Telefónica

Deutschland

MAGAZINE

Telefónica Deutschland Holding AG
for the financial year 2019

Investor Relations

Financial calendar and contact

2020

19 February
Q4 2019 – Preliminary results

6 May
Q1 2020 – Preliminary results

20 May
Annual general meeting

29 July
Q2 2020 – Preliminary figures

28 October
Q3 2020 – Preliminary figures

(Subject to change)

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Foreword by the Management Board

Dear shareholders, Dear Sir or Madam,

At the start of this new decade and thus the 5G era, Telefónica Deutschland is stronger than ever before. In a dynamic yet rational market environment, we once again delivered a strong operational and financial performance in 2019, driven by both the strong development of our own retail business as well as the good performance of our wholesale partner business. Overall, we gained around 1.5 million additional mobile postpaid customers and our O_2 products continue to enjoy strong demand. Our customers are increasingly choosing tariffs with large data packages and a good price/performance ratio, which is also reflected in the positive ARPU development of our own brands. As a result, since the second quarter of 2019 we have succeeded in increasing our mobile service revenue year-on-year for the first time since 2015.

This is also attributable to the low churn rate, which is improving as a result of our comprehensive LTE expansion, which we continued to drive forward massively in the 2019 financial year with thousands of additional wireless elements. As a result, more and more people, especially in rural areas, are gaining access to high-speed Internet through our O_2 network. In total, around 3 million additional people gained access to LTE in the O_2 network in 2019.

Our continuous expansion drive is also reflected in the results of various network tests. In the three major network tests carried out by COMPUTER BILD, Chip and connect, the O_2 network was rated "good" in all these tests for the first time, making the biggest leap forward of all providers. This means that for millions of customers our network quality has improved significantly in 2019. That is paying off – for retail and business customers and for the partners who use our network.

We continue to have a very competitive supply of mobile spectrum, during the 5G auction held in 2019 we were able to acquire a total of 90 MHz of valuable spectrum . In total, we have invested 1.425 billion euros in new licenses and are benefiting from attractive, interest-free instalments until 2030, which we were able to negotiate with the German federal government following the auction as part of the German mobile communications pact. In return, we agreed to accelerate the expansion of LTE in Germany, thereby significantly increasing the population coverage once again.

Together with Deutsche Telekom and Vodafone, we have taken up the fight against white spots. In November we agreed upon a declaration of intent to coordinate development and joint use of up to 6,000 mobile communications sites designed to ensure the best possible mobile broadband supply, particularly in rural areas and along transport routes such as roads, railroads, and rivers. The joint construction of additional radio masts and towers, as well as their technical supply and use will save significant time and costs compared to a parallel individual expansion.

In our strategy update on 11 December 2019 we also set the course for the 5G era and gave a clear growth signal for Telefónica Deutschland. Our two-year investment programme is the basis for accelerating our growth course. At the start of this new decade and the 5G era, we are investing in the nationwide expansion of LTE and the rapid development of a high-performance 5G infrastructure, especially in cities, and can thus tap into new revenue areas that will further strengthen the positive revenue trend of the past year.

In the industrial sector, Telefónica Deutschland has already made a successful start into the 5G era. Together with Mercedes-Benz Cars and Ericsson, we are building the "Factory 56" in Sindelfingen near Stuttgart, the first 5G mobile network for automobile production. In addition, we have successfully implemented other private networks, e.g. in the outdoor area of the port of Hamburg and the campus network of the Telefónica Base Camp in Berlin. With this indoor 5G solution, we have created a "5G innovation room" in which we can test the latest solutions and discuss these with representatives from politics, business and society, enabling to experience 5G for yourself.

For our O_2 customers, the roll-out of the new 5G mobile standard network in the five largest German cities Berlin, Hamburg, Munich,

From left:
Wolfgang Metze (Chief Consumer Officer), Valentina Daiber (Chief Officer for Legal and Corporate Affairs), Markus Haas (Chief Executive Officer, Chairman of the Management Board Telefónica Deutschland Holding AG), Alfons Lösing (Chief Partner and Wholesale Officer), Nicole Gerhardt (Chief Human Resources Officer), Mallik Rao (Chief Technology and Information Officer), Markus Rolle (Chief Financial Officer)

Cologne and Frankfurt will start in 2020 and is expected to be largely completed by the end of 2021. By the end of 2022, 30 cities with a total of 16 million inhabitants will be served.

To expand its network coverage as quickly as possible, Telefónica Deutschland relies on cooperation agreements. In this context the review of a possible sale of further parts of the passive mobile communications infrastructure portfolio have been announced in September. One possible scenario is the sale of roof sites to Telefónica S.A. subsidiary Telxius. The current attractive valuations for building network infrastructure offers us the opportunity to further increase our financial flexibility.

We have also secured a strong position in the fixed-line network business in 2019. Thanks to the access to the cable networks of Vodafone and Tele Columbus and to Deutsche Telekom's VDSL infrastructure, Telefónica Deutschland will soon be able to supply more households with the best available broadband connections than any other company can. This enables the company to provide its customers with the most suitable offer.

With this strong infrastructure of mobile and fixed network, Telefónica Deutschland will generate additional revenues. On the one hand, we want to win additional customers in rural areas and secure our market leadership in cities. We also intend to increase customer loyalty and generate additional revenue with attractive convergent offers consisting of mobile and fixed network components. Finally, Telefónica Deutschland aims to achieve a fair market share in the business customer segment, where we have been underrepresented to date.

Our two-year investment programme is not only the basis for these new revenue streams, it also ensures Telefónica Deutschland long-term margin growth. In addition, it is the prerequisite for an attractive free cash flow profile in a competitive market environment and thus for continued attractive shareholder remuneration. In this context we announced on December 11, 2019, that we intend to propose a dividend of 0.17 euros per share for the 2019 financial year to the Annual General Meeting of Telefónica Deutschland in May 2020. We see this as a lower limit during the investment phase. There is upside potential, for example through possible monetization of the passive infrastructure and further business development with a view to the introduction of new technologies.

As you can see, our company has a clear strategy and is implementing it successfully. We would like to express our sincere thanks for the confidence placed in our work.

With kind regards
The Management Board

Vision and Strategy

Our vision

We enable our customers to seize the opportunities offered by digitalisation
New technologies are making their way into our lives – on a small and large scale, in the private as well as in the working world and in business life. Factories and our homes are becoming smart. We communicate in real time over thousands of kilometres. We drive networked cars. Today, digitalisation is omnipresent as a part of our lives.

In this extremely dynamic environment, Telefónica Deutschland is a pioneer and companion: Already today, no mobile phone provider in Germany connects more people than we do. Every other person uses our infrastructure. With this network and with innovative offers and services, we are enabling mobile freedom for everyone in this country.

