

O2 Telefónica Deutschland Finanzierungs GmbH Munich

**Financial Statements and management report
31 December 2019**

Translation from the German Language¹

¹ This report was published in German and English.
In case of doubt please refer to the German version which is mandatory.

Management Report

O2 Telefónica Deutschland Finanzierungs GmbH, Munich

Management Report for the Financial Year 2019

1. Business and general conditions

O2 Telefónica Deutschland Finanzierungs GmbH, Munich (referred to as “TDF” or the “Company”) acts as the financing company for the Telefónica Deutschland Group (Telefónica Deutschland Holding AG, Munich, and subsidiaries and joint operations) and its operating entities. The following overall economic and legal conditions for the operating entities are thus indirectly also relevant for TDF.

Overall economic development in Germany weakens

The long upturn in Germany has diminished for the time being. The leading economic institutes have significantly lowered their growth forecasts for Germany and expect growth of 0.5 per cent for 2019 compared to the previous year.

The main reasons for the weak development are the declining global demand for capital goods and political uncertainty, such as the trade dispute between the USA and China, and Brexit. According to GfK consumer climate, these uncertainties were also reflected in consumer sentiment. Private consumption continued to be an important pillar of the German economy in 2019.

Technology trends bring growth potential for the telecommunications market

Digitalisation and technologies such as artificial intelligence, the Internet of Things (IoT), Big Data and Data Analytics are increasingly shaping everyday life and forcing industries to confront changes. Many new technologies require the transmission of significantly higher data volumes: 5G technology, for example, will make such increased mobile data transmission possible and will become an enabler for innovative content and services in the consumer and B2B sectors. This will include, for example, offerings such as 4K-/8K video, virtual and augmented reality and real-time gaming, as well as networked and autonomous cars.

The smartphone is the constant companion and control centre of digital life. Voice assistants are increasingly being used alongside smartphones as control centres, either in the form of separate smart speakers or as integrated voice control software in televisions, refrigerators and cars, for example. This networking makes the boundaries between traditional consumer technology, household appliances and home control increasingly porous, the home smarter, and everyday life simpler.

The devices in the smart home are now not only networked with each other but also access data platforms in the cloud. This is where the greatest change has taken place in the narrower area of Consumer Technology in recent years. It is already a given that music and videos are streamed from the cloud.

The television market in Germany is also in a state of upheaval. Linear television is becoming increasingly less interesting for many people, even if it remains the most widespread form of television. The consumption of films, series and video clips via the Internet continues to gain in importance in Germany across all age groups and represents an integral part of everyday media use. Video-on-demand (VoD) services are distributed over the top (OTT), i.e. via the Internet. Among other things, the number of users and the willingness to pay is increasing.

Demand for mobile data services continues to grow¹

The mobile phone market is a saturated market. At the end of September 2019, the number of SIM cards including M2M or IoT cards published by network operators amounted to 138.8 million (end of September 2018: 133.6 million). This means that each resident has about 1.7 cards. However, second and third devices are not in constant use, with the result that the number of SIM cards in active use is lower. The strong SIM card growth is mainly due to M2M and IoT cards: According to estimates by Analysys Mason, at the end of 2019, around 25 million SIM cards were in use for M2M and IoT applications, compared to 17.4 million in 2018.

The steadily growing demand for more data-intensive Internet services such as video streaming ensured a further increase in mobile data use in 2019. According to VATM estimates, the average monthly data consumption per mobile phone customer increased from 1.6 GB in 2018 to 2.5 GB in 2019. This corresponds to an increase of almost 60 per cent

The German telecommunication market is an established market

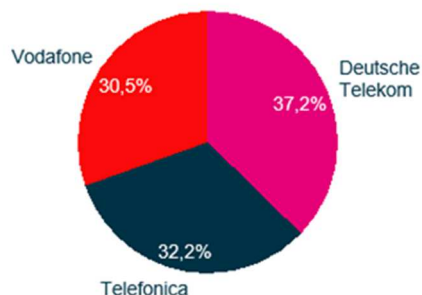
Following the merger of the Telefónica Deutschland Group with the E-Plus Group, the German mobile telecommunications market consists of three network operators and several service providers and mobile virtual network operators (MVNOs). The provider 1&1 Drillisch acquired frequencies at the 5G frequency auction, which ended in June 2019, and plans to establish itself as the fourth wireless services network operator in the future. In the third quarter of 2019, Telefónica Deutschland had a market share of 32.2% in terms of mobile service revenues.

¹ SOURCE: BMWI: AUTUMN PROJECTION 2019 TABLE 4; PRESS RELEASES ON "ECONOMIC DEVELOPMENT" (17 OCTOBER 2019); PWC: GERMAN ENTERTAINMENT & MEDIA OUTLOOK (GEMO) 2019-2023 (24 OCTOBER 2019); VATM: "TELECOMMUNICATIONS MARKET STUDY 2019" (OCTOBER 9, 2019); BITKOM: FUTURE OF THE CONSUMER TECHNOLOGY STUDY 2018 & 2019 (29 AUGUST 2018 AND 4 SEPTEMBER 2019); COMPANY DATA AND OWN CALCULATIONS DEUTSCHE TELEKOM INVESTOR RELATIONS PUBLICATION OF Q3 2019 RESULTS (7 NOVEMBER 2019); VODAFONE GERMANY PRESS RELEASE ON JULY-SEPTEMBER 2019 RESULTS (12 NOVEMBER 2019); GERMAN FEDERAL NETWORK AGENCY: ANNUAL REPORT 2018 (16 MAY 2019); FEDERAL STATISTICAL OFFICE: POPULATION AS OF 30 JUNE 2019 (AS OF 2 OCTOBER 2019); ANALYSYS MASON: DATA HUB REPORT (DATA GENERATION ON 30 OCTOBER 2019); GFK: PRESS RELEASE "CONSUMER CLIMATE STUDY" (26 SEPTEMBER AND 25 OCTOBER 2019).

Market share in the mobile communications market²

based on service revenue (in %)

3rd quarter 2019



Growth in German fixed line broadband market continues³

Growth in fixed line broadband connections continued unabated: VATM estimates that the number of connections increased by around 3% year-on-year to approx. 35.2 million at the end of 2019. With approximately 8.4 million active broadband connections at the end of 2019, cable now accounts for a share of around 24 per cent of the total market. The takeover of the cable provider Unitymedia by Vodafone in summer 2019 created a nationwide cable provider in Germany. Through an agreement between the Telefónica Deutschland Group and Vodafone, the Telefonica Deutschland Group will in future have access to the cable network of Vodafone and Unitymedia in Germany, reaching 24 million cable households. In addition, the Telefonica Deutschland Group will reach a further 2.3 million households through an access agreement with Tele Columbus.

The hunger for data in Germany continues: According to VATM, it will already be more than 40% of customers with a broadband connection who will be using maximum receive data rates of more than 50 Mbit/s by the end of 2019, compared to 33% at the end of 2018. The increased customer demand for more bandwidth is also reflected in the data volume generated per broadband connection and month. According to VATM, this increased by 26% in 2019 to an average of 137 GB per connection.

2 SOURCE: COMPANY DATA AND OWN CALCULATIONS: DEUTSCHE TELEKOM INVESTOR RELATIONS PUBLICATION OF Q3 2019 RESULTS; (7 NOVEMBER 2019); VODAFONE GERMANY PRESS RELEASE ON JULY-SEPTEMBER 2019 RESULTS (12 NOVEMBER 2019); UNITED INTERNET PRESS RELEASES ON 12 JUNE 2019; DRILLISCH INVESTOR RELATIONS "5G RATIONALE" (3 JULY 2019).

