,961,886,514.59
III. Retained earnings	14,083.91	14,083.91
Legal reserve	14,083.91	14,083.91
IV. Balance sheet profit	551,509,086.83	545,419,898.74
	6,932,182,653.40	**7,481,875,490.24**
B) Provisions		
1. Provisions for pensions and similar obligations	4,113,961.00	3,829,510.00
2. Tax provisions	2,987,556.30	41,486,367.42
3. Other provisions	9,309,598.85	5,718,608.42
	16,411,116.15	**51,034,485.84**
C) Liabilities		
1. Trade payables	78,196.10	114,576.44
– thereof with a remaining term of up to one year EUR 78,196.10 (previous year EUR 114,576.44)		
2. Liabilities to affiliated companies	23,863,921.40	24,792,789.83
– thereof with a remaining term of up to one year EUR 23,192,511.03 (previous year EUR 24,409,681.43)		
– thereof with a remaining term of more than one year EUR 671,410.37 (previous year EUR 383,108.40)		
3. Other liabilities	53,098,196.84	31,715,712.06
– thereof with a remaining term of up to one year EUR 53,098,196.84 (previous year EUR 31,715,712.06)		
– thereof from taxes EUR 53,064,954.85 (previous year EUR 31,715,712.06)		
	77,040,314.34	56,623,078.33
Total equity and liabilities	**7,025,634,083.89**	**7,589,533,054.41**

Income Statement

1 January to 31 December

(in EUR)	**2022**	**2021**
1. Revenues	10,376,840.91	9,560,641.60
2. Other operating income	431,588.65	1,728,176.24
– thereof from currency conversion EUR 427.35 (previous year EUR 70.84)		
3. Personnel expenses		
a) Salaries and wages	(8,585,920.07)	(7,589,709.21)
b) Social security contributions and expenses for pensions and other benefits	(796,064.52)	(1,144,129.50)
– thereof for retirement pensions EUR -738,497.99 (previous year EUR -1,017,372.85)		
	(9,381,984.59)	**(8,733,838.71)**
4. Other operating expenses	(3,052,917.72)	(3,101,412.16)
–thereof from currency conversion EUR -721.08 (previous year EUR -573.90)		
5. Other interest and similar income	128,315.95	0.00
– thereof from affiliated companies EUR 116,735.95 (previous year EUR 0.00)		
6. Interest and similar expenses	(194,088.44)	(552,453.00)
– thereof to affiliated companies EUR -12,509.44 (previous year EUR 0.00)		
– thereof from compounding EUR -175,246.00 (previous year EUR -552,453.00)		
7. Income taxes	(12,581,237.80)	(36,386,367.42)
8. Loss after tax	**(14,273,483.04)**	**(37,485,253.45)**
9. Other taxes	544.94	(62.84)
10. Loss for the period	**(14,272,938.10)**	**(37,485,316.29)**
11. Profit carried forward from the previous year	10,000,000.00	0.00
12. Withdrawal from additional paid-in capital	555,782,024.93	582,905,215.03
13. Balance sheet profit	**551,509,086.83**	**545,419,898.74**

Notes

for Financial Year 2022

1. General information on the Annual Financial Statements

The Annual Financial Statements of Telefónica Deutschland Holding AG, Munich (hereinafter also Telefónica Deutschland), for financial year 2022 have been prepared in accordance with the regulations of the German Stock Corporation Act (AktG) and the German Commercial Code (HGB).

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

The Company is registered with the Munich Local Court under HRB 201055 and is listed on the regulated market of the Frankfurt Stock Exchange. The German Securities Identification Number (WKN) is A1J5RX and the International Securities Identification Number (ISIN) is DE000A1J5RX9. The share capital of Telefónica Deutschland Holding AG as of 31 December 2022 is unchanged from the previous year at EUR 2,974,554,993. It is divided into 2,974,554,993 non-par value registered shares, each with a proportionate interest in the share capital of EUR 1.00. Each non-par value share grants one vote at the Annual General Meeting.

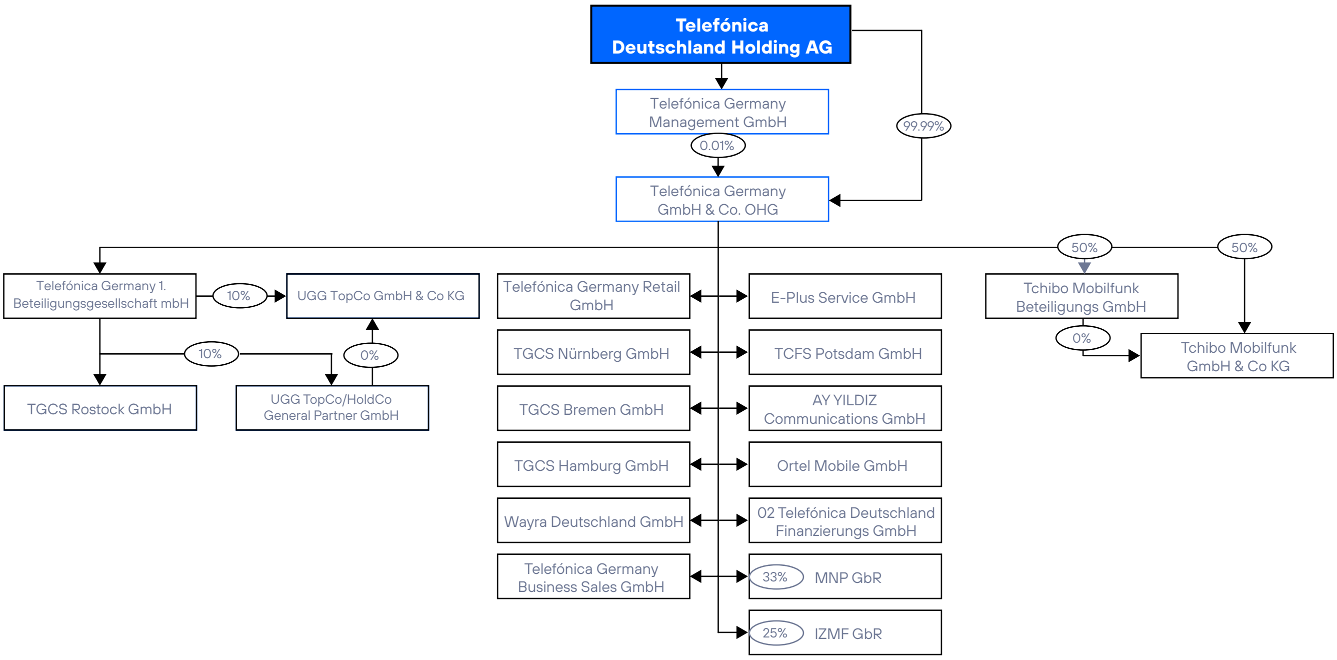
As of 31 December 2022, approx. 29.4% of the shares were in free float. 69.2% were held by Telefónica Germany Holdings Limited, Slough, United Kingdom (Telefónica Germany Holdings Limited), an indirect wholly owned subsidiary of Telefónica, S.A., Madrid, Spain (Telefónica, S.A.), and approx. 1.4% were held by Telefónica, S.A.