The new decade will be the decade of mobile communications – the Wireless Decade. Our ambition is clear: We want to become Mobile Customer & Digital Champion. As a high-performance partner with a comprehensive offering comprising connectivity, tariffs and services, we enable our customers to seize the opportunities offered by digitalisation. This applies to everyone, whether they are private customers, companies, partners and resellers, to the economy and society in Germany, to our employees, and finally to our shareholders.

The basis for this is our success story of the past more than 20 years. After entering the market in 1998, we have been able to continuously expand our business. The targeted acquisition and integration of companies such as HanseNet or E-Plus enabled us to realize enormous economies of scale. Among other things, this led to our customer market leadership in mobile communications.

Today we are stronger than ever before. And we have the perfect starting position for sustained growth in the age of 5G in the coming years. That is why we are opening a new chapter in our company's history in 2020 and reaping the rewards of economies of scale and transformation.

#RECONNECT

Our clear plan to meet our target

Our growth ambitions for the years 2020 to 2022 are closely linked to the Telefónica Group's global strategy programme #RECONNECT. #RECONNECT defines the Group's priorities as relevance, sales, returns, responsibility and motivation. Above all, it clearly focuses on our customers and the connection between people and technology. Because for us, this is the central prerequisite for generating sustainable growth.

The importance of Telefónica Deutschland for the group as a whole was once again impressively demonstrated at the end of 2019. Germany was confirmed as one of the Group's four core markets alongside Spain, Brazil and the United Kingdom. This gives us additional tailwind.

As strong as never before

Our updated strategy, however, not only precisely defines our objectives, but also our business priorities for the coming years. Our agenda from 2020 onwards is based on consistent and sustainable growth.

Telefónica Deutschland has already laid the foundations for achieving this in recent years.

Network expansion drive is bearing fruit – extremely powerful mobile communications network
Thanks to our mobile network, we are already able to provide 98 percent of the population with broadband. We offer reliable service at a fair price. In large cities, we are already the market leader by far in terms of transported data volumes with our high-performance, state-of-the-art network, supplying on average more than 50 percent of all customers.

The growth in data demand will continue to accelerate – and we are very well prepared for this. Last year we continued the largest LTE expansion drive ever in Europe. On average, we put a new LTE element into operation about every hour. We are very well equipped with more than 300 megahertz of the mobile communications frequencies required for the expansion and were able to secure important spectrum in the 2019 frequency auction, particularly for the launch of the 5G network.

The improved performance of our network is also reflected in the most recent network tests: For the first time, connect, COMPUTER BILD, and CHIP all rated our network as "good" at the end of 2019 and acknowledged that the quality of data and voice transmission has improved the most among all network operators in Germany.

Unique opportunities for customer access via fixed network – technologically highly flexible
We are now also very strongly positioned in the fixed network. Telefónica Deutschland has the prospect of reaching more customers with broadband offers than any other competitor. Thanks to smart cooperation models, the company can deploy the best technology available on the market in each case, whether DSL, cable or – based on growing capacities in the mobile network in the course of the ongoing expansion drive – via fixed wireless access. In the latter case, the customer's router is not connected to us as the provider via a fixed connection, but via radio signals.

Largest customer base in Germany, most of it controlled by us
Another strength is our customer base. We already connect one in two people in this country with mobile communications. We have a direct business relationship with around 80 percent of them. With our services, we can offer them further added value and thus achieve growth. At the same time, we are the preferred partner for resellers and virtual network operators, making us the market leader in the partner business. Our customers are more satisfied with our work than ever before. In 2019, the proportion of mobile communications contract customers – or churn for short – fell to 18.1 percent on an annualized basis. In 2018 the figure was still 19.8 percent.

Excellent product and service offering – far beyond traditional mobile communications
No other brand in the German telecommunications market stands for freedom as much as O_2. We have invested heavily in our core brand in recent years and developed numerous products and services that are unique.

With the launch of the extra-large fast O_2 Free data packages in 2017, we have opened up completely new digital opportunities for people in Germany. Then, last year, we heralded the end of rigid contract terms with O_2 You. And since February, O_2 has been offering tariffs with unlimited data volume, where the price depends on the selected speed. With O_2 TV, our cooperation with Amazon Music and Eventim as well as the O_2 HomeSpot, we have also successfully demonstrated that we also offer innovative products far beyond classic mobile communications.

We also received more awards for our product and service range in 2019 than ever before. For example, we were honoured by the F.A.Z. Institute as an innovation leader, received the renowned Finance Award for O_2 Banking as the best app to manage a current account and achieved a top ranking with the overall mark "very good" in the connect test for our O_2 Service App. The Smartphone Magazine recognized the overall package of connectivity and O_2 Free as the winner in terms of price performance.

But our other brands also continue to be very successful: ALDI TALK was awarded the title of mobile phone brand of the year for the sixth time in a row as a result of a representative customer survey conducted by the market research company YouGov in cooperation with the business newspaper Handelsblatt. Our Blau brand, as well as Ortel Mobile and Ay Yildiz, which address the ethnic segment in Germany, also continued to perform well.

By exercising the contractually agreed extension option for the capacity-based MBA MVNO contract on the part of 1&1 Drillisch until 30 June 2025, Telefónica Deutschland is securing relevant revenues for the future from the successful partnership with 1&1 Drillisch as the virtual network operator on our network.

Our goal

All signs point to growth in 2020
Last year Telefónica Deutschland returned to growth in mobile communications. We intend to accelerate this development further in the coming years and gain market share in key markets. In the years 2020 to 2022 we want to increase our total revenue by at least 5 percent.

We will become more relevant for many rural customers as a result of the largely nationwide expansion of LTE. At the same time, we intend to create capacity for the exponential growth in data traffic and the rising demand for fast data services by rapidly building a 5G network, especially in major cities, and thus defend our market share there. Increased capital expenditure and smart partnerships for infrastructure expansion will bring our network to market even faster, making us even more competitive and cost-effective.

With this strong infrastructure in place, we will increasingly offer convergent services, focusing on mobile and fixed-network products. At the same time, we intend to significantly expand our market share in the business customer segment. This is a business area in which we have historically been underrepresented on the basis of our previous network strategy and now have all the prerequisites for a market share at competitive levels.

At the same time, we never lose sight of our vision of opening up digital freedom for the people of Germany. To this end, we are continuing to transform our organization to keep pace with the advancing digitalisation. We are becoming simpler, faster and better. To this end, we will continue to systematically drive forward our “Digital4Growth” transformation program in the coming years.

This will also make us a reliable and attractive investment in an industry of the future for our shareholders. We deliver sustainable revenue and earnings growth and thus enable attractive shareholder remuneration.

Measures in the course of the growth strategy

Investment and cooperation for a strong infrastructure
Telefónica Deutschland will noticeably improve the customer experience in its network through additional infrastructure investments. To achieve this, we are planning additional investments in the network. In addition to the total investments of around 1 billion euros per year to date, a significant triple-digit million-euro amount will be invested in network expansion between 2020 and 2022. Most of this will probably be spent in the first two years of the period.