3 SOURCE: VATM: "TELECOMMUNICATIONS MARKET STUDY 2019" (9 OCTOBER 2019); VODAFONE PRESS RELEASES: "PROPOSED UNITYMEDIA TAKEOVER: PROPOSED MEASURES TO THE EU COMMISSION MAY TAKE COMPETITION TO A NEW LEVEL" (7 MAY 2019); "VODAFONE-UNITYMEDIA GIGABIT REPUBLIC" (18 JULY 2019); TELEFONICA DEUTSCHLAND PRESS RELEASE: "HIGH-SPEED INTERNET BY CABLE: TELEFONICA DEUTSCHLAND AND VODAFONE COOPERATE IN FAST CABLE CONNECTIONS" (7 MAY 2019).

2. Areas of operation

TDF was established as a wholly owned subsidiary of Telefónica Germany GmbH & Co. OHG, Munich, on 26 February 2013. It is thus part of the Telefónica Deutschland Group. TDF handles major financing activities of the Telefónica Deutschland Group. The financing and procurement of the necessary funds can be carried out by issuing bonds tradable on the capital market. The Company is authorised to carry out all activities and measures which appear to be appropriate to directly or indirectly serve the business purpose of the Telefónica Deutschland Group. In particular, TDF is authorised to establish, acquire, participate in, manage or restrict itself to the management of other undertakings.

On 22 November 2013, TDF issued a five-year unsecured bond (Senior Unsecured Bond) with a nominal value of EUR 600,000 thousand and a maturity on 22 November 2018 in the regulated market of the Luxembourg Stock Exchange. The net proceeds from the issue of this bond were transferred in full to the parent company Telefónica Germany GmbH & Co. OHG, Munich, in the form of an intercompany loan in accordance with the terms and conditions of the bond (interest rate, maturity, nominal amount) under the agreement dated 22 November 2013. Last year Telefónica Germany GmbH & Co. OHG, Munich, repaid the intercompany loan to the Company. On the due date in the financial year 2018 the Company repaid the bond using the funds received from OHG. The annual nominal interest rate of the bond (and the intercompany loan) amounted 1.875%.

Furthermore as of 10 February 2014 and in the same regulated market of the Luxembourg Stock Exchange, TDF issued a seven-year unsecured bond (Senior Unsecured Bond) with a nominal value of EUR 500,000 thousand, a fixed interest rate of 2.375%, an issue price of 99.624% and a maturity on 10 February 2021. The net proceeds from the issue of this bond were also transferred in full to the parent company Telefónica Germany GmbH & Co. OHG, Munich in the form of an intercompany loan in accordance with the bond conditions (interest rate, maturity, nominal amount) under the agreement dated 10 February 2014.

TDF issued on 5 July 2018 a seven-year unsecured bond with a nominal value of EUR 600,000 thousand also in the regulated market of the Luxembourg Stock Exchange. The bond matures on 5 July 2025. The fixed interest rate is 1.750% and the issue price was at 99.628%. Under an agreement dated 5 July 2018, the net proceeds from the issue of this bond were transferred in full to the parent company Telefónica Germany GmbH & Co. OHG, Munich, in the form of an intercompany loan in accordance with the bond conditions (interest rate, maturity, nominal amount).

The bonds represent unsecured and unsubordinated liabilities of TDF, which are of equal ranking among themselves and with all other unsecured and unsubordinated liabilities of TDF, unless these liabilities are given priority as a result of mandatory regulations. Unless previously redeemed or purchased and cancelled, each bond is repaid at the amount of its fixed denomination on the maturity date.

The bonds are guaranteed by Telefónica Deutschland Holding AG, Munich.

TDF acts as a financing company. The long-term future development of business therefore depends largely on the development and ability to meet financial obligations of the operating companies of the

Telefónica Deutschland Group, in particular Telefónica Deutschland GmbH & Co. OHG. Due to the structure of the TDF, in particular the transfer of the financing to the OHG and the corresponding charging of all costs also to the OHG, the overall result of the Company is kept at zero. In this respect, the result of TDF depends exclusively on the companies of the Telefónica Deutschland Group.

3. Net assets, results of operations and financial position

Net assets

The assets are presented in the following table:

Balance sheet item	31 Dec. 2019 EUR thousand	31 Dec. 2018 EUR thousand	Change EUR thousand
Financial assets	1,100,000	1,100,000	0
Receivables	15,860	16,360	-500
Prepaid expenses	2,296	3,080	-784
Total Assets	1,118,156	1,119,440	-1,284

The financial assets as of 31 December 2019 consist of two loans in the amount of EUR 500,000 thousand and EUR 600,000 thousand respectively, granted by TDF to its shareholder Telefónica Germany GmbH & Co. OHG, Munich. The terms of both loans correspond to the terms of the underlying seven-year bonds which TDF issued on 10 February 2014 and 5 July 2018 respectively. The loans have fixed terms until the date of maturity of the underlying bonds on 10 February 2021 and 5 July 2025, respectively. The loans are repayable in one amount on the due date, including all interest and costs which have not yet been paid.

The receivables EUR 15,860 thousand (previous year EUR 16,360 thousand) consist mainly of interest receivables from the loans granted to Telefónica Germany GmbH & Co. OHG, Munich, in the amount of EUR 15,724 thousand (previous year: EUR 15,738 thousand). The underlying interest rates are 2.375 % and 1.750 % respectively and are payable annually from Telefónica Germany GmbH & Co. OHG to TDF on 10 February and 5 July respectively.

As of 31 December 2019, prepaid expenses included mainly the amortised disgios from the issuance of the seven-year bonds issued in February 2014 and in July 2018 respectively. The change in prepaid expenses results from their release over the terms of the underlying bonds on a straight-line basis until 10 February 2021 and 5 July 2025 respectively.

Equity and liabilities are presented in the following table:

Balance sheet item	31 Dec. 2019 EUR thousand	31 Dec. 2018 EUR thousand	Change in EUR thousand
Equity	25	25	0
Other provisions	57	115	-58
Bonds	1,100,000	1,100,000	0
Trade payables	0	1	-1
Liabilities to affiliated companies	54	482	-428
Other liabilities	15,724	15,738	-14
Deferred income	2,296	3,080	-784
Total Equity and liabilities	1,118,156	1,119,440	-1,284

The Company's share capital remains unchanged at EUR 25 thousand and is fully paid. It is held entirely by Telefónica Germany GmbH & Co. OHG, Munich.

The other provisions of EUR 57 thousand (previous year: EUR 115 thousand) mainly relate to consultancy and audit fees.

The category Bonds include bonds with a nominal value of EUR 1,100,000 thousand in total. The seven-year bond of EUR 500,000 thousand issued in 2014 has a remaining term of more than one year as of December 31, 2019, thus less than five years. The second bond of a nominal value EUR 600,000 thousand and a maturity of six years has a remaining maturity of more than five years.

The liabilities to affiliated companies of EUR 54 thousand (previous year: EUR 482 thousand) result mainly from the recharging of issue costs from Telefónica Germany GmbH & Co. OHG. Last year liabilities include costs in connection with the placement of the bond in July 2018.

The other liabilities include current interest bearing liabilities relating to the bonds that will not be paid until the following year.

Deferred income results from the amortised differences between the nominal values of the underlying loans and the amounts paid out to Telefónica Germany GmbH & Co. OHG, Munich. The deferred item is released over the term of the underlying loan.

Results of operations

In the financial year ending 31 December 2019, TDF reported a profit/(loss) after tax as well as a profit/(loss) for the period of EUR 0.00 (previous year: EUR 0.00).

The main items from income statement are as follows:

Income statement item	1 Jan. 2019 31 Dec. 2019	1 Jan. 2018 31 Dec. 2018	Change EUR thousand
	EUR thousand	EUR thousand	
Other operating income	87	2,347	-2,259
Other operating expenses	-87	-2,347	2,259
Income from financial assets - loans	22,361	27,056	-4,695
Other interest and similar income	784	1,849	-1,065
Interest and similar expenses	-23,145	-28,904	5,759
Profit/(loss) after tax	0	0	0
Profit/(loss) for the period	0	0	0

The other operating income amounting to EUR 87 thousand (previous year: EUR 2,347 thousand) results from recharging of costs to Telefónica Germany GmbH & Co. OHG, Munich. Other operating expenses amounting to EUR 87 thousand (previous year: EUR 2,347 thousand) and relate mainly to audit and consultancy fees. In previous year other operating expenses comprise recharging costs of issuing the bond in July 2018.