Consolidated Financial Statements

Telefónica Deutschland Holding AG is the parent company of the Telefónica Deutschland Group. The Telefónica Deutschland Group comprises Telefónica Deutschland, its subsidiaries, joint operations, and associated companies (together hereinafter also referred to as the Telefónica Deutschland Group).

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

As of 31 December 2022, the companies of the Telefónica Deutschland Group were organised as shown in the following organisation chart:



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

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

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

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

As a shareholder of Telefónica Germany GmbH & Co. OHG, Telefónica Deutschland Holding AG is the taxable entity for corporate income tax purposes.

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

Annual General Meeting and dividend payment

The virtual Annual General Meeting for the 2021 financial year was held on 19 May 2022. In addition to the presentation of the Annual Financial Statements and Consolidated Financial Statements of Telefónica Deutschland, a dividend payment of EUR 0.18 per entitled share, totalling EUR 535,419,898.74, was approved. The dividend for the 2021 financial year was paid to shareholders in May 2022.

Mr Peter Löscher, Mr Pablo de Carvajal González, Ms María García-Legaz Ponce, Mr Ernesto Gardelliano, Mr Michael Hoffmann, Mr Julio Linares López, Ms Stefanie Oeschger and Mr Jaime Smith Basterra were elected to the Supervisory Board as shareholder representatives by resolution of the Annual General Meeting on 19 May 2022.

In addition, the adjustment to the remuneration of the members of the Supervisory Board was approved.

The Annual General Meeting also approved the authorisation to acquire and use own shares with the possibility of exclude the shareholders' subscription rights.

Agreement on the remuneration of management services

Telefónica Deutschland Holding AG has an existing agreement with Telefónica Germany GmbH & Co. OHG, Munich, (hereinafter also referred to as OHG). This agreement includes the obligation to provide management services for Telefónica Germany GmbH & Co. OHG. Telefónica Germany GmbH & Co. OHG reimburses the cost of remuneration of the members of the Management Board as well as other administrative expenses. In addition, Telefónica Germany GmbH & Co. OHG reimburses Telefónica Deutschland Holding AG a flat fee of EUR 43.5 thousand (previous year EUR 43.5 thousand) per quarter.

Telefónica Deutschland Holding AG also has an existing agreement with Telefónica Germany Management GmbH, Munich. The agreement includes the obligation to provide management services for Telefónica Germany Management GmbH. Telefónica Germany Management GmbH reimburses Telefónica Deutschland Holding AG a flat fee of EUR 30 thousand (previous year EUR 30 thousand) per quarter.

The total reimbursement amount is included in the company's revenues.

Partnership agreement of Telefónica Germany GmbH & Co. OHG

Based on the partnership agreement of Telefónica Germany GmbH & Co. OHG, the profits and losses of Telefónica Germany GmbH & Co. OHG are credited to the joint reserve account. If the losses exceed the reserve accounts, they reduce the fixed capital account of the partners. Resolutions of the partners are required for profit distributions.

Additional disclosures

There was no significant impact on Telefónica Deutschland's financials from the COVID-19 pandemic, climate change, or the energy crisis.

2. Accounting Policies

The accounting policies applied in the preparation of the Annual Financial Statements as of 31 December 2022 are in accordance with the regulations of sections 242 to 256a and 264 to 288 HGB and the relevant regulations of the German Stock Corporation Act (AktG). The accounting policies are unchanged compared to the previous year.

Financial assets are measured at historical acquisition cost less the required impairment losses for anticipated permanent impairment in value in order to be recognised at the lower fair value as of the balance sheet date. If the reasons for the impairment losses no longer exist, impairment losses are reversed in accordance with section 253 (5) sentence 1 HGB. Withdrawals from reserve accounts of shareholdings in partnerships reduce the respective carrying amount of the shareholding in the same amount to the extent that the withdrawn reserves already existed at the time of the acquisition of the shareholding or can be documented as having been formed from injections of funds by the company.

Receivables and other assets are recognised at the lower of nominal value or fair value at the balance sheet date. Foreign currency receivables are recorded at the average mean spot exchange rate at the time of the transaction. Items billed in currencies of countries outside the European Monetary Union are converted at the average mean spot exchange rate as of the balance sheet date in accordance with section 256a HGB. In the case of a remaining term of one year or less, section 253 (1) sentence 1 HGB and section 252 (1) no. 4 HS 2 HGB do not apply (section 256a sentence 2 HGB). In the case of receivables collectability of which is subject to recognisable risks, appropriate value reductions in the form of individual and general value adjustments are made based on the age structure; irrecoverable receivables are written off.

Cash and cash equivalents are recognised at the lower of nominal value or fair value at the balance sheet date.

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

Provisions for pensions are measured on the basis of actuarial calculations using the projected unit credit method, taking into account the 2018 G mortality tables of Prof. Dr Heubeck. Provisions for pensions and similar obligations are discounted at a flat rate using the average market interest rate of the past ten years published by the Deutsche Bundesbank, which is based on an assumed remaining term of 15 years (section 253 (2) sentence 2 HGB). This interest rate is 1.79% (2021: 1.87%). The provisions for pensions and similar obligations are calculated on the basis of annual pension increases of 2.20% (2021: 1.75%) and a fluctuation rate of 17.00% (2021: 17.00%) is assumed. Wage and salary increases did not have to be considered.

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

In accordance with section 246 (2) HGB, expenses and income from discounting and from assets are shown set off within the financial result.

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

Tax provisions are recognised at the settlement amount that is required according to reasonable commercial judgement.

Discounting in accordance with section 253 (2) HGB is not necessary.

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

Liabilities are recognised at their settlement amount. Foreign currency liabilities are recorded at the average mean spot exchange rate at the time of the transaction. Liability items billed in the currencies of countries outside the European Monetary Union are converted at the average mean spot exchange rate as of the balance sheet date in accordance with section 256a HGB. In the case of a remaining term of one year or less, section 253 (1) sentence 1 HGB and section 252 (1) no. 4 HS 2 HGB do not apply (section 256a sentence 2 HGB).

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

Gains from foreign currency conversion are shown in the income statement in other operating income, losses from foreign currency conversion are shown in other operating expenses.

Expenses for income tax include the directly payable taxes on income.

3. Notes to the Balance Sheet

Financial assets

Shares in affiliated companies in the amount of EUR 6,910,727 thousand (2021: EUR 7,506,147 thousand) relate in the amount of EUR 6,900,297 thousand (2021: EUR 7,495,717 thousand) to the shares in Telefónica Germany GmbH & Co. OHG, Munich, of which the Company is the personally liable shareholder. The decrease in the carrying amount of the shares in Telefónica Germany GmbH & Co. OHG results from the withdrawal of a total of EUR 595,420 thousand from the reserve accounts of Telefónica Deutschland on the basis of a shareholders' resolution dated 10 May 2022 in accordance with section 4 (3) of the shareholders' agreement. The amount withdrawn from the reserves was taken from previous paid-in capital amounts.