This will create the conditions to significantly accelerate the 4G and 5G rollout and, in the foreseeable future, to be on a par with the competition from the customer’s perspective. We will continue the high number of cycles in LTE roll-out in the coming year and plan to expand LTE with more than 10,000 additional elements. By the end of 2020, we are aiming for 4G coverage of 98 percent of German households, which comes very close to full coverage.

This further acceleration of the network expansion will open up enormous additional opportunities in mobile communications. In large cities, our market share is already higher than 50 percent, while in rural areas it averages less than 25 percent. While we intend to maintain and further expand our position in cities from 2020, we will noticeably increase our market share in rural areas in particular. An outstanding network experience across the board is the key to attracting more customers.

At the same time, with the introduction of 5G from 2020 onwards, we are pursuing the development of an infrastructure that will lay the foundation for the digital future of society and the economy in the coming decade. As an innovator and driver of the digital transformation in Germany, we play a central role in this process. This is also reflected in our ambitious plans for the 5G rollout. Our goal is to enable high connection speeds for everyone and offer innovations for the mass market. After the market launch in 2020, we will have connected Germany’s five largest cities with 5G by the end of 2021 and the top 30 cities with 16 million inhabitants by the end of 2022.

We bring a wealth of 5G expertise with us: Following numerous tests with high mobile speeds in Munich and Hamburg, among other places, we have already set up the first campus networks – including the first of its kind in Berlin. We are currently building another campus network for Factory 56 at the Mercedes-Benz plant in Sindelfingen. It is used for the intelligent networking of machines and systems and is the first of its kind in the world. We see enormous growth potential in this area in the coming years.

Regardless of our own expansion plans, we are currently holding intensive discussions with our competitors on the joint use of both passive and active network infrastructure. In 2019, we have already made important progress in this area and secured access to the cable networks of Vodafone and Tele Columbus. Together with Deutsche Telekom's DSL lines, which we have been marketing since 2011, and home Internet via mobile communications (fixed-mobile substitution), we will be able to supply almost every household in Germany with fast fixed-network lines in the future. This gives us the largest coverage of any competitor and enables us to offer the best quality technology available.

And we are also counting on cooperation in mobile communications: To eliminate white spots along traffic routes, we intend to set up and use 6,000 new mobile communications sites together with Telekom and Vodafone.

We are convinced that it is in the best interests of consumers if all network operators work closely together in a spirit of partnership to establish a leading international broadband infrastructure in Germany. After all, Germany can only achieve its ambitious political goals for mobile communications coverage if everyone involved works closely together.

Greater customer loyalty through smart bundling
Supported by our strong infrastructure position, we intend to benefit from an important usage trend: The boundary between mobile and fixed lines is becoming blurred. More and more customers today use the Internet on the move just as much as at home. Convergent offerings, i.e. the combination of mobile communications and broadband access at home in a single tariff, allow simple and uncomplicated access to the digital world – anytime, anywhere. By 2022 we want to increase the number of customers who use more than one O_2 product from 60 percent to 70 percent. To achieve this, we are not just relying on a combination of fixed network and mobile communications. Rather, this also includes bundles of different mobile offers, the connection of many end devices in one tariff via Mobile Connect or the combination with TV offers via O_2 TV.

The advantages of smart bundling are obvious: We will expand our customer base and at the same time reduce the migration of existing customers. Because the more devices and services a customer uses, the less likely he is to change providers. In addition, we can increase sales per household and customer.

Push for business customers and in rural areas
The mobile communications market for business customers offers enormous growth potential for our company. With our O_2 Business brand, we are clearly positioning ourselves as an attacker in this market segment. We combine an excellent price-performance ratio with very good service. O_2 Business is the fair solution for all those who do not want to pay high prices. Through better network coverage, 5G applications such as campus solutions and convergence offerings, we aim to gain significant market share in the coming years.

In order to be able to tackle these goals as early as 2020, we made important adjustments to our market presence, customer service and sales force last year. We offer flexible solutions for individual needs – with a focus on personal customer care.

We intend to defend our market leadership in the mobile communications partner business. Here too, investments in the network in rural and urban areas will pay off. In this context, we are relying on the proven partnerships with our strong partners such as 1&1 Drillisch, Freenet and resellers such as Medion (ALDI TALK).

Transformation

Simpler, faster and better: Growth through digital transformation
Telefónica Deutschland continues to consistently pursue the digital transformation of the company. In addition to the extensive investments in our network, this is a mainstay of our growth strategy. The programme is well known: With "Digital4Growth" we want to become simpler, faster and better for our customers.

We will become simpler by making interaction more intuitive for our customers and by providing a consistent experience across our channels. We will become faster by responding to customer needs and market changes in real time. And we will become better by enabling a positive customer experience across all our channels and by building data-based growth businesses.

A powerful organization as a prerequisite
In order to be able to successfully shape the digital change, we are continuously developing ourselves as an organisation. We enable our employees to build up new skills in a flexible manner and prepare our managers for rapidly changing requirements. Analogue and digital further training courses and a lively feedback culture contribute to this. In addition, we promote agile and interdisciplinary cooperation and an attitude that is geared towards learning and growing together. Only if we ourselves stay on the ball will we be able to let our customers benefit from the advantages of digitalization.

Attention to new and forward-looking technologies
In the course of the digital transformation, Telefónica Deutschland has been early to focus on the Internet of Things (IoT) and Advanced Data Analytics (ADA) as innovative growth areas. Both technologies not only open up new sources of revenue for us, but also contribute to an overall improvement in the customer experience.

With the aim of developing precisely such applications, the Telefónica Open Innovation Hub Wayra acts as a link between our company and start-ups. This is where innovative solutions are created for our various business areas. Start-ups in the Wayra programme have the opportunity to try out their products under the conditions of a large corporation. The result is a profitable cooperation with immense scalability.

Especially for the Internet of Things, the potential is huge: our customers are using more and more devices. The number of terminals and sensors connected to the Internet via mobile phone technology has grown exponentially in recent years. We want to seize the opportunities arising from this growth.

In addition, new business models are emerging in the area of data analysis. On the one hand, Big Data and Artificial Intelligence help us to react better to market requirements, acquire new customers in a more targeted manner or optimise our mobile network. On the other hand, they enable us to support other companies in their daily work. Data analysis based on our mobile data is already being used by partners in areas such as traffic planning and retail. The movement of the public allows us to draw conclusions for better traffic planning. Insights into customer behaviour also make it possible to interact with customers in a more targeted manner. The security of our customers' data is always guaranteed by an anonymization procedure we have developed ourselves.

Technologies must have a positive impact on society
It is our declared goal to contribute to the solution of social challenges with digital technologies and in this way to promote sustainable development. In the spirit of responsible corporate governance, we must consider the impact on people and the environment in all our business activities. Corporate Digital Responsibility is therefore already an essential part of Telefónica Deutschland's business activities. As part of the "Responsible Business Plan", we have formulated clear ambitions and goals and initiated company-wide measures. These cover the following three areas: 1) Responsible business, 2) Strengthening life in the digital world, and 3) Protecting the environment and climate. A sustainable and fair society is not possible without digitization.