Income from financial assets – loans of EUR 22,361 thousand (previous year: EUR 27,056 thousand) results from interest income from the loans granted to Telefónica Germany GmbH & Co. OHG, Munich. The temporarily higher balance of financial assets in the previous year led to higher interest income.

Other interest and similar income result from the differences between the nominal values of the underlying loans and the amounts paid out to Telefónica Germany GmbH & Co. OHG, Munich amounting to EUR 784 thousand (previous year: EUR 1,849 thousand).

Interest and similar expenses in the amount of EUR 23,145 thousand (previous year: EUR 28,904 thousand) include interest expense from the bonds of EUR 22,361 thousand (previous year: EUR 27,056 thousand) as well as the part of prepaid expenses to third parties in relation to the two disagios of EUR 784 thousand (previous year: EUR 1,849 thousand). In previous year the temporarily balance of bonds was higher thus resulting in higher interest expense.

The profit/(loss) after tax and the profit/(loss) for the period in 2019 amounted to EUR 0.00 and thus corresponds to the forecast made in the previous year for the current financial year ("unchanged from the previous year").

Financial position

Principles and goals of financial management

The risk control and a central management are fundamental principles of the TDF financial management. The goal of financial management is to continually ensure sufficient financial liquidity and stability. Risk controls are used in order to anticipate potential risks and counteract these using corresponding measures. At present there are no circumstances which would indicate that TDF cannot meet its financial obligations.

The development of cash and cash equivalents as well as the corresponding cash flows are presented in the separately disclosed cash flow statement.

Cash and cash equivalents include bank balances, cash in hand in the amount of EUR 0 thousand (previous year: EUR 0 thousand) and also cash-pooling receivables from Telfisa Global B.V, Amsterdam, the Netherlands in the amount of EUR 60 thousand (previous year: EUR 16 thousand).

During the financial year 2019, TDF reported a positive cash flow from **operating** activity in the amount of EUR 44 thousand, in previous year TDF reported a negative cash flow from operating activities in the amount of EUR 14 thousand.

Cash flow from **investing** activities amounted to EUR 22,375 thousand in the financial year 2019 (previous year: EUR 23,125 thousand) and result from received interest payments made by the borrower Telefónica Germany GmbH & Co. OHG, Munich. In the previous year, the payments received in the cash flow from investing activities included the interest payments received and the repayment of the loan due in 2018 in the amount of EUR 600,000 thousand. In addition, the loan of EUR 600,000 thousand issued in the previous year led to payments made in the cash flow from investing activities.

Cash flow from **financing** activities in the reporting period amounted to EUR -22,375 thousand (previous year: EUR -23,125 thousand) and result from interest payments made. The cash inflow from financing activities in previous year of EUR 600,000 thousand from the bond issued in the 2018 financial year. In addition, the repayment of the bond in the amount of EUR 600,000 thousand and interest payments for the two issued bonds in the amount of EUR 23,125 thousand resulted in cash outflows from financing activities.

The total changes result in a positive cash flow of EUR 44 thousand for the current financial year.

4. Opportunity and risk report

TDF currently restricts its activities exclusively to financing the Telefónica Deutschland Group. Accordingly, the risks and opportunities of O2 Telefónica Deutschland Finanzierungs GmbH, Munich, as well as the measures and processes for handling risks and opportunities are essentially the same as those applicable for the Telefónica Deutschland Group, which are summarised below.

Fundamental risk management principles

In the course of our business activities, the Telefónica Deutschland Group is confronted with various business, operational, financial and other (global) risks. We provide our services on the basis of the organisational, strategic and financial decisions made and precautions taken by us.

Every business activity involves risks that can prejudice the process of goal-setting and goal fulfilment. These risks arise from the uncertainty of future events – often due to insufficient information – and can result in objectives being missed. If risks are not recognised and dealt with, they can endanger the successful development of the Company. In order to respond appropriately to this fact, the Company's management has introduced a risk management process. This is intended to guarantee timely and complete transparency with regard to new risks or changes to existing risks.

Risk management is a component of the decision-making processes within the Telefónica Deutschland Group. The procedure ensures that risk evaluations are taken into account in decision-making and measures to minimise and deal with risks are taken at an early stage. This is based on the evaluation, communication and management of risks by the Company's managers. A lower limit for the recognition of risks is generally not set. The risk management department compiles the Company's Risk Register, which also covers the subsidiaries. As part of the creation of the Risk Register, it is ensured that risks of a similar type or of cumulative effect are aggregated and thus provided for overall consideration. In addition, this bottom-up approach, i.e. the identification of risks by the operating units, is complemented by a top-down approach in order to ensure a cross-business risk perspective. The purpose of the top-down approach is to ensure that risks that can only be identified at the highest management level or on the basis of a group-wide consideration, are discussed with the operationally responsible units. This is intended to enable full classification and integrated management as well as the evaluation of relevance for future reporting. Risk management is in continuous contact with all areas of the Company and our risk coordinators in order to continuously pursue and evaluate risks and their management and development. Responsible employees are trained individually in order to ensure a uniform, structured process of risk identification and evaluation. In addition, fundamental training is available to all employees in order to raise their general awareness of risk management.

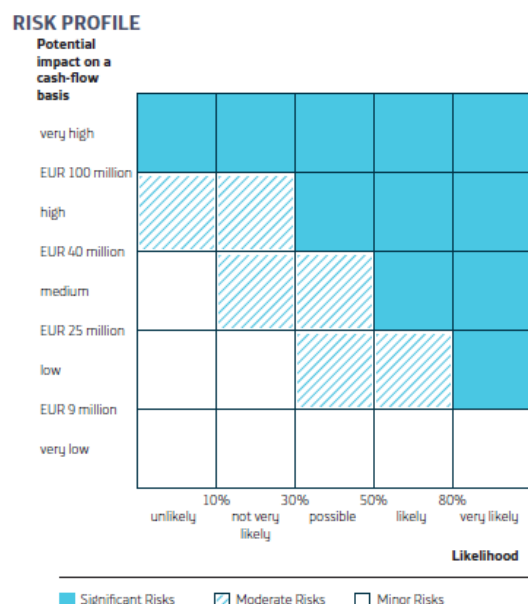
Risks are evaluated with regard to their impact on our business goals from an operational and financial point of view. The Risk Register is supported by a database that contains all identified risks, their status, the measures already taken and defined action plans.

In a formal forward-looking process, the Risk Register of Telefónica Deutschland Group is the subject of regular reporting to the Management Board. The Supervisory Board (Audit Committee) is regularly informed about risks and their development.

Opportunities are not recorded in the risk management system.

Risk evaluation

The following section illustrates the identified risks that can substantially impact our financial situation, our competitiveness or our ability to realise our objectives. They are presented in line with the net principle, i.e. risks are described and evaluated net of the risk mitigation measures performed.



Based on the combination of the potential level of impact and the estimated likelihood of occurrence, the individual risks are divided into three categories (significant, moderate and minor risks). All risks with a very high potential level of impact are seen as significant for the Company; this does not take into account the estimated likelihood of occurrence. With a growing likelihood of occurrence, risks with a high or medium potential level of impact also fall into this category. Risks with a very low potential impact are assessed as minor risk, regardless of the estimated likelihood of occurrence. Minor risks are not included in the reporting to the Management Board and therefore are not included in the risk summary in the following section. Such risks are identified, documented and administered by the relevant management levels as part of the risk management process.

Minor risks are not included in the reporting to the Management Board and therefore are not included in the risk summary in the following section. Such risks are identified, documented and administered by the relevant management levels as part of the risk management process.