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

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

				Historical acquisition costs
(in EUR thousand)	**As of 1 January 2022**	**Additions**	**Disposals**	**As of 31 December 2022**
Financial assets				
Shares in affiliated companies	7,506,147	–	595,420	6,910,727
	7,506,147	**–**	**595,420**	**6,910,727**

				Accumulated depreciation
(in EUR thousand)	**As of 1 January 2022**	**Additions**	**Disposals**	**As of 31 December 2022**
Financial assets				
Shares in affiliated companies	–	–	–	–
	–	**–**	**–**	**–**

		Carrying amount
(in EUR thousand)	**As of 1 January 2022**	**As of 31 December 2022**
Financial assets		
Shares in affiliated companies	7,506,147	6,910,727
	7,506,147	**6,910,727**

List of shareholdings in accordance with section 285 no. 11, no. 11a, and no. 11b HGB

Name, legal form, registered office	Country	Share capital in %	Equity 31/12/2021 (EUR thousand) [4]	Result in FY 2021 (EUR thousand) [4]
AY YILDIZ Communications GmbH, Düsseldorf [3], [5]	Germany	100	5,025	0 *
E-Plus Service GmbH, Düsseldorf [3], [5]	Germany	100	78,244	0 *
MNP Deutschland GbR, Düsseldorf [5]	Germany	33	484	150
O2 Telefónica Deutschland Finanzierungs GmbH, Munich [5]	Germany	100	175	0 *
Ortel Mobile GmbH, Düsseldorf [3], [5]	Germany	100	5,441	0 *
TCHIBO Mobilfunk Beteiligungs-GmbH, Hamburg [5]	Germany	50	45	1
TCHIBO Mobilfunk GmbH & Co. KG, Hamburg [5]	Germany	50	12,983	583
Telefónica Germany 1. Beteiligungsgesellschaft mbH, Munich [3], [5]	Germany	100	85,778	0 *
Telefónica Germany GmbH & Co. OHG, Munich [1], [2]	Germany	100	6,087,373	625,922
Telefónica Germany Management GmbH, Munich [3]	Germany	100	10,808	-19
Telefónica Germany Business Sales GmbH, Düsseldorf [5]	Germany	100	4,393	45
Telefónica Germany Retail GmbH, Düsseldorf [3], [5]	Germany	100	107,386	0 *
TCFS Potsdam GmbH, Potsdam [3], [5]	Germany	100	325	0 *
TGCS Bremen GmbH, Munich [3], [5]	Germany	100	1,525	0 *
TGCS Hamburg GmbH, Munich [3], [5]	Germany	100	1,775	0 *
TGCS Nürnberg GmbH, Munich [3], [5]	Germany	100	3,775	0 *
TGCS Rostock GmbH, Munich [3], [5]	Germany	100	15,342	0 *
Wayra Deutschland GmbH, Munich [3], [5]	Germany	100	2,393	0 *
UGG TopCo/HoldCo General Partner GmbH, Ismaning [5]	Germany	10	17	-6
UGG TopCo GmbH & Co. KG, Ismaning [5]	Germany	10	56,940	-2,942
IZMF GbR, Bonn [5]	Germany	25	-	-

[1] 99.99% Telefónica Deutschland Holding AG, as personally liable shareholder; 0.01% Telefónica Germany Management GmbH
[2] Utilisation of exemption in accordance with section 264 b HGB
[3] Utilisation of exemption in accordance with section 264 (3) HGB
[4] Equity and result of the last financial year for which annual financial statements are available
[5] Indirect investment by Telefónica Deutschland Holding AG
[*] After profit and loss transfer

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

Receivables

Receivables from affiliated companies amount to EUR 114,661 thousand (2021: EUR 83,039 thousand). Receivables from affiliated companies in financial year 2022 mainly comprise receivables from affiliated companies from the VAT Group in the amount of EUR 92,899 thousand (2021: EUR 76,601 thousand) as well as receivables from cash pooling from Telfisa Global B.V., Amsterdam, Netherlands in the amount of EUR 19,586 thousand (2021: EUR 5,210 thousand).

In addition, there are receivables of EUR 2,034 thousand (2021: EUR 1,218 thousand) against Telefónica Germany GmbH & Co. OHG for management services and of EUR 10 thousand (2021: EUR 10 thousand) against Telefónica Germany Management GmbH.

Deferred taxes

In exercising the recognition option, no deferred tax assets were recognised as of 31 December 2022. Deferred tax assets result mainly from existing corporate and trade tax loss carryforwards and from temporary differences at the level of Telefónica Germany GmbH & Co. OHG. As a shareholder of Telefónica Germany GmbH & Co. OHG, Telefónica Deutschland Holding AG, in addition to the 0.01% share held by Telefónica Germany Management GmbH, is the taxable entity for corporate income tax purposes. The tax rate for deferred tax assets for corporation tax and solidarity surcharge is unchanged at 15.825%, and 17.15% for trade tax.

Equity

Subscribed capital

The registered share capital of Telefónica Deutschland Holding AG as of 31 December 2022 amounts to EUR 2,974,555 thousand (2021: EUR 2,974,555 thousand). The share capital is divided into non-par value registered shares, each with a proportionate interest in the share capital of EUR 1.00 ('shares'). The registered share capital is fully paid.

As of 31 December 2022, Telefónica Deutschland Holding AG did not hold any of its own shares.

In accordance with section 6 (2) of the articles of association, the shareholders do not have the right to securitise shares. Each non-par value share grants one vote at the Annual General Meeting. The shares are freely transferable.

Authorised capital

Telefónica Deutschland Holding AG had authorised capital 2021/I of EUR 1,487,277,496 as of 31 December 2022.

Conditional capital

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

Authorisation of the Management Board to repurchase own shares

The authorisation of the Management Board to repurchase own shares is governed by section 57 (1) sentence 2 and sections 71 et seqq. AktG. The Annual General Meeting on 19 May 2022 resolved a new authorisation in accordance with section 71 (1) no 8 of the German Stock Corporation Act (Aktiengesetz – AktG) to repurchase own shares of up to a total of 10% of the share capital on the resolution date or, if lower, on the date on which the authorisation is exercised.

Additional paid-in capital

Additional paid-in capital as of 31 December 2022 amounts to EUR 3,406,104 thousand (2021: EUR 3,961,887 thousand).

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

In the financial year, a withdrawal of EUR 555,782 thousand was made from the (free) additional paid-in capital to the balance sheet profit.

Retained earnings

Retained earnings contain a legal reserve in accordance with section 150 (2) of the German Stock Corporation Act (Aktiengesetz – AktG) of EUR 14 thousand (2021: EUR 14 thousand).

Appropriation of profits

The virtual Annual General Meeting for the 2021 financial year was held on 19 May 2022. In addition to the presentation of the Annual Financial Statements and Consolidated Financial Statements of Telefónica Deutschland, a dividend payment of EUR 0.18 per entitled share, totalling EUR 535,419,898.74, was approved. For this purpose, EUR 582,905,215.03 were withdrawn from the (free) additional paid-in capital and transferred to balance sheet profit in 2021. The dividend was paid to shareholders in May 2022.

Pension provisions

The provision for pensions relates to pension obligations in the amount of EUR 4,114 thousand (2021: EUR 3,830 thousand). These pension obligations include EUR 2,408 thousand in pension obligations to former members of the Management Board.

Based on a valuation as of 31 December 2022 in accordance with section 253 (1) sentence 2 and (2) sentence 2 HGB, the settlement amount of the liability is EUR 6,063 thousand (2021: EUR 5,667 thousand). After offsetting against plan assets of EUR 1,949 thousand (2021: EUR 1,837 thousand) in accordance with section 246 (2) sentence 2 HGB, the total present value of the offset pension obligations amounts to EUR 4,114 thousand (previous year: EUR 3,830 thousand). The difference in accordance with section 253 (6) sentence 1 HGB amounts to EUR 397 thousand (2021: EUR 602 thousand) and is blocked from distribution.