Regulatory framework: Closer collaboration necessary
Assuming responsibility is what we do. For this reason, we are also committed to shaping the appropriate legal, regulatory and political conditions. The goal must be to ensure satisfied consumers and a flourishing, sustainable economy based on a leading digital infrastructure.

But that alone will not be enough. If we want to accelerate the expansion of the digital infrastructure in Germany, it will take more than raising the investment budgets of leading companies or innovative cooperation among mobile communications providers. We urgently advocate that policymakers switch from auction procedures to alternative solutions for the allocation of frequencies. The new spectrum available for allocation in 2025 should be extended quickly for network operators investing nationwide – naturally with corresponding coverage requirements for the area. This creates legal and planning security for network operators. And the money will flow directly into network expansion.

Obstacles to the rapid expansion of the digital infrastructure must also be removed urgently in other areas. We are therefore committed to simplifying and accelerating approval processes.

What is needed is genuine solidarity between politics, business and the authorities. The mobile communications pacts in the federal states were the first steps in the right direction. But we need more than that: We also need a national pact for the future of the digital infrastructure.

Ready for the digital future
Telefónica Deutschland is ready for the digital future. Today we already play a key role in shaping the digital change. Now that we have updated our strategy, all indicators point towards growth. We will invest massively in infrastructure, focus on smart bundling offers and attack in the business customer segment. We are continuously becoming simpler, faster and better. In recent years, we have laid the foundations for our future growth – which is clearly reflected in our position as Germany's largest mobile communications provider. The starting point is always our customers and their needs. We consistently place them at the centre of our activities and give them mobile freedom in the digital world.

Highlights of the 2019 financial year

G 01

MOBILE ACCESSES (POSTPAID/PREPAID)
IN MILLIONS

G 02

REVENUE[1]
IN MILLIONS EUR

[1] Adjusted for regulatory effects

G 03

OIBDA[2, 3]
IN MILLIONS EUR

[2] According to IAS 17 accounting standard
[3] Adjusted for exceptional and regulatory effects

G 04

OIBDA MARGIN[2, 3]
IN PERCENT

[2] According to IAS 17 accounting standard
[3] Adjusted for exceptional and regulatory effects

In a dynamic, yet rational market environment, Telefónica Deutschland posted a strong operational and financial performance in 2019, driven both by the strong development of our own retail business as well as the good performance of its wholesale partner business. Our O_2 Free portfolio continues to enjoy strong demand and customers are choosing tariffs with large data packages and a good price/performance ratio, which reflects in the positive development of ARPU for our own brands. As a result, since the second quarter of 2019 we have managed to achieve a turnaround in the development of our mobile service revenues and to increase them again year-on-year.

Operating performance
The mobile postpaid segment grew by +6.5 % year-on-year to 23.7 million customers. At the end of December, postpaid mobile accesses accounted for 54.1 % of our total mobile customer base, an increase of +2.1 percentage points year-on-year. The mobile prepaid subscriber base totalled 20.1 million customers at the end of the year, a decline of only 2.2 % year-on-year, which is attributable to the lower demand for prepaid services due to regulatory changes and a general market trend towards postpaid services.

In the fixed-line segment, the DSL retail customer base reached a total of 2.2 million lines, a growth of +6.1 % year-on-year, which was due to the strong demand for VDSL. The VDSL customer base grew by +14.6 % year-on-year to 1.7 million lines, which corresponds to 75 % of our customer base in the retail fixed-network business.

The ARPU trends show the effects of the expected regulatory burdens as well as weakening effects from the composition of the customer base. In contrast, the O_2 Free portfolio and new value-added services are delivering visible ARPU contributions; postpaid ARPU in own brand is growing by +0.9 % year-on-year.

Overall, blended mobile ARPU in 2019 was EUR 10.0 and was almost stable at -0.2 % year-on-year. Post-paid ARPU declined by -4.0 % year-on-year to EUR 14.3, which is mainly attributable to regulatory effects. Prepaid ARPU amounted to EUR 6.0 in 2019, an increase of +3.2 % year-on-year.

ARPU in the fixed retail business amounted to EUR 23.3 in 2019 (-5.0 % year-on-year), reflecting the higher customer base in a year-on-year comparison and the higher share of bundled rates in the customer base.

Financial performance

At EUR 7,458 million, adjusted revenues were +1.9 % higher than in the previous year due to the strong development of revenues from mobile communications services and the continued demand for high-quality handsets. Including negative regulatory effects of EUR -59 million, revenues increased by +1.1 % year-on-year to EUR 7,399 million.

Underlying[1] mobile service revenue (MSR) benefited from the continued strong retail business as the O_2 Free portfolio had an ARPU-enhancing effect and grew by +1.7 % year-on-year to EUR 5,355 million with continued strong retail business as the O_2 Free portfolio had an ARPU-enhancing effect. Including negative regulatory effects, MSR increased by +0.6 % year-on-year to EUR 5,301 million and remained positive overall after the turnaround in the second quarter of 2019.

Operating profit before depreciation and amortisation (OIBDA) adjusted for exceptional and regulatory effects (underlying OIBDA) came to EUR 1,903 million in 2019 according to IAS 17, +1.0 % year-on-year. According to IFRS 16, underlying OIBDA increasedby +24.9 % year-on-year to EUR 2,353 million in the period from January to December 2019.

The exceptional effects are mainly restructuring costs related to remaining network rental agreements and provisions for severance payments. Regulatory effects were EUR -38 million. These mainly consisted of usage elasticity effects resulting from the European roaming regulation and the new regulation for international telephony within the EU, which entered into force as of 15 May 2019. Including those exceptional and regulatory effects, OIBDA reached EUR 2,292 million in 2019 on the basis of IFRS 16 and was thus +27.6 % year-on-year.

Telefónica Deutschland continued to invest in the market and in transformation to keep momentum and generate sustainable revenue growth. In 2019 we registered transformation gains of EUR ~40, as well as the final remaining rollover effects from integration synergies of EUR ~40 million.

The underlying[2] OIBDA margin according to IFRS 16 increased by +5.8 percentage points year-on-year to 31.6 % in 2019.

Capital expenditure (CapEx) amounted to EUR 1,044 million and included the remaining synergies of EUR ~40 million. The investment ratio was 14.1 %, reflecting our continued focus on the customer experience while the LTE rollout is in full swing. The network expansion measures in 2019 to have provided more than three million additional people with LTE. In addition, more than 60 % of German households already have an LTE network that provides data rates of over 100 Mbit/s. As a result, the O_2 network was rated "good" for the first time in all three major German network tests, thus achieving a breakthrough in network quality.

Consolidated net financial debt[3] under IFRS 16 amounted to EUR 3,860 million at the end of December 2019 with a leverage ratio of 1.7x[4], benefitting from the deferral of spectrum payments. Thus, the leverage was well below the self-defined leverage ratio of at or below 2.5x. Telefónica Deutschland therefore continues to have enough financial flexibility with regards to our investment grade rating (BBB from Fitch or equivalent).