For internal use and reporting within the Group, risks are divided into business risks, operational risks, financial risks and other (global) risks. This division also forms the basis of this section of the report. The risks are presented in the relevant category in the order of their rating.

Telefónica Deutschland can be influenced by other or additional risks of which we are presently unaware or that we do not consider material based on the current state of knowledge. Moreover, the possibility cannot be precluded that risks currently evaluated as minor will change within the forecast period in such a way as to have a potentially greater effect than the risks currently evaluated as more material.

We have summarised the risks according to their risk areas as follows:

- Business risks
 - Competitive markets and changing customer demands
 - Market acceptance and technological transformation
 - Regulatory environment
 - Insurances
- Operational risks
 - Service quality
 - Supplier defaults
 - Dependence on the major shareholder Telefónica S.A. and of KPN
 - Legal risks
- Financial risks
 - Taxes

TDF currently restricts its activities exclusively to financing the Telefónica Deutschland Group. The main elements of the assets of TDF are the loans granted to Telefónica Germany GmbH & Co. OHG, Munich. The economic existence of TDF is thus primarily dependent on whether Telefónica Germany GmbH & Co. OHG, Munich is able to meet its obligations in relation to these loans. All interest and capital payments relating to all debt securities currently issued by TDF are secured by a full and unlimited guarantee by the guarantor Telefónica Deutschland Holding AG. These guarantees are enforceable in accordance with the law of the Federal Republic of Germany.

Accordingly, the risks and opportunities of O2 Telefónica Deutschland Finanzierungs GmbH, Munich, as well as the measures and processes for handling risks and opportunities are essentially the same as those applicable for the Telefónica Deutschland Group and are therefore presented individually below.

General financial market risks

The Telefónica Deutschland Group is exposed to various financial market risks as part of its business activity. In the context of the above-mentioned risk management process, these risks are regarded as low. Should these financial market risks occur, they could have a negative effect on the net assets, financial position and results of operations of the Group and are therefore presented individually below.

The Telefónica Deutschland Group has developed guidelines for risk management processes and for the use of financial instruments including a clear separation of tasks with respect to financial activities, invoicing, financial reporting and associated controlling. Derivative financial instruments are used solely to manage interest rate and currency risks. The Telefónica Deutschland Group has developed guidelines derived from established standards for the evaluation of risks and monitoring with regard to the use of financial derivatives.

Market risk

Market risk is the risk that changes in market prices such as changes in exchange rates and interest rates will affect the value of financial instruments or the earnings of the Telefónica Deutschland Group

Interest rate risk

The Telefónica Deutschland Group is exposed to interest rate risks arising from variable-rate loan agreements as borrower and from the variable-rate cash pooling accounts with Telfisa Global B.V. as well as in the form of opportunity costs in connection with the conclusion of fixed-rate debts, the interest rate of which may exceed market interest rates during the term. To reduce these opportunity costs, interest rate swaps in connection with the issue of a bond were concluded on a partial amount of the nominal value of the bond. Under this interest rate swap contract, the Telefónica Deutschland Group pays a variable interest rate on a nominal amount and receives a fixed interest rate on the same amount in return.

In February 2014, interest rate swap was signed by Telefónica Germany GmbH & Co. OHG, Munich, in connection with the issue of the bond for a partial amount of the its nominal value. Under this interest rate swap contract, the Telefónica Germany GmbH & Co. OHG, Munich pays a variable interest rate on a nominal amount and receives a fixed interest rate on the same amount in return. The nominal amount of this interest rate swap is used to offset the effects of future changes in market interest rates on the fair value of the underlying fixed-rate financial debt from the bond issue (fair value hedge).

Credit risk

Credit risk describes the risk of financial losses due to the inability of contractual partners to repay or service debts in accordance with the contract. The maximum default risk of the Telefónica Deutschland Group corresponds to the carrying amount of the financial assets.

The Telefónica Deutschland Group considers the management of the commercial credit risk to be critical in order to achieve its goals for sustainable growth of the business and the customer base in harmony with its risk management guidelines. Suitable processes have been established for the management and the monitoring of the credit risk. These include the ongoing monitoring of the expected risks and the level of default. Particular attention here is paid to the customers which could have significant effects on the Consolidated Financial Statements of Telefónica Deutschland Group. For these customers, credit management instruments such as credit insurance or collateral for limiting the

default risk are used, depending on the business area and type of business relationship. To control credit risk, the Telefónica Deutschland Group regularly conducts an analysis of the maturity structure of trade receivables and recognises adjustments for expected credit defaults on receivables.

Liquidity risk

Liquidity risk encompasses the risk that the Telefónica Deutschland Group may be unable to sufficiently comply with its financial obligations. To safeguard liquidity, cash inflows and outflows are permanently monitored and centrally controlled on the basis of detailed financial planning. The Telefónica Deutschland Group works on its liquidity management with the Telefónica, S.A. Group and, in accordance with corporate policy, has concluded cash-pooling and deposit agreements with Telfisa Global B.V., Netherlands. In addition to operating liquidity, the opportunities arising on the financial markets are continuously examined with a view to ensuring the financial flexibility of the Telefónica Deutschland Group.

Capital management

The Telefónica Deutschland Group strives to guarantee the sustainability of its business and to maximise its enterprise value by permanently monitoring its capital costs, equity ratio and OIBDA (Operating Income before Depreciation and Amortization, interest and tax).

Opportunity management

The consistent use of entrepreneurial opportunities with respect to future revenue and OIBDA potential, as well as their early and continuous identification, analysis and management, are significant tasks of the management of the Telefónica Deutschland Group.

The opportunities and growth potential identified in the strategic goal-setting process are prioritised as part of an annual planning process in close cooperation with the individual business areas, and relevant strategic goals are derived from this. To measure the implementation, concrete financial objectives in the form of financial and non-financial key performance indicators (KPIs) are defined at the level of the organisation units.

Opportunity management is a significant component of the entire process for strategic goal setting. It takes place both as part of budget creation for the coming twelve months as well as within long-term planning.

Opportunities are neither recognized in the risk register nor quantified.

Mayor opportunities are summarized as follows:

- Greater demand for mobile data and LTE
- Expansion of our LTE network
- Fixed-line cooperation agreements via various technologies

- Digital innovation
- Digitalisation of service processes and use of artificial intelligence
- Membership of the Telefónica S. A. Group

Accounting-Related Internal Control and Risk Management System

The following statements contain information in accordance with section 289 (4) HGB.

The primary goal of our accounting-related internal control and risk management system is to ensure proper financial reporting in the sense of ensuring that the Consolidated Financial Statements comply with all relevant provisions.

The risk management system also includes an accounting-related perspective with the aim of ensuring the reliability of financial reporting. In addition to the legal requirements of, for example, the German Commercial Code (HGB), the ICS introduced by us also has to comply with the provisions of the US Sarbanes-Oxley Act (SOX). The obligation for the Telefónica Deutschland Group to fulfil these SOX requirements results from the registration of its majority shareholder, Telefónica, S.A., with the US SEC (Securities and Exchange Commission). In addition, the Telefónica Deutschland Group's ICS must comply with the global ICS control setup of Telefónica, S.A.

Establishing and effectively maintaining appropriate internal controls for financial reporting is the responsibility of the Management Board of Telefónica Deutschland and is performed taking company-specific requirements into account.

The conceptual framework for preparing the Consolidated Financial Statements primarily comprises the Group-wide uniform accounting guidelines and the chart of accounts. Both of these must be consistently applied by all the companies of the Telefónica Deutschland Group. New laws, accounting standards and other official pronouncements are analysed on an ongoing basis with regard to their relevance and effects on the proper preparation of the Consolidated Financial Statements. The changes resulting from this are taken into consideration by the Finance & Accounting department in our accounting policies and the chart of accounts.