The plan assets consist of exclusive, pledged and insolvency-protected reinsurance policies. The fair value of the netted reinsurance claims corresponds to the amortised cost (actuarial reserve plus profit participation) in accordance with actuarial reports and communications from insurers.

Telefónica Deutschland Holding AG makes use of the option granted in section 28 (1) and (2) EGHGB not to recognise indirect pension obligations in the amount of EUR 3,730 thousand (2021: EUR 3,015 thousand), which are secured by the Unterstützungskasse ProFund Unabhängige Gruppen- und Unterstützungskasse e.V. provident fund. To cover this liability, EUR 3,397 thousand (2021: EUR 2,815 thousand) was held in trust for Telefónica Deutschland Holding AG as of 31 December 2022.

Interest income from cover assets in the amount of EUR 20 thousand (2021: EUR 16 thousand) is set off against interest expenses from the liability in the amount of EUR 106 thousand (2021: EUR 117 thousand) and against interest expenses from the change in the discounting rate of pension provisions in the amount of EUR 89 thousand (2021: EUR 451 thousand).

Tax provisions

Tax provisions consist of provisions for corporation tax, including solidarity surcharge, in the amount of EUR 2,988 thousand (2021: EUR 41,486 thousand), which was set up in relation to the results of Telefónica Germany GmbH & Co. OHG and its subsidiaries. As a shareholder of Telefónica Germany GmbH & Co. OHG, Telefónica Deutschland Holding AG is a taxable entity for corporation tax and solidarity surcharge purposes.

Other provisions

Other provisions in the amount of EUR 9,310 thousand (2021: EUR 5,719 thousand) include EUR 5,114 thousand (2021: EUR 4,438 thousand) relating mainly to obligations arising from the remuneration of the Management Board.

In the reporting year, the share-based employee remuneration Bonus II was extended to employees of affiliated companies. The other provisions therefore take into account long-term obligations at the settlement amount of the remuneration commitments. Each affiliated company is contractually obligated to cover the expenses for payment commitments to its employees. In this relation, Telefónica Deutschland Holding AG has reimbursement rights against affiliated companies in the amount of EUR 121 thousand at the end of the financial year 2022, which were reduced and taken into account in the valuation of the other provisions for long-term obligations in the amount of the settlement amount of the remuneration commitment of EUR 121 thousand as at 31 December 2022.

Liabilities

Trade payables total EUR 78 thousand (2021: EUR 115 thousand) and primarily relate to liabilities for consultancy services.

Liabilities to affiliated companies amount to EUR 23,864 thousand (2021: EUR 24,793 thousand) and mainly comprise liabilities from a loan granted by Telefónica Germany GmbH & Co. OHG at a nominal amount of EUR 20,000 thousand (2021: EUR 20,000 thousand). In addition, there are liabilities to affiliated companies from the VAT Group amounting to EUR 2,885 thousand. (2021: EUR 3,248 thousand).

Other liabilities amounting to EUR 53,098 thousand (2021: EUR 31,716 thousand) mainly comprise VAT liabilities totalling EUR 52,612 thousand (2021: EUR 31,582 thousand), which the Company is required to pay to the tax authority as the controlling company of the VAT Group.

4. Notes to the Income Statement

Revenues

Revenues total EUR 10,377 thousand (2021: EUR 9,561 thousand) and include EUR 10,083 thousand (2021: EUR 9,267 thousand) for charging on the costs for the remuneration of Management Board members, as well as additional administration costs, in the reporting year, which are assumed by Telefónica Germany GmbH & Co. OHG (as stated in "1. General information on the Annual Financial Statements – Agreement on the remuneration of management services").

Furthermore, invoiced management services are included in the amount of EUR 294 thousand (2021: EUR 294 thousand), which Telefónica Deutschland Holding AG provides for Telefónica Germany GmbH & Co. OHG and Telefónica Germany Management GmbH.

Other operating income

Other operating income in the amount of EUR 432 thousand (2021: EUR 1,728 thousand) mainly comprises EUR 431 thousand (2021: EUR 1,728 thousand) from the release of provisions.

Personnel expenses

Personnel expenses in the amount of EUR 9,382 thousand (2021: EUR 8,734 thousand) include expenses for the remuneration of the Management Board, including social security contributions.

Other operating expenses

Other operating expenses in the financial year in the amount of EUR 3,053 thousand (2021: EUR 3,101 thousand) mainly include legal and consultancy expenses from external service providers.

Other interest and similar income

Other interest and similar income in the amount of EUR 128 thousand (2021: EUR 0 thousand) mainly comprise interest income from cash pooling in the amount of EUR 117 thousand (2021: EUR 0 thousand).

Interest and similar expenses

Other interest and similar expenses in the amount of EUR 194 thousand (2021: EUR 552 thousand) mainly comprise interest expenses from the compounding pension provisions in the amount of EUR 175 thousand (2021: EUR 552 thousand).

Income taxes

Income tax expenses of EUR 12,581 thousand (2021: EUR 36,386 thousand) consist of current corporate income tax expenses, including solidarity surcharge.

Out-of-period income

In total, the 2022 financial year includes out-of-period income in the amount of EUR 431 thousand (2021: EUR 1,728 thousand). This amount relates to income from the release of provisions included in other operating income.

Out-of-period expenses

In total, the 2022 financial year includes out-of-period expenses in the amount of EUR 195 thousand (2021: EUR 0 thousand). This relates to expenses of EUR 137 thousand in remuneration of the Management Board and of EUR 57 thousand in auditing expenses.

5. Other mandatory disclosures

Remuneration of the Management Board pursuant section 285 no 9 HGB

Total remuneration of the members of the Management Board for the financial year ending on 31 December 2022 amounts to EUR 7,797 thousand (2021: EUR 7,581 thousand).

In the 2022 financial year, the total remuneration expense for the members of the former management and their surviving dependants amounts to EUR 1,041 thousand (2021: EUR 556 thousand).

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

In the reporting year, total remuneration includes share-based compensation on the free transfer of shares with a fair value of EUR 1,561 thousand (2021: EUR 1,723 thousand) at the grant date, for the number of 244,477 shares (2021: 286,610).

Remuneration of the Supervisory Board pursuant section 285 no 9 HGB

The members of the Supervisory Board received remuneration for their work on the Supervisory Board of Telefónica Deutschland Holding AG amounting to EUR 629 thousand in 2022 following EUR 573 thousand in 2021.

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

Management Board

The Supervisory Board of Telefónica Deutschland Holding AG has extended the contracts of Management Board chairman Markus Hass (CEO) and Management Board member Mallik Rao (Chief Technology & Information Officer (CTIO)), which were originally set to expire on 31 December 2022, until 31 December 2025.

The Supervisory Board of Telefónica Deutschland Holding AG agreed to the early resignation of Management Board member Wolfgang Metze (Chief Consumer Officer (CCO)) effective at the end of 1 June 2022. CEO Markus Haas took over the tasks of the Management Board department on an interim basis on 1 June 2022.