[1] Adjusted for regulatory effects
[2] Adjusted for exceptional and regulatory effects
[3] Net financial debt includes current and non-current interest-bearing financial assets and interest-bearing financial liabilities as well as cash and cash equivalents.
[4] Leverage ratio is defined as net financial debt divided by the OIBDA for the last twelve months adjusted for exceptional effects.

Our share

The Investor Relations department of Telefónica Deutschland forms the interface between the company, investors, brokers and other stakeholders. Our aim is to provide the public with relevant information regularly, quickly and effectively and we provide comprehensible and transparent information about the strategic and operational development of the company. Investors therefore have an equal opportunity to obtain information about Telefónica Deutschland and to make realistic assumptions about the valuation of the company and an investment decision.

Economic situation and capital market environment

The German economy was able to continue the positive trend of previous years in 2019. However, the economy slowed down slightly and the price-adjusted gross domestic product recorded a plus of 0.5 % compared to the previous year. As in the previous year, impetus came mainly from private household consumption and government spending. Exports continued to rise year-on-year, while imports remained virtually unchanged. The number of unemployed also continued to decline and amounted to 4.9 % at the end of the year.

Despite the uncertainties surrounding the United Kingdom's withdrawal from the European Union and ongoing uncertainties due to trade agreements between the United States and its global partners (including China, Mexico and the EU), global stock markets were able to close the year successfully, reaching new highs.

In 2019, the two leading indices, the DAX and the European Stoxx600, performed almost analogously and both recorded a positive trend over the course of the year. Lows were recorded right at the beginning of the year and both reached their annual highs in December. The DAX ended the year with a gain of +25.5 % and the Stoxx recorded a gain of +23.2 %.

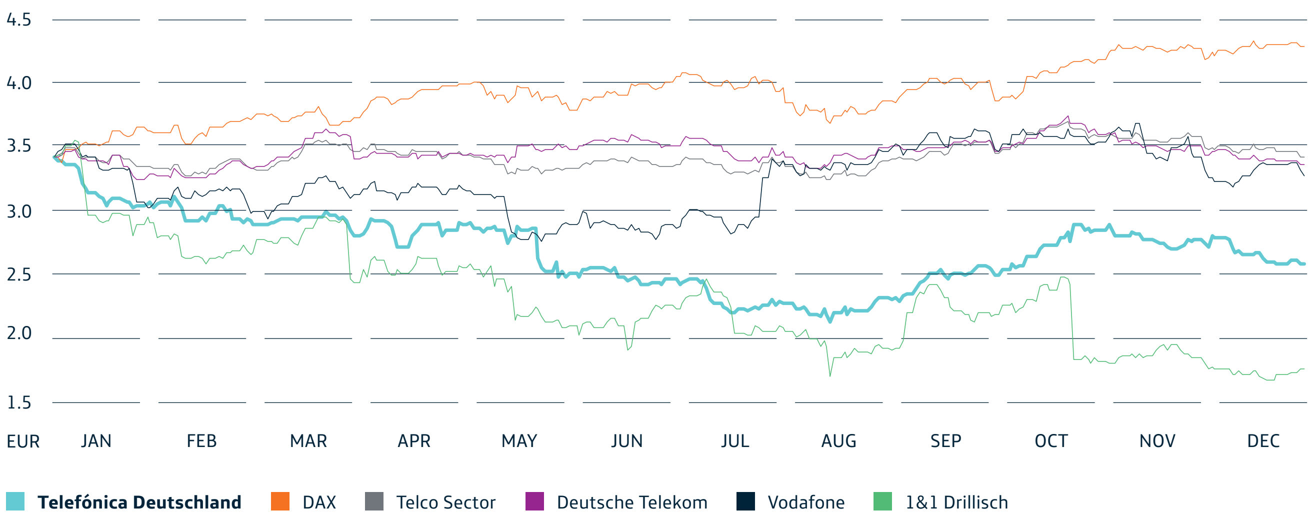
Unfortunately, the European telecommunications sector was not able to follow this strong performance and fluctuated between slight losses and slight gains in the first eight months of the year, before a turnaround was achieved at the end of August and the sector was also able to follow the global stock trends, ending the year almost unchanged with a gain of +0.1 %.

At the beginning of the year the Telefónica Deutschland share advanced in the opposite direction of the German and European trends, suffering heavy losses especially at the beginning of the year. The negative trend was driven, among other things, by the 5G auction and ongoing speculation about a possible 4th network provider. The sale of shares by Koninklijke KPN N.V., which lasted until mid-June and was entirely for the benefit of the free float, which also contributed to the negative pressure on the value of Telefónica Deutschland. The low for the year of EUR 2.214 was reached in August. A recovery was then set in and the share was able to make up for some of the losses due to the strong operating and financial results and also the positive outcome of the first arbitration proceedings to review the price of the MBA MVNO contract.

The Telefónica Deutschland share therefore ended the year with a loss of -24.4 % and a closing price of EUR 2.584.

G 05

SHARE PRICE PERFORMANCE 2019
1 JANUARY TO 31 DECEMBER, REBASED



Shareholder remuneration at Telefónica Deutschland

Telefónica Deutschland set the signals for growth in a strategy update on 11 December 2019 in London. As we enter the new decade and the 5G era, we are investing in the nationwide expansion of LTE and the rapid development of a high-performance 5G infrastructure, especially in cities. Our temporary, two-year investment program is the basis for further profitable revenue and margin growth and for maintaining an attractive free cash flow profile in a competitive market environment in the future and for continuing to offer our shareholders attractive remuneration.

At the same time, we are adhering to our conservative financial policy. This policy focuses on a strong balance sheet with low debt and sufficient financial flexibility of the Company. Against the background of our investment program and the implementation of IFRS 16, we are updating our leverage (net financial debt / OIBDA) to less than or equal to 2.5x and thus continue to have considerable scope to maintain our investment-grade rating (BBB from Fitch or equivalent).

With regard to the dividend, we are maintaining a high payout ratio in relation to free cash flow adjusted for rental payments, special effects and frequency payments (FCF aL). In the context of the forthcoming investment programme, we announced on 11 December 2019 that we intend to propose a dividend of EUR 0.17 per share for the 2019 financial year to the Annual General Meeting of Telefónica Deutschland in May 2020. We see this as a lower limit during the investment phase. There is upside potential, for example, through the possible monetization of the passive infrastructure and further development of the business with a view to the introduction of new technologies.

Activities of the Investor Relations team of Telefónica Deutschland

Open, prompt and transparent communication is at the core of our work as an investor relations department. Regular and active communication with our shareholders, analysts, potential investors and other national and international stakeholders is at the heart of our daily work. It is our aim to communicate and further develop the strategy and business model of Telefónica Deutschland in a transparent and comprehensible manner. In 2019 we continued to pursue this approach and represented the company at numerous conferences, roadshows, personal meetings at our offices and our Strategy Update in London in December. The Management Board and the Investor Relations team held a total of 305 investor meetings in fiscal 2019 (2018: 246) and spent a total of 9 weeks (2019: 9 weeks) in Europe and North America.