Employees involved in the financial reporting process are already examined in terms of their professional suitability before they are hired, and are provided with regular training. The financial statement information must go through certain approval processes at every level. Critical task areas in the financial reporting process are divided appropriately in order to ensure the effective separation of duties, and the dual control principle generally applies. Further control mechanisms include target/performance comparisons and analyses of the composition of content and changes in individual items, both in the financial statement information reported by individual group companies and in the Consolidated Financial Statements. The accounting-related IT systems are used to control IT security, change management and IT operations in particular. For example, access authorisations are defined and established in order to ensure that accounting-related data is protected from unauthorised access, use and change.

The appropriateness and effectiveness of the ICS are assessed annually by the Management Board of Telefónica Deutschland. Our Internal Audit department continuously reviews compliance with guidelines, the reliability and functionality of our ICS and the appropriateness and effectiveness of our risk management system and reports on this to the Management Board of Telefónica Deutschland AG.

The Supervisory Board of Telefónica Deutschland is involved in the ICS in part via the Audit Committee in accordance with section 171 (1) AktG in conjunction with section 107 (3) AktG. In particular, the Audit Committee is responsible for monitoring the accounting process, the effectiveness of the ICS, the risk management and internal audit systems, and the audit of the financial statements. It also reviews the documents for the Annual Financial Statements of Telefónica Deutschland and the Consolidated Financial Statements and discusses the financial statements with the Management Board and the external auditor.

As part of its risk-oriented audit approach, the external auditor expresses an opinion on the effectiveness of the parts of the ICS that are relevant for financial accounting and reports to the Supervisory Board in the course of the discussion of the financial statements.

For the Company the conceptual framework described above is supplemented by a HGB chart of accounts.

O2 Telefónica Deutschland Finanzierungs GmbH does not have its own internal control system, but is included into the aforementioned Group-wide accounting-related internal control system described above. Telefónica Germany GmbH & Co. OHG, operates the internal control system for the Company.

5. Principals of the remuneration system

The Managing Directors do not receive any remuneration from TDF.

6. Forecast report 2020

The forecast report describes the probable development of TDF in the course of the financial year 2020. The report contains comments and information regarding future events. Forward-looking comments and information are based on expectations and assumptions of the Company at the time when this management report is published, on the basis of known and unknown opportunities and risks. The success of the Company, the business strategy and also the results of the Company are influenced by a wide range of factors outside the control of the Company.

If such opportunities or risks occur or if uncertain factors materialise, or if it becomes apparent that one of the underlying assumptions was not correct, the actual development of the Company may differ (positively as well as negatively) from the expectations and assumptions in the forward-looking comments and information set out in this forecast report.

As a result of the close personnel and economic links between TDF and the Telefónica Deutschland Group, TDF is subject to the same business and framework conditions as well as the same regulatory environment as the Telefónica Deutschland Group. The future development of TDF is very much dependent on the capital requirements and the form of financing chosen by the Telefónica Deutschland Group. The assessment of the future development of TDF is therefore based on forecasts of the business developments of the Telefónica Deutschland Group, which is summarised below.

Since TDF's business activities mainly consist of managing the financing activities of the Telefónica Deutschland Group, its future development is largely determined by the Telefónica Deutschland Group's business policy.

Economic outlook⁴

According to the Federal Ministry of Economics and Energy (BMWi), gross domestic product (GDP) grew by 0.5 per cent in 2019 compared to the previous year. For 2020, the Federal Government expects growth of 1.0 per cent. Private consumption will remain one of the drivers of the economy. This is primarily due to the continued positive development of the labour market and the increasing purchasing power of households.

The international environment and the withdrawal of the United Kingdom from the European Union scheduled for 31 January 2020 (Brexit), which has now been implemented, continue to pose a risk to economic development in Europe and especially in Germany

GDP growth 2018 –2020 Germany (calendar adjusted)

in %	2018	2019	2020
Germany	1.5	0.9	1.0

⁴ BMWI: Autumn projection 2019 of the German Federal Government, press releases on "Economic Development" (17 October 2019)

Furthermore, the corona pandemic, which is now spreading globally, will have a strong impact on the economic conditions in Germany and worldwide.

Market Expectations⁵

Digitalisation and technologies such as artificial intelligence, the Internet of Things (IoT), Big Data and Data Analytics are increasingly shaping everyday life and forcing industries to confront changes. A large number of trends will continue or gain in importance in 2020. In line with the ongoing expansion of the technical possibilities, data consumption in Germany will continue to rise. Analysts expect total data consumption of about 60 billion GB in 2019, with a significant further rise to 75 billion GB in 2020.

Financial Outlook 2020

In 2020, Telefónica Deutschland Group will continue to build on the achievements from the successful integration of Telefónica Deutschland and E-Plus, in particular economies of scale and the consolidated network as the basis for future growth. We will continue to pursue the path of digital transformation with our programme Digital4Growth, which we have launched in 2019 in order to make our business 'simpler, faster and better' and benefit from revenue and transformation gains.

Our multi-brand and multi-channel strategy will remain the backbone of our go-to-market strategy that has a clear focus on ARPU-up and churn down. We expect pricing in the premium and discount segments to remain stable in 2020 as per the current market environment. As before, postpaid will remain the strongest value-generator for our business driven mainly by own brand performance. Prepaid will also remain an important pillar of our operational and financial performance; however, we expect the current trend of pre- to postpaid migration on the back of regulation to continue.

In 2020, Telefónica Deutschland Group will be entering into the 5G era and we aim to further accelerate our growth trajectory in the world of 5G by capturing opportunities in the following three areas:

- Growing mobile market share in rural areas and reinforcing our strong position in urban areas
- Smart bundling of fixed & mobile products and fixed-mobile-substitution to deliver technology-agnostic products for our customers
- Seizing the B2B market opportunity, particularly in the SME segment

These will form the basis for sustained mobile service revenue momentum. Handset revenue will continue to depend on market dynamics as well as the launch cycles and availability of new device generations. As in the past, handsets margins continue to be broadly neutral. In the fixed business, Telefónica Deutschland Group's technology-agnostic all-infrastructure positioning enables us to match individual customer needs with either VDSL, FttX or cable

The Group expects regulatory changes to remain a headwind for the financial performance in 2020. Revenue will be affected by the negative effects of the termination rate cut for mobile voice minutes from EURc 0.95 to EURc 0.90 as of 1 December 2019 and the new regulation for intra-EU calls/SMS with a

⁵ Bitkom: Future of Consumer Technology Study 2018 & 2019 (29 August 2018 and 4 September 2019), PwC: German Entertainment & Media Outlook (GEMO) 2019-2023 (24 October 2019)

cap at EUR 0.19 per minute/EUR 0.06 per SMS since 15 May 2019. In total, we expect the negative regulatory impact on total revenue to amount to approx. EUR 20-30 million in 2020. Similarly, OIBDA performance will continue to reflect the negative usage elasticity effects from the roam-like-home and the before-mentioned intra-EU calls/SMS regulation as well as to a lesser extent the effects from termination rate cuts. In total, we expect the negative regulatory impact on OIBDA to amount to less than EUR 10 million in 2020.

As a result, we expect total revenue in 2020 to be flat to slightly positive year-on-year.

Against this background, we expect OIBDA adjusted for exceptional effects in 2020 to be broadly stable to slightly positive year-on-year.

To capture these growth opportunities in revenue and OIBDA, Telefónica Deutschland Group has launched a two-year network-focused investment programme with a C/S peak in these years. It is centred on boosting rural coverage primarily with 4G and accelerating urban capacity primarily with 5G. Our investment profile foresees the re-farming of spectrum and efficient use of technologies. For 2020, we expect C/S to be at 17-18%.

Our assumptions are based on the expectation of continuity with regards to the competitive environment, economic conditions and existing wholesale relationships.