On 28 October 2022, the Supervisory Board of Telefónica Deutschland Holding AG approved the contract of Andreas Laukenmann as future Management Board member and CCO (Chief Consumer Officer). He will begin his new role as soon as possible in 2023; however, no later than September 2023.

The Supervisory Board of Telefónica Deutschland Holding AG has extended the contracts of Management Board members Valentina Daiber (Chief Officer Legal and Corporate Affairs (COLCA)), Nicole Gerhardt (Chief Human Resources Officer (CHRO)), Markus Rolle (Chief Financial Officer (CFO)), and Alfons Lösing (Chief Partner & Wholesale Officer (CPWO)), which were originally set to expire in July 2023, until 2026.

The members of the Management Board of Telefónica Deutschland Holding AG as of 31 December 2022 are listed below:

Name	Role	Membership of Supervisory Boards
Markus Haas	Chief Executive Officer (CEO) Chairman of the Management Board	
Markus Rolle	Chief Financial Officer (CFO) Management Board member	Telefónica Germany Retail GmbH, Düsseldorf (Chairman) TGCS Rostock GmbH, Munich (Chairman) (until 29 July 2022) TGCS Nürnberg GmbH, Munich (Chairman) TCFS Potsdam GmbH, Potsdam (Chairman) (since 7 November 2022)
Valentina Daiber	Chief Officer for Legal and Corporate Affairs Management Board member	Telefónica Germany Retail GmbH TGCS Nürnberg GmbH TCFS Potsdam GmbH, Potsdam (since 7 November 2022)
Nicole Gerhardt	Chief Human Resources Officer (CHRO) Management Board member	Telefónica Germany Retail GmbH, Düsseldorf TGCS Rostock GmbH, Munich (until 29 July 2022) TGCS Nürnberg GmbH, Munich TCFS Potsdam GmbH, Potsdam (since 7 November 2022)
Alfons Lösing	Chief Partner & Wholesale Officer Management Board member	Telefónica Germany Retail GmbH, Düsseldorf (since 2 November 2022) TGCS Rostock GmbH, Munich (until 29 July 2022) TGCS Nürnberg GmbH, München (since 2 November 2022) TCFS Potsdam GmbH, Potsdam (since 7 November 2022)
Wolfgang Metze (until 1 June 2022)	Chief Consumer Officer (CCO) Management Board member	Telefónica Germany Retail GmbH, Düsseldorf (Chairman) (until the end of 1 June 2022) TGCS Rostock GmbH, Munich (Chairman) (until the end of 1 June 2022) TGCS Nürnberg GmbH, Munich (Chairman) (until the end of 1 June 2022) Advisory Council of UGG TopCo GmbH & Co. KG (Unsere Grüne Glasfaser) (until the end of 1 June 2022)
Mallik Rao (Yelamate Mallikarjuna Rao)	Chief Technology & Information Officer (CTIO) Management Board member	Advisory Council of UGG TopCo GmbH & Co. KG (Unsere Grüne Glasfaser) (since 22 June 2022)

Supervisory Board

As of 31 December 2021, Peter Erskine resigned from his position as member of the Supervisory Board. Effective 4 January 2022, Jaime Smith Basterra was appointed as a member of the Supervisory Board by court and confirmed by the Annual General Meeting on 19 May 2022. The other shareholder representatives were also re-elected by the Annual General Meeting on 19 May 2022.

The members of the Supervisory Board of Telefónica Deutschland Holding AG as of 31 December 2022 are listed below:

Name	Role
Peter Löscher*	Chairman of the Supervisory Board Occupation: Entrepreneur Mandate: Independent, non-executive member of the Board of Directors, Telefónica, S.A., Madrid, Spain Member of the Supervisory Board, Koninklijke Philips N.V., Amsterdam, Netherlands Non-executive member of the Board of Directors of Thyssen-Bornemisza Group AG, Zurich, Switzerland Non-Executive Director of Doha Venture Capital LLC, Doha, Qatar
Christoph Braun*	Deputy Chairman of the Supervisory Board Occupation: Full-time member of the Works Council of Telefónica Germany GmbH & Co. OHG Chairman of the European Works Council of Telefónica Europe Deputy Chairman of the General Works Council of Telefónica Germany GmbH & Co. OHG Chairman of the Works Council Region North-East of Telefónica Germany GmbH & Co. OHG
Martin Butz*	Member of the Supervisory Board Occupation: Director Carrier Management & Roaming, Telefónica Germany GmbH & Co. OHG
Pablo de Carvajal González	Member of the Supervisory Board Occupation: General Counsel & Global Head Regulatory Affairs, Telefónica, S.A.
María García-Legaz Ponce	Member of the Supervisory Board Occupation: Chief of Staff, Telefónica, S.A.

Name	Role
Ernesto Gardelliano	Member of the Supervisory Board Occupation: Group Controller & Planning Director, Telefónica, S.A.
Cansever Heil*	Member of the Supervisory Board Occupation: Shop Manager, part-time member (50%) of the Company Wide Works Council (Unternehmenseinheitlicher Betriebsrat), Telefónica Germany Retail GmbH
Christoph Heil*	Member of the Supervisory Board Occupation: Representative, Vereinte Dienstleistungsgewerkschaft ver.di Mandate: Member of the Supervisory Board, Capgemini Deutschland GmbH
Michael Hoffmann	Member of the Supervisory Board Chairman of the Audit Committee, Telefónica Deutschland Holding AG Occupation: Master's degree in Business Administration, self-employed Mandate: Member of the Supervisory Board and Chairman of the Audit Committee of Westwing Group AG
Julio Linares López	Member of the Supervisory Board Mandates: Member of the Board of Directors (Trustee), Fundación Telefónica Member of the Board of Directors and Chairman of the Strategy Committee, Telefónica Brazil S.A. (until 9 May 2022) Non-Executive Director, Telefónica de España, S.A.U. (until 4 March 2022) Non-Executive Director, Telefónica Móviles España, S.A.U. (until 4 March 2022)
Stefanie Oeschger	Member of the Supervisory Board Occupation: Interim Manager, CEMBRA Money Bank, Zurich
Thomas Pfeil*	Member of the Supervisory Board Occupation: Full-Time member of the Works Council of Telefónica Germany GmbH & Co. OHG Chairman of the Works Council Munich, Telefónica Germany GmbH & Co. OHG
Joachim Rieger*	Member of the Supervisory Board Occupation: Full-Time member of the Works Council of TCFS Potsdam GmbH Deputy Chairman of the General Works Council of TCFS Potsdam GmbH Mandate: Deputy Chairman of the Supervisory Board of TCFS Potsdam GmbH (since 12 December 2022)
Jaime Smith Basterra	Member of the Supervisory Board (since 4 January 2022) Occupation: independent, non-executive member of the Board of Directors, Moldava Consulting SL. Mandate: Independent non-executive member of the Board of Directors and Chairman of the Audit and Control Committee, Cetin Group N.V., Amsterdam, Netherland
Dr Jan-Erik Walter*	Member of the Supervisory Board Occupation: Full-time member of the Works Council of Telefónica Germany GmbH & Co. OHG Chairman of the Group Works Council of Telefónica Deutschland Holding AG
Claudia Weber*	Member of the Supervisory Board Occupation: Deputy Managing Director, ver.di Munich district Mandate: Member of the Supervisory Board, SWM Services GmbH Member of the Supervisory Board, Stadtwerke München GmbH (since 27 May 2022)

* Employee representative

Auditor's fee

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

Number of employees

As in 2021, the Company had no employees in the 2022 financial year.