The share performance of Telefónica Deutschland was monitored by a total of 27 analysts. Brokers' estimates ranged between EUR 2.40 and EUR 4.50. At the end of 2019, the average target price of all analysts' estimates was EUR 3.11, which corresponds to a premium of +20.4 % to the year-end price of EUR 2.584.

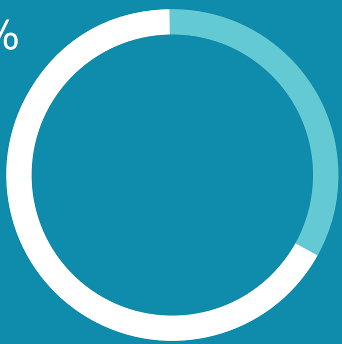
Rating	Anzahl
Buy/Kaufen/Add/Outperform/Overweight	10
Hold/Halten/Neutral/Equal weight	12
Sell/Verkaufen/Underweight/Underperform	4

We hold a conference call on the occasion of the publication of our fiscal year and quarterly results. Investors and analysts have the opportunity to address their questions directly to the Management Board. Recordings of these conferences will be available on our website for a period of one year.

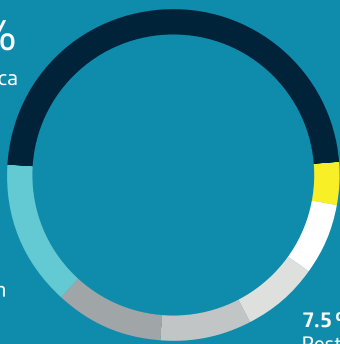
Further information about the company and the Telefónica Deutschland share can be obtained via the contact details given on the following page.

G 06 / G 07

SHAREHOLDER STRUCTURE OF TELEFÓNICA DEUTSCHLAND



GEOGRAPHICAL DISTRIBUTION OF THE FREE FLOAT[2]



[1] Telefónica Germany Holdings Limited is an indirect wholly owned subsidiary of Telefonica, S.A.; status: according to share register on 31/12/2019
[2] Source: NASDAQ, April 2019

T 01

TELEFÓNICA DEUTSCHLAND BONDS

Issue date	Currency	Volume	Tenor	Coupon	Instrument rating	Listing
10 February 2014	EUR	500,000,000	7 years	2.38 %	BBB	Regulated market of the Luxembourg Stock Exchange
05 July 2018	EUR	600,000,000	7 years	1.75 %	BBB	Regulated market of the Luxembourg Stock Exchange

Long-term Issuer Rating of Fitch: BBB, Outlook: stable

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Management photo, page 04: Bernhard Huber Munich

Telefónica Deutschland

ANNUAL REPORT

Telefónica Deutschland Holding AG
for the financial year 2019

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COMBINED MANAGEMENT REPORT

For the financial year 2019

Combined Management Report
P. 03–63

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

TELEFÓNICA DEUTSCHLAND GROUP AT A GLANCE

Financial Overview

1 January to 31 December

(in EUR million)	2019	2018	% Change
Revenues	**7,399**	**7,320**	**1.1**
Revenues (excl. regulatory effects 2019)	**7,458**	**7,320**	**1.9**
Mobile service revenues	5,301	5,267	0.6
Mobile service revenues (excl. regulatory effects 2019)	5,355	5,267	1.7
Operating income before depreciation and amortisation (OIBDA) according to IAS 17, adjusted for exceptional effects (excl. regulatory effects 2019)	**1,903**	**1,884**	**1.0**
OIBDA margin according to IAS 17, adjusted for exceptional effects (excl. regulatory effects 2019)	*25.5%*	*25.7%*	*(0.2%-p.)*
Operating income before depreciation and amortisation (OIBDA), adjusted for exceptional effects	**2,316**	**1,884**	**22.9**
OIBDA margin, adjusted for exceptional effects	*31.3%*	*25.7%*	*5.6%-p.*
Operating income before depreciation and amortisation (OIBDA)	**2,292**	**1,797**	**27.6**
OIBDA margin	*31.0%*	*24.6%*	*6.4%-p.*
CapEx	**(1,044)**	**(966)**	**8.1**
Investment ratio (CapEx/sales-ratio)	**14.1**	**13.2**	**6.9**
Operating cash flow (OIBDA-CapEx)	**1,248**	**839**	**48.7**
Free cash flow	**1,023**	**733**	**39.5**
Mobile accesses (in thousands)	43,827	42,819	2.4
Net adds in mobile prepaid business (in thousands)	(447)	(1,338)	66.6
Net adds in mobile postpaid business (in thousands)	1,455	1,002	45.2
Total ARPU (in EUR)	**10.0**	**10.0**	**(0.2)**
Non-SMS data over total data revenues (%)	**90.7%**	**85.4%**	**5.4%-p.**

As of 31 December

	2019	2018	% Change
Debt ratio	**1.7x**	**0.6x**	**188.1**
Net financial debt	3,860	1,129	241.9

BASIC INFORMATION ON THE GROUP

This report combines the Group Management Report of the Telefónica Deutschland Group, consisting of Telefónica Deutschland Holding AG (also referred to as Telefónica Deutschland or Company) and its consolidated subsidiaries and joint ventures (together referred to as the Telefónica Deutschland Group or the Group), and the Management Report of Telefónica Deutschland Holding AG.

Telefónica Deutschland Holding AG is a stock corporation (AG) under German law with its registered office in Munich, Germany.

Telefónica Deutschland Holding AG is the parent company of 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 financial year is the calendar year (1 January to 31 December).

Business Activity

The Telefónica Deutschland Group is one of the three leading integrated network operators in Germany. We offer mobile and fixed services for private and business customers as well as innovative digital products and services. In addition, our numerous wholesale partners purchase extensive mobile communications services from us.