	Actual 2019	Outlook 2020
Revenue	EUR 7,399 million	flat to slightly positive year-on-year
OIBDA Adjusted for exceptional effects	EUR 2,316 million	broadly stable to slightly positive year-on-year
Capex/Sales-Ratio	14.1%	17 – 18%

Management summary

Currently, TDF in its capacity as a financing company restricts its activities exclusively to financing the Telefónica Deutschland Group. In 2014 and 2018 and in line with its business purpose, TDF successfully issued two bonds with a nominal value of EUR 500,000 thousand and EUR 600,000 thousand and a maturity on 10 February 2021 and 5 July 2025 respectively. TDF has made the proceeds of the bond issue available to Telefónica Germany GmbH & Co. OHG, Munich in the form of a loan and based on the same conditions. The bonds are guaranteed by Telefónica Deutschland Holding AG, Munich. TDF does not currently employ any staff itself. Due to the close personnel and economic links, the probable business development of the Company as well as the main opportunities and risks correspond to those applicable for the Telefónica Deutschland Group. On the basis of the emissions issued, the management of TDF considers the overall business development to be favourable and does not expect any significant changes in the net assets, financial position and results of operations compared to 2018.

Furthermore, on the basis of the expectations outlined above and due to the existing cost recharging and loan agreements with Telefónica Germany GmbH & Co. OHG, Munich, for TDF as well as for the coming financial year we expect to achieve a profit/(loss) after tax in a similar amount as in the previous year. This result will be subsequently settled by OHG in accordance with the control and profit and loss transfer agreement.

The outbreak of COVID-19 represent special challenges for the global economy in terms of achieving goals and strategies and protecting employees. At the present time it is not observable that COVID-19 will have a significant impact on the business activities of O2 Telefónica Deutschland Finanzierungs GmbH. However, this cannot be conclusively evaluated at this time.

Munich, 13 March 2020

O2 Telefónica Deutschland Finanzierungs GmbH

- Management -

Markus Haas

Markus Rolle

Albert Graf

O2 Telefónica Deutschland Finanzierungs GmbH (local court München, HRB 204122)
Munich

Statement of Financial Position as of 31 December 2019

Assets	31.12.2019 EUR	31.12.2018 EUR	Equity and liabilities	31.12.2019 EUR	31.12.2018 EUR
A. Fixed assets			A. Equity		
Financial assets			Nominal capital	25.000,00	25.000,00
Loans to affiliated companies	1.100.000.000,00	1.100.000.000,00		25.000,00	25.000,00
	1.100.000.000,00	1.100.000.000,00	B. Provisions		
			Other provisions	57.112,00	115.167,82
				57.112,00	115.167,82
B. Current assets			C. Liabilities		
Receivables			1. Bonds --thereof with a remaining term of more than 1 year EUR 1,100,000.00 (previous year: EUR 1,100,000.00)--	1.100.000.000,00	1.100.000.000,00
Receivables from affiliated companies	15.859.943,72	16.360.266,07	2. Trade payables --thereof with a remaining term of less than 1 year EUR 0.00 (previous year: EUR 668.61)--	0,00	668,61
	15.859.943,72	16.360.266,07	3. Liabilities to affiliated companies --thereof with a remaining term of less than 1 year EUR 54,044.20 (previous year: EUR 481,572.93)--	54.044,20	481.572,93
			Other liabilities --thereof with a remaining term of less than 1 year EUR 15,723,787.52 (previous year: EUR 15,8737,856.71,812.85)--	15.723.787,52	15.737.856,71
C. Prepaid expenses	2.296.214,26	3.080.071,42		1.115.777.831,72	1.116.220.098,25
			D. Deferred income	2.296.214,26	3.080.071,42
Total assets	1.118.156.157,98	1.119.440.337,49	Total equity and liabilities	1.118.156.157,98	1.119.440.337,49

O2 Telefónica Deutschland Finanzierungs GmbH (local court München, HRB 204122)**Munich****Income Statement****for the Reporting Period from 1 January 2019 to 31 December 2019**

	01.01.2019 - 31.12.2019	01.01.2018 - 31.12.2018
	EUR	EUR
1. Other operating income	87.450,23	2.346.685,18
2. Other operating expenses	-87.408,18	-2.346.685,18
3. Income from financial assets - loans --thereof from affiliated companies EUR 22,360,930.79 (previous year: EUR 27,055,565.08)--	22.360.930,79	27.055.565,08
4. Other interest and similar income --thereof from affiliated companies EUR 783,857.20 (previous year: EUR 1,848,728.57)--	783.857,20	1.848.728,57
5. Interest and similar expenses	-23.144.830,04	-28.904.293,65
6. Profit/(loss) after tax	0,00	0,00
7. Profit/(loss) for the period	0,00	0,00

O2 Telefónica Deutschland Finanzierungs GmbH**Munich****Statement of Changes in Equity****for the Financial Year from 1 January 2019 to 31 December 2019**

	Share capital	Other retained earnings	Net income for the period	Equity
	EUR	EUR	EUR	EUR
As of 1 January 2019	25.000,00	0,00	0,00	25.000,00
As of 31 December 2019	25.000,00	0,00	0,00	25.000,00
As of 1 January 2018	25.000,00	0,00	0,00	25.000,00
As of 31 December 2018	25.000,00	0,00	0,00	25.000,00

O2 Telefónica Deutschland Finanzierungs GmbH**Munich****Statement of Cash Flows****for the Financial Year from 1 January 2019 to 31 December 2019**

	01.01.2019- 31.12.2019 EUR	01.01.2018- 31.12.2018 EUR
1. Cash flow from operating activities		
Profit/(loss) after tax	0,00	0,00
Increase (+)/decrease (-) in provisions	-58.055,82	58.048,82
Increase (-)/decrease (+) in receivables from affiliated companies and other assets	1.328.631,59	-4.857.341,14
Increase (+)/decrease (-) in trade payables and other liabilities	-1.226.123,69	4.785.364,82
Cash flow from operating activities	44.452,08	-13.927,50
2. Cash flow from investing activities		
Proceeds (+) from disposal of long-term financial assets	0,00	600.000.000,00
Payments (-) to acquire long-term financial assets	0,00	-600.000.000,00
Interest received (+)	22.375.000,00	23.125.000,00
Cash flow from investing activities	22.375.000,00	23.125.000,00
3. Cash flow from financing activities		
Proceeds (+) from the issuance of bonds and from borrowings	0,00	600.000.000,00
Cash repayments (-) of bonds and borrowings	0,00	-600.000.000,00
Interest paid (-)	-22.375.000,00	-23.125.000,00
Cash flow from financing activities	-22.375.000,00	-23.125.000,00
4. Cash and cash equivalents at the end of the period		
Net change in cash and cash equivalents	44.452,08	-13.927,50
Cash and cash equivalents at the beginning of the period	15.601,09	29.528,59
Cash and cash equivalents at the end of the period	60.053,17	15.601,09
5. Composition of cash and cash equivalents		
Cash equivalents	60.053,17	15.601,09
Cash and cash equivalents at the end of the period	60.053,17	15.601,09

O2 Telefónica Deutschland Finanzierungs GmbH, Munich

Notes to the Financial Statements for the 2019 Financial Year

I. GENERAL INFORMATION ON THE ANNUAL FINANCIAL STATEMENTS

Telefónica Deutschland Finanzierungs GmbH, Munich, was established by notary deed on 26 February 2013 for the purpose of financing the Telefónica Deutschland Group. The nominal capital was paid in on 6 March 2013. Telefónica Deutschland Finanzierungs GmbH, Munich, was renamed O2 Telefónica Deutschland Finanzierungs GmbH, Munich, (referred to in the following as “TDF” or the “Company”) with effect from 7 November 2013. The Company is registered in the commercial register of the local court in Munich under registration number HRB 204122.

In February 2014, TDF issued a seven-year unsecured bond (Senior Unsecured Bond) with a nominal value of EUR 500,000 thousand and a maturity on 10 February 2021 in the regulated market of the Luxembourg Stock Exchange.