Contingent liabilities and other financial obligations

Contingent liabilities

In its capacity as the parent company of the Telefónica Deutschland Group, Telefónica Deutschland Holding AG assumes warranty obligations for its subsidiaries. Within the framework of the issue of the bond of O2 Telefónica Deutschland Finanzierungs GmbH, Munich, Telefónica Deutschland has given an unconditional and irrevocable guarantee to each holder of the issued bond in July 2018 in the amount of EUR 600 million for the proper and timely payment of all amounts payable by the issuer on the bond in accordance with the bond terms.

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

Telefónica Deutschland Holding AG issued a letter of comfort to Telefónica Germany GmbH & Co. OHG and Telefónica Germany Management GmbH in the 2016 financial year. In the event that a beneficiary company of the letter of comfort is unable to meet its liabilities falling due and other obligations towards creditors by the prescribed deadline, Telefónica Deutschland Holding AG will provide the beneficiary company with the financial resources necessary to meet its liabilities that are due. The letters of comfort continue to be valid and may be terminated at the end of a financial year of the companies, subject to a notice period of six months.

On 21 January 2019, Telefónica Deutschland Holding AG also issued a letter of comfort for Telefónica Germany GmbH & Co. OHG with a term until 31 December 2040. In this letter of comfort, Telefónica Deutschland Holding AG undertakes to ensure, without restriction and until 31 December 2040, that Telefónica Germany GmbH & Co. OHG has access to all financial resources required to fulfil a bid submitted for the acquisition of mobile frequencies as part of an auction procedure, as well as for the expansion of the network and the ongoing operation of the network.

The letters of comfort do not significantly change the economic substance of the opportunities and risks. The Management Board considers the risk of claims arising from contingent liabilities as low on the basis of the good creditworthiness of Telefónica Deutschland Group, including Telefónica Germany GmbH & Co. OHG, which is also confirmed by external rating agencies.

Parent company / consolidated financial statements

Telefónica Deutschland Holding AG, Munich, prepares consolidated financial statements for the smallest group of companies in accordance with IFRS as adopted by the EU. These consolidated financial statements are published in the Register of Companies. The consolidated financial statements of Telefónica Deutschland Holding AG are included in the consolidated financial statements of the Spanish parent company Telefónica S.A. (Madrid, Spain). The latter is the company that prepares the consolidated financial statements for the largest group of companies and these are published online at www.telefonica.com.

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

On 27 February 2020, BlackRock Inc., Wilmington, Delaware, United States of America notified us in accordance with section 33 (1) WpHG that its share of voting rights in Telefónica Deutschland Holding AG, Munich, Germany, amounted to 3.26% of the voting rights on 22 February 2020.

On 22 May 2019, T. Rowe Price Group, Inc., Baltimore, Maryland, United States of America, notified us in accordance with section 33 (1) WpHG that its share of voting rights in Telefónica Deutschland Holding AG, Munich, Germany, fell below the threshold of 3% of the voting rights on 17 May 2019 and amounted to 2.99% on this date.

On 15 May 2019, Koninklijke KPN N.V., The Hague, Netherlands, notified us in accordance with section 33 (1) WpHG that its share of voting rights in Telefónica Deutschland Holding AG, Munich, Germany, fell below the threshold of 3% of the voting rights on 14 May 2019 and amounted to 2.98% on this date.

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

Holdings Limited. 4.40% of the voting rights (corresponding to 130,880,419 voting rights) are attributable to the Company in accordance with section 22 (1) sentence 1 no 2 WpHG in conjunction with sentence 2 WpHG. Attributed voting rights are held by the following shareholders, whose share of voting rights in Telefónica Deutschland Holding AG amounts to 3% or more, respectively: KPN Mobile Germany GmbH & Co. KG.

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

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

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

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

The Management Board and the Supervisory Board last submitted a declaration of compliance in accordance with section 161 of the German Stock Corporation Act (AktG) on 27 and 28 October 2022. The complete wording of the Declaration of Compliance is available on Telefónica Deutschland's website at www.telefonica.de/investor-relations-en/corporate-governance/declarations-reports-and-articles.

Subsequent Events

On 9 February 2023, the Management Board of Telefónica Deutschland resolved to propose a total cash dividend of approx. EUR 535 million or EUR 0.18 per share to the next Annual General Meeting which is scheduled for 17 May 2023.

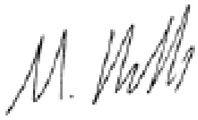
No further events subject to disclosure requirements occurred after the end of the reporting period.

Munich, 16 February 2023

Telefónica Deutschland Holding AG

- The Management Board -

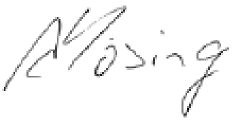
Markus Haas



Markus Rolle

Valentina Daiber

Nicole Gerhardt



Alfons Lösing

Mallik Rao

Telefónica Deutschland Holding AG Declaration of the Statutory Representatives

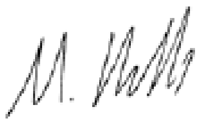
To the best of our knowledge, and in accordance with the applicable reporting principles, the annual financial statements give a true and fair view of the net assets, financial position and results of operations of the Company, and the Management Report of Telefónica Deutschland Holding AG, which is combined with the Group Management Report, includes a fair review of the development and performance of the business and the position of the Company, together with a description of the material opportunities and risks associated with the expected development of the Company.

Munich, 16 February 2023

Telefónica Deutschland Holding AG

The Management Board

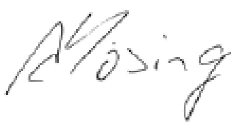
Markus Haas



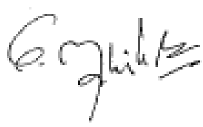
Markus Rolle

Valentina Daiber

Nicole Gerhardt



Alfons Lösing



Mallik Rao

INDEPENDENT AUDITOR'S REPORT

To Telefónica Deutschland Holding AG, Munich

REPORT ON THE AUDIT OF THE ANNUAL FINANCIAL STATEMENTS AND OF THE MANAGEMENT REPORT

Audit Opinions

- We have audited the annual financial statements of Telefónica Deutschland Holding AG, Munich, which comprise the balance sheet as at 31 December 2022, and the statement of profit and loss for the financial year from 1 January to 31 December 2022 and notes to the financial statements, including the presentation of the recognition and measurement policies. In addition, we have audited the management report of Telefónica Deutschland Holding AG, which is combined with the group management report, for the financial year from 1 January to 31 December 2022. In accordance with the German legal requirements, we have not audited the content of those parts of the management report listed in the "Other Information" section of our auditor's report.

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

- the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law and give a true and fair view of the assets, liabilities and financial position of the Company as at 31 December 2022 and of its financial performance for the financial year from 1 January to 31 December 2022 in compliance with German Legally Required Accounting Principles and
- the accompanying management report as a whole provides an appropriate view of the Company's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the management report does not cover the content of those parts of the management report listed in the "Other Information" section of our auditor's report.