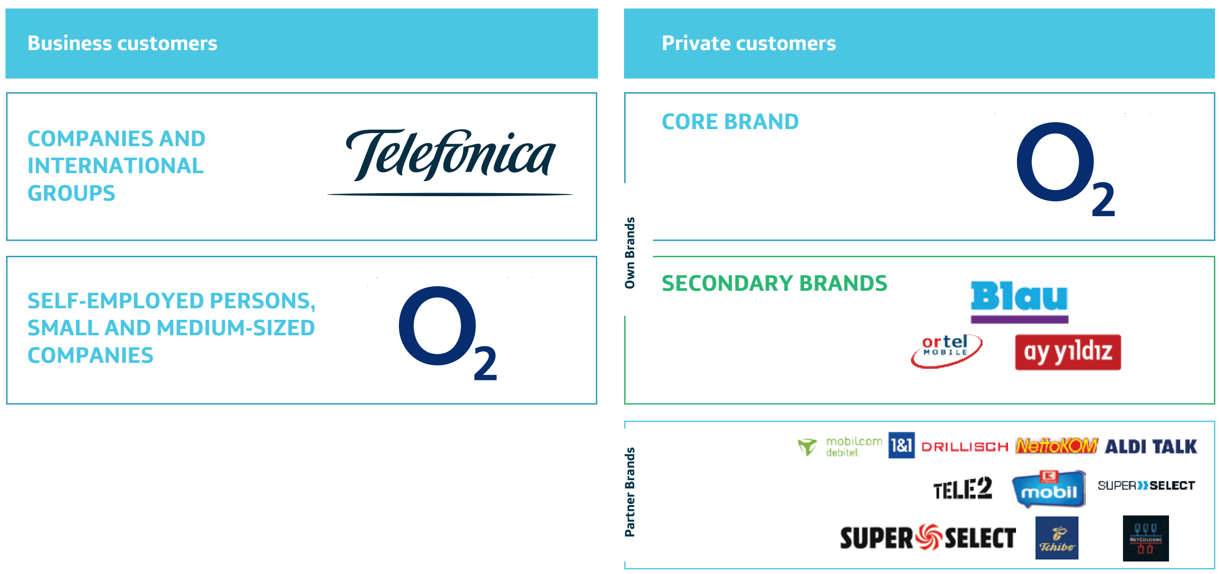
In the mobile sector, we serve the demand for mobile services as a consequence of the digitalisation of ever more areas of life.

Our Brands
A key success factor of our marketing and sales approach is our multi-brand strategy. We offer private and business customers a wide range of high-quality mobile services and fixed line products with our core brand O_2. Large international businesses are addressed through the Telefónica brand.

We rely on complementary sales channels in order to serve the various customer needs to the best of our ability. Our sales landscape includes both direct sales channels including our own shops, a countrywide network of independently operated franchise and premium partner shops, online and telesales, as well as indirect sales channels such as partnerships and cooperations with retailers via physical and online channels.

G 01

OUR BRANDS[1]



[1] Example illustrations of the brands of secondary and partner brands.

With our secondary and partner brands and through our wholesale channels, we reach further groups of customers, for example ethnic groups in Germany, that we do not target with our O_2 brand. In addition, by means of joint activities and strategic partnerships, we offer further mobile services brands. These include, for example, TCHIBO mobil or ALDI TALK, in cooperation with MEDIONmobile. Our multi- brand approach enables us to address the whole spectrum of customers with tailored product offerings, sales and marketing, thereby increasing our potential revenue.

Mobile services
With a total of 43.8 million mobile accesses as of 31 December 2019, we are a leading provider in this market area. In 2019, at EUR 5,301 million, mobile services were the most important revenue stream for the Telefónica Deutschland Group (72% of total volume). In this area, we offer private and business customers mobile voice and data services both on a contractual basis (postpaid) and in the prepaid segment.

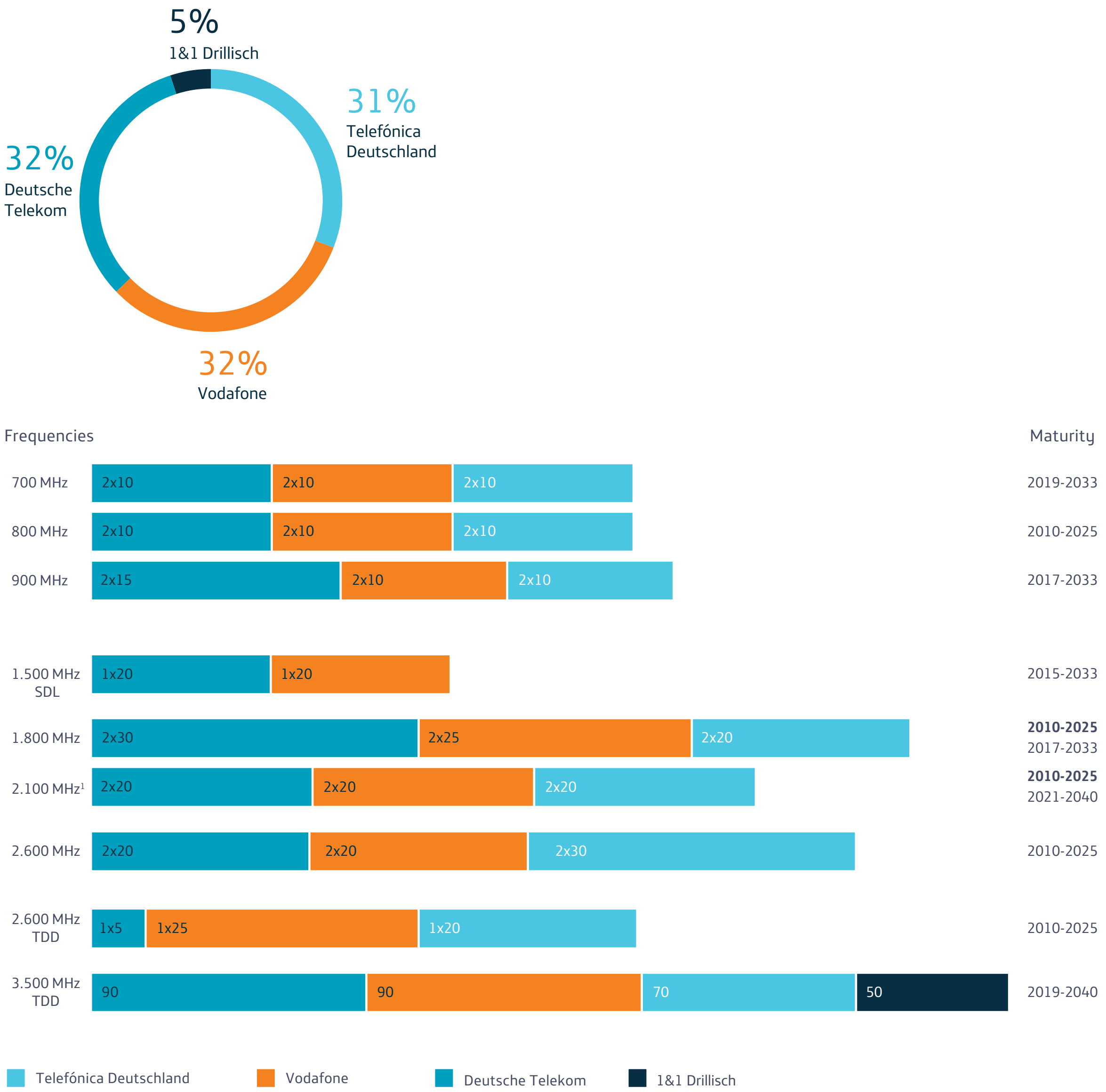
The basis for this is our mobile communications network. In 2019, the Telefónica Deutschland Group completed the merger of the O_2 and E-Plus networks, which had already been largely completed by the end of 2018, and continued the strong expansion of its LTE network. In the cities, the density of the LTE network was increased and was expanded to include additional capacities and LTE frequency bands.