Furthermore TDF issued on 5 July 2018 a seven-year unsecured bond (Senior Unsecured Bond) with a nominal value of EUR 600,000 thousand and a maturity on 5 July 2025 in the regulated market of the Luxembourg Stock Exchange.

The net proceeds from each bond were directly passed from TDF to Telefónica Germany GmbH & Co. OHG, Munich.

The annual financial statements of TDF for the financial year 2019 have been prepared in accordance with the accounting principles of the German Commercial Code (HGB) as well as the GmbH Act.

As of 31 December 2019, the Company is classified as a large corporation in accordance with section 264d in conjunction with section 267 (3) HGB.

The financial year of the Company corresponds to the calendar year (1 January to 31 December).

The income statement has been prepared disclosing expenses by nature in accordance with section 275 (2) HGB.

The figures are rounded according to established commercial principles. Therefore, recalculations may slightly differ from the totals shown in the tables.

II. ACCOUNTING POLICIES

1. Principles and comparability

The accounting policies used in the preparation of the annual financial statements for the period ending 31 December 2019 are in accordance with the provisions of sections 242 to 256a and sections 264 to 288 of the HGB as well as the relevant provisions of the GmbH. The accounting policies and valuation methods have not changed compared to the previous year.

2. Fixed assets

Within the financial assets, loans are shown at the lower of nominal value and fair value.

3. Current assets

The receivables are shown at the lower of nominal value and fair value at the balance sheet date. Adequate allowances have been recognised to reflect all risks.

4. Prepaid expenses

This item includes payments made prior to the balance sheet date representing expenses for a specific period after that date. The Company exercises the option set out in section 250(3) of the HGB and recognises those differences as assets.

5. Equity

Subscribed capital is carried at its nominal value.

6. Provisions

Other provisions reflect all identifiable risks and uncertain obligations. They are recognised at the settlement amount considered necessary on the basis of reasonable commercial assessment. Future price and cost increases are taken into account if there are sufficient objective indications that they will occur.

7. Liabilities

Liabilities are recognised at their settlement amount.

8. Deferred income

This item includes payments received prior to the balance sheet date representing income for a specific period after that date.

9. Other operating income

Other operating income includes recharging of costs to Telefónica Germany GmbH & Co. OHG, Munich according to the agreement.

10. Income from financial assets - loans

Income from loans from financial assets includes interest income from the loans granted by Telefónica Germany GmbH & Co. OHG, Munich.

11. Interest and similar expenses

Interest and similar expenses mainly comprise interest expenses from bonds.

III. NOTES TO THE BALANCE SHEET

1. Financial assets

The financial assets as of 31 December 2019 consist of two loans in the amount of EUR 500,000 thousand and EUR 600,000 thousand respectively, granted by TDF to its shareholder Telefónica Germany GmbH & Co. OHG, Munich. The terms of both loans correspond to the terms of the underlying seven-year bonds which TDF issued on 10 February 2014 and 5 July 2018 respectively. The loans have fixed terms until the date of maturity of the underlying bonds on 10 February 2021 and 5 July 2025 respectively and are repayable in one amount on the due date, including all interest and costs which have not yet been paid. The underlying interest rates are 2.375 % and 1.750 % respectively and are payable annually on 10 February and 5 July respectively.

Please see the statement of changes in fixed assets for further information.

Statement of Changes in Fixed Assets for the Reporting Period from 1 January 2019 to 31 December 2019

	Acquisition costs				Accumulated depreciation				Carrying amounts	
	01.01.2019 EUR	Additions EUR	Disposals EUR	31.12.2019 EUR	01.01.2019 EUR	Additions EUR	Disposals EUR	31.12.2019 EUR	31.12.2019 EUR	01.01.2019 EUR
Financial assets										
Loans to affiliated companies	1.100.000.000,00	0,00	0,00	1.100.000.000,00	0,00	0,00	0,00	0,00	1.100.000.000,00	1.100.000.000,00
	1.100.000.000,00	0,00	0,00	1.100.000.000,00	0,00	0,00	0,00	0,00	1.100.000.000,00	1.100.000.000,00

2. Receivables and other assets

The receivables from affiliated companies amount to EUR 15,860 thousand (previous year: EUR 16,360 thousand), of which EUR 15,795 thousand (previous year: EUR 16,340 thousand) relates to receivables from the shareholder Telefónica Germany GmbH & Co. OHG, Munich. These comprise interest from loans issued to the shareholder in the amount of EUR 15,724 thousand (previous year: EUR 15,738 thousand). The remaining EUR 65 thousand mainly represent receivables from Telfisa Global B.V., Amsterdam, Netherlands from the cash pooling in the amount of EUR 60 thousand.

The maturity of these receivables is less than one year.

3. Prepaid expenses

This item includes mainly the amortised disgios from the issuance of seven-year bond in February 2014 and in July 2018 respectively. All components will be released over the terms of the underlying bonds on a straight-line basis until 10 February 2021 and until 5 July 2025 respectively.

4. Subscribed capital

The share capital remains unchanged, amounts to EUR 25 thousand and is fully paid. It is held entirely by Telefónica Germany GmbH & Co. OHG, Munich.

5. Provisions

The other provisions in the amount of EUR 57 thousand (previous year: EUR 115 thousand) mainly result from audit and consultancy fees.

6. Bonds

The category Bonds include two bonds with a nominal value of EUR 1,100,000 thousand in total. Both bonds are guaranteed by Telefónica Deutschland Holding AG, Munich. The bond issued on 5 July 2018 with a nominal value of EUR 600,000 thousand has a remaining maturity more than five years.

7. Liabilities to affiliated companies

Liabilities to affiliated companies amounts to EUR 54 thousand (previous year: EUR 482 thousand) and relate with an amount of EUR 54 thousand (previous year: EUR 482 thousand) to liabilities from the shareholder Telefónica Germany GmbH & Co. OHG, Munich and result mainly from recharging costs.

relate mainly to recharged costs by Telefónica Germany GmbH & Co. OHG from issuing the bond in July 2018.

8. Other liabilities

The other liabilities include short-term interest payables in relation to the bonds in the amount of EUR 15,724 thousand (previous year: EUR 15,738 thousand).

9. Deferred income

Deferred income results mainly from the differences between the nominal values of the underlying loans and the amounts paid out to Telefónica Germany GmbH & Co. OHG, Munich. The deferred income is released over the term of the underlying seven-year loans.

IV. NOTES TO THE INCOME STATEMENT

Other operating income and expenses

Other operating income amounting to EUR 87 thousand (previous year: EUR 2,347 thousand) results from recharging of costs to Telefónica Germany GmbH & Co. OHG, Munich. Other operating expenses amounting to EUR 87 thousand (previous year: EUR 2,347 thousand) and relate mainly to audit and consultancy fees. In previous year other operating expenses comprise recharging costs of issuing the bond in July 2018.

Financial result

Income from financial assets – loans in the amount of EUR 22,361 thousand (previous year: EUR 27,056 thousand) result from interest income from the loans granted to Telefónica Germany GmbH & Co. OHG, Munich.

Other interest and similar income result mainly from the differences between the nominal values of the underlying loans and the amounts paid out to Telefónica Germany GmbH & Co. OHG, Munich amounting to EUR 784 thousand (previous year: EUR 1,849 thousand).

Interest and similar expenses in the amount of EUR 23,145 thousand (previous year: EUR 28,904 thousand) include interest expense from the bonds of EUR 22,361 thousand (previous year: EUR 27,056 thousand) as well as the part of prepaid expenses to third parties in relation to the two disagios of EUR 784 thousand (previous year: EUR 1,849 thousand) which are released over the terms of the underlying bonds.

V. ADDITIONAL DISCLOSURES TO THE NOTES

Additional disclosures to the cash flow statement

Cash and cash equivalents ("Finanzmittelfonds") comprise solely cash and cash equivalents.