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

Basis for the Audit Opinions

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

Key Audit Matters in the Audit of the Annual Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual financial statements for the financial year from 1 January to 31 December 2022. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

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

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

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

① Matter and issue

② Audit approach and findings

③ Reference to further information

Hereinafter we present the key audit matter:

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

① In the Company's annual financial statements shares in affiliated companies amounting to € 6.9 billion (98 % of total assets) are reported under the "Financial assets" balance sheet item. The shares in affiliated companies principally comprise the shareholding in Telefónica Germany GmbH & Co. OHG, Munich which holds further shareholdings in turn. Shares in affiliated companies are measured in accordance with German commercial law at the lower of cost and fair value. The impairment test performed in relation to the value of the shares in Telefónica Germany GmbH & Co. OHG takes into account the operations of Telefónica Germany GmbH & Co. OHG as well as the fair values of its direct and indirect shareholdings, as these may have a significant influence on the fair value of the shares in Telefónica Germany GmbH & Co. OHG. In financial year 2022, the fair value of Telefónica Germany GmbH & Co. OHG and its significant shareholdings were calculated using a discounted cash flow model as the present value of the expected future cash flows resulting from the financial projections prepared. Expectations relating to future market developments and assumptions about the development of macroeconomic factors as well as the expected effects of the current geopolitical and economic distortions on the business activities of the affiliated companies were also taken into account. The discount rate used was the individually determined cost of capital. With respect to Telefónica Deutschland Holding AG's other indirect and direct shareholdings, testing focused on whether there were indications that result in an impairment of the shareholding in Telefónica Germany GmbH & Co. OHG that could be expected to be permanent. Based on the values calculated and other documentation, there was no need for Telefónica Germany GmbH & Co. OHG to recognize impairment losses in the financial year. The result of the impairment test depends particularly on the assessments of the Company's executive directors regarding the future cash flows, growth rates, the discount rate used as well as the future development of the operations of Telefónica Germany GmbH & Co. OHG and its direct and indirect shareholdings. Due to the assessment relating to the numerous valuation parameters, the impairment test is subject to considerable uncertainty. Against this background and in view of its material significance for the net assets and results of operations of the Company, this matter was of particular importance for our audit.

② As part of our audit, we evaluated the recoverability of the shareholding of Telefónica Deutschland Holding AG in Telefónica Germany GmbH & Co. OHG also under consideration of the recoverability of the significant shareholdings of Telefónica Germany GmbH & Co. OHG. In this context, we assessed the methodology employed for the purposes of the valuations, among other things. We assessed whether the fair value of this material shareholdings had been properly determined using a discounted cash flow model in compliance with the relevant measurement standards. We based our assessment, among other things, on a comparison with general and sector-specific market expectations as well as on the executive directors' detailed explanations regarding the key planning value drivers underlying the expected cash flows. In addition, we have evaluated the assessment of the executive directors with regard to the effects of the current geopolitical and economic distortions on the business activities of Telefónica Germany GmbH & Co. OHG and its significant investments and examined how they were taken into account in the determination of future cash flows. In the knowledge that even relatively small changes in the discount rates applied and the growth rates can have a material impact on the values of the entities calculated in this way, we focused our testing in particular on the parameters used to determine the discount rates applied, and evaluated the measurement models. Furthermore, on the basis of financial information and other documentation we evaluated the executive directors' conclusion that there were no indications that the shareholding in Telefónica Germany GmbH & Co. OHG was impaired, also taking into account the market capitalization of Telefónica Deutschland Holding AG for this purpose. In this context, we assessed the expected future income from the operating business activities in the light of the business plan of Telefónica Germany GmbH & Co. OHG prepared by the executive directors.

For this purpose, we assessed the appropriateness of the assumptions and expectations underlying the business plan, including with respect to the further implementation of planned measures and the anticipated growth rate, and considered whether the business plan was drawn up properly on this basis. In our view, the assumptions and expectations underlying the executive directors' impairment testing of the shareholding in Telefónica Germany GmbH & Co. OHG have been properly derived and are within reasonable ranges.

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

Other Information

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

- the statement on corporate governance pursuant to § 289f HGB and § 315d HGB
- section "Internal control system" of the management report

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

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

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the annual financial statements and of the management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal control relevant to the audit of the annual financial statements and of arrangements and measures (systems) relevant to the audit of the management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems of the Company.

- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the annual financial statements and in the management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles.
- Evaluate the consistency of the management report with the annual financial statements, its conformity with German law, and the view of the Company's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.
- We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.
- From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the annual financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

OTHER LEGAL AND REGULATORY REQUIREMENTS

Report on the Assurance on the Electronic Rendering of the Annual Financial Statements and the Management Report Prepared for Publication Purposes in Accordance with § 317 Abs. 3a HGB

Assurance Opinion

- We have performed assurance work in accordance with § 317 Abs. 3a HGB to obtain reasonable assurance as to whether the rendering of the annual financial statements and the management report (hereinafter the “ESEF documents”) contained in the electronic file TDH_AG_JAP+LB_ESEF-2022-12-31 and prepared for publication purposes complies in all material respects with the requirements of § 328 Abs. 1 HGB for the electronic reporting format (“ESEF format”). In accordance with German legal requirements, this assurance work extends only to the conversion of the information contained in the annual financial statements and the management report into the ESEF format and therefore relates neither to the information contained within these renderings nor to any other information contained in the electronic file identified above.

In our opinion, the rendering of the annual financial statements and the management report contained in the electronic file identified above and prepared for publication purposes complies in all material respects with the requirements of § 328 Abs. 1 HGB for the electronic reporting format. Beyond this assurance opinion and our audit opinion on the accompanying annual financial statements and the accompanying management report for the financial year from 1 January to 31 December 2022 contained in the “Report on the Audit of the Annual Financial Statements and on the Management Report” above, we do not express any assurance opinion on the information contained within these renderings or on the other information contained in the electronic file identified above.

Basis for the Assurance Opinion

We conducted our assurance work on the rendering of the annual financial statements and the management report contained in the electronic file identified above in accordance with § 317 Abs. 3a HGB and the IDW Assurance Standard: Assurance Work on the Electronic Rendering, of Financial Statements and Management Reports, Prepared for Publication Purposes in Accordance with § 317 Abs. 3a HGB (IDW AsS 410 (06.2022)) and the International Standard on Assurance Engagements 3000 (Revised). Our responsibility in accordance therewith is further described in the “Auditor’s Responsibilities for the Assurance Work on the ESEF Documents” section. Our audit firm applies the IDW Standard on Quality Management 1: Requirements for Quality Management in the Audit Firm (IDW QS 1).

Responsibilities of the Executive Directors and the Supervisory Board for the ESEF Documents

The executive directors of the Company are responsible for the preparation of the ESEF documents including the electronic renderings of the annual financial statements and the management report in accordance with § 328 Abs. 1 Satz 4 Nr. [number] 1 HGB.

In addition, the executive directors of the Company are responsible for such internal control as they have considered necessary to enable the preparation of ESEF documents that are free from material non-compliance with the requirements of § 328 Abs. 1 HGB for the electronic reporting format, whether due to fraud or error.

The supervisory board is responsible for overseeing the process for preparing the ESEF-documents as part of the financial reporting process.

Auditor‘s Responsibilities for the Assurance Work on the ESEF Documents.

Our objective is to obtain reasonable assurance about whether the ESEF documents are free from material non-compliance with the requirements of § 328 Abs. 1 HGB, whether due to fraud or error. We exercise professional judgment and maintain professional skepticism throughout the assurance work. We also:

- Identify and assess the risks of material non-compliance with the requirements of § 328 Abs. 1 HGB, whether due to fraud or error, design and perform assurance procedures responsive to those risks, and obtain assurance evidence that is sufficient and appropriate to provide a basis for our assurance opinion.
- Obtain an understanding of internal control relevant to the assurance work on the ESEF documents in order to design assurance procedures that are appropriate in the circumstances, but not for the purpose of expressing an assurance opinion on the effectiveness of these controls.
- Evaluate the technical validity of the ESEF documents, i.e., whether the electronic file containing the ESEF documents meets the requirements of the Delegated Regulation (EU) 2019/815 in the version in force at the date of the annual financial statements on the technical specification for this electronic file.
- Evaluate whether the ESEF documents provide an XHTML rendering with content equivalent to the audited annual financial statements and to the audited management report.

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as auditor by the annual general meeting on 19 May 2022. We were engaged by the supervisory board on 24 November 2022. We have been the auditor of the Telefónica Deutschland Holding AG, Munich, without interruption since the financial year 2017.

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

REFERENCE TO AN OTHER MATTER– USE OF THE AUDITOR'S REPORT

Our auditor's report must always be read together with the audited annual financial statements and the audited management report as well as the assured ESEF documents. The annual financial statements and the management report converted to the ESEF format – including the versions to be filed in the company register – are merely electronic renderings of the audited annual financial statements and the audited management report and do not take their place. In particular, the "Report on the Assurance on the Electronic Rendering of the Annual Financial Statements and the Management Report Prepared for Publication Purposes in Accordance with § 317 Abs. 3a HGB" and our assurance opinion contained therein are to be used solely together with the assured ESEF documents made available in electronic form.

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Holger Lutz.

Munich, February 16, 2023

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

(sgd. Holger Lutz)	(sgd. ppa. Annika Sicking)
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

Glossary

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

AktG	Aktiengesetz (German Stock Corporation Act)
ARPU	Average Revenue per User
Augmented Reality	Augmented reality: computer-aided augmentation of reality
Bitkom	Bundesverband Informationswirtschaft, Telekommunikation und neue Medien e.V., Berlin (German Federal Association for Information Technology, Telecommunications and New Media, Berlin)
BNetzA	Bundesnetzagentur (German Federal Network Agency)
bp	Basis point
Broadband	Refers to telecommunication in which a wide band of frequencies is available to transmit information
CAP	Capping limit
CapEx	Capital Expenditure: investments in property, plant and equipment and intangible assets excluding investments in mobile frequency licences and business combinations
CapEx/Sales ratio	Investment ratio – reflects the percentage share of investments in revenues
CDS	Credit Default Swap
Churn	Loss of customers
Cloud services	Dynamic infrastructures, software and platform services, which are available online
DBO	Defined Benefit Obligation
DCGK	German Corporate Governance Code
DSL	Digital Subscriber Line: technology to transmit data in the local loop to private end customers
EIB	European Investment Bank
ESG	Environmental, Social, Governance
EU	European Union
Euribor	Euro Interbank Offered Rate
FCF	Free cash flow
FMS	Fixed-Mobile Substitution: replacing fixed network services with mobile telephony services
FTE	Full-time equivalent
FTTB	Fibre To The Building or Fibre To The Basement: In telecommunications FTTB means that the fibre-optic cable is terminated in the user's house (basement)
FTTH	Fibre To The Home: In telecommunications FTTH means that the fibre-optic cable is terminated right in the user's home or apartment
GB	Gigabyte
GDP	Gross domestic product
GHz	Gigahertz
HGB	Handelsgesetzbuch (German Commercial Code)
IAS	International Accounting Standards
IASB	International Accounting Standards Board
ICS	Internal control system
IDW	Institut der Wirtschaftsprüfer in Deutschland e.V. (Institute of Auditors in Germany), Dusseldorf
IFRS	International Financial Reporting Standards
IoT	Internet of Things
ISIN	International Securities Identification Number
IT	Information Technology

IZMF	Informationszentrum Mobilfunk (Information Centre for Mobile Communications)
Joint Venture	A joint agreement under which the parties having joint control have rights to the net assets of the agreement
KPI	Key Performance Indicator
LGD	Loss Given Default (loss rate)
LTE	Long Term Evolution: further development of the UMTS/HSPA mobile communications standard
M2M	Machine-to-Machine communication: automatic exchange of information between machines
MBA	Mobile Bitstream Access
Mbit	Megabit
MHz	Megahertz
ms	Millisecond
MTR	Mobile network termination rates
MVNO	Mobile Virtual Network Operator (virtual network operator)
O2 (Europe) Limited	O2 (Europe) Limited, Slough, United Kingdom
O_2 Free	O_2 Free designates the mobile tariffs of the O_2 Telefónica core brand O_2 with postpaid payment methods. Our customers are able to choose between different contract terms and data volumes from several gigabytes per month up to real data flat rates
O_2 My Handy	Monthly payment model for mobile phones and other devices
OIBDA	Operating Income before Depreciation and Amortisation
OTT	Over-the-top – IP-based and platform-independent services and application (WhatsApp, Facebook etc.)
Postpaid/Prepaid	In contrast to postpaid contracts, prepaid contracts purchase the credit balance in advance without a fixed contractual commitment
RCF	Revolving Credit Facility
Roaming	Using a communication device or subscriber identity in a different network other than one's home network
SIM	Subscriber Identity Module: a chip card to insert into a mobile phone which identifies the user within the network
Smartphone	Mobile phone with extensive computer and internet functionalities
Smartwatch	A mobile device which consists of an electronic watch with additional computer functions, attached to a bracelet
SME	Small- and medium-sized enterprises
SMS	Short Message Service
SoHo	Small offices/Home offices
SOX	Sarbanes-Oxley Act: US law on improving the reliability of reporting
Spectrum	Frequency rights of use or mobile communications licences
Tablet	A wireless, portable personal computer with a touch screen
TDD	Time division duplex operation
Telefónica Deutschland	Telefónica Deutschland Holding AG, Munich, Germany
Telefónica Deutschland Group	The companies included in the Consolidated Financial Statements of Telefónica Deutschland
Telefónica, S.A.	Telefónica S.A., Madrid, Spain
TKG	Telekommunikationsgesetz (Telecommunications Act)
Translation risk	The risk arising from the translation of accounting items at a later reporting date
TSR	Total shareholder return (return on shares)
UMTS	Universal Mobile Telecommunications Service: international mobile communications standard of the third generation which unites mobile multimedia and telematics service under the frequency spectrum of 2 GHz
VATM	Association of Telecommunications and Value-Added Service Providers, Berlin
VDSL	Very High Data Rate Digital Subscriber Line (see DSL)
Vectoring	Vectoring is a noise-cancelling technology that removes the electro-magnetic interference between lines, enabling higher bit rates
Virtual Reality	Computer-generated representation of a world (in real time)
Wearables	Wearable computers or wearables are miniature electronic devices that are worn under, with, or on top of clothing
Wholesale	Selling services to third parties who sell them to their own end customers either directly or after further processing

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

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

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The Annual Financial Statements are available online at
www.telefonica.de

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