Cash includes bank balances, cash in hand while cash equivalents include all other short-term highly liquid financial investments that can be converted into cash any time. Cash equivalents with a maximum term of three months relate to cash-pooling receivables from Telfisa Global B.V, Amsterdam, the Netherlands recognised as receivables from affiliated companies.

Employees

In financial year 2019 and in 2018 the Company had no employees.

Management

The Managing Directors in the financial year were:

Markus Haas, Board of Directors, CEO Telefónica Deutschland Holding AG, Munich.

Markus Rolle, Board of Directors, CFO Telefónica Deutschland Holding AG, Munich.

Albert Graf, Director Corporate Finance & Tax Telefónica Germany GmbH & Co. OHG, Munich.

The Managing Directors do not receive any remuneration for their services from the Company.

Audit committee

By resolution of the shareholder as of 28 April 2014 an audit committee for TDF was set up in accordance with section 324 HGB. The audit committee consists of the following members:

Dieter, Gauglitz

Chairman

German public auditor

Resident in Munich

Eckart, Kurze

Board member

Director Organisational Efficiency; Telefónica Germany GmbH & Co. OHG, Munich

Resident in Munich

Marcel, Ritter

Board member

General Counsel, Telefónica Germany GmbH & Co. OHG, Munich

Resident in Duisburg

Remuneration of governing bodies

The members of the Audit Committee received a total remuneration of EUR 15 thousand for their work in 2019.

Auditor's fee

In accordance with section 285 no. 17 HGB, the total fee for the auditor of TDF will not be disclosed as the Company is part of the consolidation group of Telefónica Deutschland Holding AG, Munich, (Telefónica Deutschland Group) and the information is already included in the Consolidated Financial Statements.

Subsequent events

There were no significant events after the end of the financial year 2019 which would need to be disclosed.

Consolidated financial statements

The company that prepares the consolidated financial statements for the smallest group of companies in which the Company is included is Telefónica Deutschland Holding AG, Munich. The consolidated financial statements are published in the Federal Gazette and are available there and at the www.telefonica.de website. The consolidated financial statements of Telefónica Deutschland Holding AG, Munich are included in the consolidated financial statements of the Spanish parent company Telefónica S.A., Madrid, Spain. Telefónica S.A., Madrid, Spain prepares the consolidated financial statements for the largest group of companies. These consolidated financial statements are available from Telefónica S.A., Madrid, Spain, and are published online at www.telefonica.com.

Cost reimbursement agreement

There is an agreement between TDF and Telefónica Germany GmbH & Co. OHG, Munich, for recharging of the costs to the shareholder.

Profit and loss transfer agreement

On 20 March 2013, TDF signed a control agreement with the controlling company Telefónica Germany GmbH & Co. OHG, Munich. In addition, on 20 March 2013, TDF also signed a profit and loss transfer agreement with Telefónica Germany GmbH & Co. OHG, Munich. This has been recorded in the Commercial Register on 2 April 2013.

Munich, 13 March 2020

O2 Telefónica Deutschland Finanzierungs GmbH

- Management -

Markus Haas

Markus Rolle

Albert Graf

Declaration of the Statutory Representatives

To the best of our knowledge, and in accordance with the applicable reporting principles for financial reporting and with generally accepted accounting principles, the Financial Statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the Management Report includes a fair view of the development and performance of the business and the position of the entity, together with a description of the material opportunities and risks associated with the expected development of the entity for the remaining months of the financial year.

Munich, 13 March 2020

O2 Telefónica Deutschland Finanzierungs GmbH

- Management -

Managing Director

Markus Haas

Managing Director

Markus Rolle

Managing Director

Albert Graf

INDEPENDENT AUDITOR'S REPORT

To O2 Telefónica Deutschland Finanzierungs GmbH, 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 O2 Telefónica Deutschland Finanzierungs GmbH, Munich, which comprise the balance sheet as at December 31, 2019, the income statement, the cash flow statement and the statement of changes in equity for the financial year from January 1 to December 31, 2019, and notes to the financial statements, including the presentation of the recognition and measurement policies. In addition, we have audited the management report of O2 Telefónica Deutschland Finanzierungs GmbH for the financial year from January 1 to December 31, 2019.

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

- the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law and give a true and fair view of the assets, liabilities and financial position of the Company as at December 31, 2019 and of its financial performance for the financial year from January 1 to December 31, 2019 in compliance with German Legally Required Accounting Principles, and
- the accompanying management report as a whole provides an appropriate view of the Company's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

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 January 1 to December 31, 2019. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

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

① Recoverability of loans to affiliated companies

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

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

Hereinafter we present the key audit matter:

① Recoverability of loans to affiliated companies

- ① In the Company's annual financial statements, loans to affiliated companies amounting to € 1.1 billion (98% of total assets) are reported under the "Financial assets" balance sheet item. This relates to two loans granted to the sole shareholder Telefónica Germany GmbH & Co. OHG, Munich, with nominal values of € 500 million and € 600 million that are due for repayment in February 2021 and July 2025 respectively. In both cases, the conditions and amounts of the loans correspond to the underlying seven-year bonds, which are reported on the liabilities side under the balance sheet item "Bonds" in the amount of € 1.1 billion (98% of the balance sheet total). Loans to affiliated companies are measured in accordance with German commercial law based on the acquisition cost or, provided there are indications for an impairment, based on the lower fair value. Indications for an impairment of other loans are deemed to exist if there are signs for a deterioration in the economic situation of Telefónica Germany GmbH & Co. OHG, Munich, that result in liquidity or solvency in relation to the bonds being limited. Recoverability is evaluated primarily on the basis of the assessment of the operational business as well as the solvency of Telefónica Germany GmbH & Co. OHG, Munich. Because the estimates of the executive directors are required for the assessment of the loans and due to their significance in

terms of the amount for the assets, liabilities and financial performance of the Company, this matter was of particular importance for our audit.

- ② As part of our audit, we examined and assessed, among other matters, the procedure for evaluating and assessing the presence of indications for an impairment of the loans to affiliated companies held. We also assessed, in particular, the information upon which the executive directors based their assessment. In addition, we have examined the anticipated future income from the operating business activities using the business plan of Telefónica Germany GmbH & Co. OHG, Munich. In doing so, we assessed the appropriateness of the assumptions and expectations underlying the business plan, including, in particular, 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. Furthermore, we assessed the possibilities for the financing of the Telefónica Deutschland Group and especially of Telefónica Germany GmbH & Co. OHG, Munich, including, in particular, against the backdrop of the availability of credit lines not drawn down (unutilized credit facilities). Based on the audit procedures performed, we were able to satisfy ourselves that the information underlying the measurement assumptions made by the executive directors is, on the whole, suitable for carrying out an assessment on the presence of indications for value impairments of the loans to affiliated companies in an appropriate manner.
- ③ The Company's disclosures relating to the financial assets are contained in section "III/1. Financial assets" of the notes to the financial statements.

Responsibilities of the Executive Directors and the Audit Committee for the Annual Financial Statements and the Management Report

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

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

Furthermore, the executive directors are responsible for the preparation of the management report that as a whole provides an appropriate view of the Company's position and is, in all material respects, consistent with the annual financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have

considered necessary to enable the preparation of a management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the management report.

The audit committee is responsible for overseeing the Company's financial reporting process for the preparation of the annual financial statements and of the management report.

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

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

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

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

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

- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the annual financial statements and in the management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles.
- Evaluate the consistency of the management report with the annual financial statements, its conformity with German law, and the view of the Company's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the annual financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

OTHER LEGAL AND REGULATORY REQUIREMENTS

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as auditor by the shareholder meeting on November 22, 2019. We were engaged by the audit committee on December 2, 2019. We have been the auditor of O2 Telefónica Deutschland Finanzierungs GmbH, 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).

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

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

Munich, March 13, 2020

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

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

(sgd. ppa. Gabor Krüpl)
Wirtschaftsprüfer
(German Public Auditor)