At the end of the mobile frequency auction in June 2019, Telefónica Deutschland secured 90 MHz of spectrum that can be used throughout Germany for the high-performance mobile communications standard 5G. The spectrum obtained through auction runs from 2021 respectively 2026 to 2040.

Our portfolio gives us frequencies that provide both coverage (low frequencies) and capacity (high frequencies).

G 02

FREQUENCY BANDS FOR MOBILE NETWORK OPERATORS IN GERMANY 2021 – 2025[2,3]



[1] Until 31th December 2020: TEF D: 2 x 34.65 MHz, VOD: 2 x 14.85 MHz, DT: 2 x 9.9 MHz
From 1st January 2026: DRI: 2x 10 MHz, TEF D: 2x10 MHz, VOD: 2x20 MHz, DT: 2 x 20MHz
In addition (not included in the graph): Until 31th December 2020: 24.2 MHz TDD, ab 2021 19.2 MHz TDD
Pending transactions, for example the frequency transfer to Drillisch, are not considered

[2] Source: German Federal Network Agency (https://www.bundesnetzagentur.de/DE/Sachgebiete/Telekommunikation/Unternehmen_Institutionen/Breitband/MobilesBreitband/Frequenzauktion/2019/Auktion2019.html)

[3] The German Federal Network Agency will formally allocate the spectrum to the company in the 2.1 GHz range with one block with effect from 1 January 2021 and another block with effect from 1 January 2026. The 3.6 GHz spectrum will gradually become available over the next few years and fully from 2022.

The newly acquired spectrum will initially be used to supply urban areas and industrial areas with 5G, delivering high data rates and low latency. In the next step, 5G will also become relevant for residential customers, as the standard primarily offers more network capacity and higher speeds for the use of their digital applications.

Fixed-line business
We offer nationwide fixed services to complement our mobile services. Our DSL retail customer base amounted to 2.2 million as at year-end.

The offering is based on our strategic partnership with Telekom Deutschland GmbH. It grants us access to future-proof, next-generation fixed-line infrastructure and currently provides a total of more than 34 million[4] households in Germany with high-speed VDSL internet access. The Telefónica Deutschland Group will also benefit from all future improvements made by Deutsche Telekom in the fixed-line area.

Furthermore, the access agreement with Vodafone and Tele Columbus will significantly expand our nationwide fixed-line offering in Germany (including Internet-based TV services).

Hardware business
We use many channels to distribute a wide variety of terminal devices to our customers. Via our O_2 My Handy programme, customers can, for example, immediately buy any device in O_2's offering or pay in flexible monthly instalments. We also supply our wholesale partners with hardware to some extent and support them as needed in the sales and marketing of the hardware to their customers.

Our most important suppliers for mobile phones are the manufacturers Samsung, Apple and Huawei. We focus in particular on the sale of LTE-enabled smartphones. We cover the demand from our secondary brand customers for more mobile data services with a wide range of affordable smartphones.

Digital services
In order to make our smartphone offerings even more attractive for our customers, we offer a variety of additional products and services, such as our digital additional services O_2 TV, O_2 Banking or the O_2 Cloud.

Our market areas

We are strengthening the market position of our core brand O_2. We aim to gain further high-quality customers in the private and business customer segments. Furthermore, we offer our wholesale partners access to our infrastructure and to our services.

Private customers
We address the needs of our private customers in the digital world with data-centric mobile phone contracts and have consistently aligned our core brand O_2 with the customer promise of freedom with the introduction of our O_2 Free tariff portfolio. In 2019, we continued this orientation by continuously expanding the tariff portfolio.

The Blau brand is our second brand that is clearly defined for price-conscious private customers, offering this customer segment a mobile communications portfolio reduced to the essentials and transparent communication. Our customer promise of freedom also defines the orientation of our Blau brand.

Wholesale partners
Our partner business is an important pillar of our multi-brand approach. We offer our partners a broad portfolio of opportunities. This is based on a scalable business model with varying levels of value creation, which we can offer to potential partners who wish to enter the German mobile communications market.

Our largest partners from the reseller and service provider area include MEDIONmobile (ALDI TALK), 1&1 Drillisch, mobilcom/debitel and cable providers. We also address ethnic target groups with brands such as AY YILDIZ or Ortel Mobile. As part of the merger with E-Plus, we have committed to selling 20% of our mobile network capacity via mobile bitstream access (MBA) to Drillisch Online AG (formerly: MS Mobile Service GmbH), which now belongs to the 1&1 Drillisch Group. On 30 December 2019, 1&1 Drillisch exercised the contractually agreed extension option for the capacity-based MBA MVNO agreement with Telefónica Deutschland, extending it to 30 June 2025.

Business customers
The Telefónica Deutschland Group offers mobile and fixed-line products to business customers, too. Our focus is on addressing small and medium-sized enterprises (SME) as well as small offices/home offices (SoHo) via our core brand O_2 with a product portfolio that meets customer needs.

We also offer business customers services in the areas of Internet of Things (IoT), machine-to-machine communication (M2M) and managed connectivity.

New business: Internet of Things
With the Internet of Things, the Telefónica Deutschland Group is opening up new business areas that are close to our core business. For example, Telefónica Germany offers flexible networking solutions with the IoT Smart Center platform, the Global SIM and IoT Connect. The IoT Partner Program (IPP) also helps companies to develop and network new and future-oriented technologies.

[4] Source: Deutsche Telekom Q3 2019 Results, Presentation.

Management System

The Telefónica Deutschland Group is managed by the members of the Management Board.

The Management Board runs the business of the Telefónica Deutschland Group and reports to the Supervisory Board. The Supervisory Board participates in the Management Board transactions requiring consent (e.g. for the adoption of the annual budget, for changes to the corporate structure or the principles of the corporate strategy). Together with the Supervisory Board, the Management Board issues the invitation to the Annual Shareholders' Meeting.

The seven-person Management Board takes all operational and strategic decisions which help to successfully manage the Company in the individual business divisions in weekly meetings. This includes the specification and adoption of the strategy across all operational divisions, the consistent and uniform operationalisation of the strategy, the management of operational performance, the assurance of cross-functional coordination and cooperation, assurance that budget targets are achieved, the definition and implementation of measures for performance improvement and the functional risk management for the respective area of responsibility.

Our aim is to increase the value of our Company for the benefit of our shareholders. We are also firmly convinced that the satisfaction of customers and employees makes a major contribution to achieving this value growth.

The management of the Telefónica Deutschland Group has introduced a comprehensive internal management system for the control of the Group, which primarily comprises the following components:

— Process for strategic goal setting

— Integrated budgeting and planning system

— Financial and non-financial performance indicators

— Monthly reporting to the Management Board and Supervisory Board

— Ongoing opportunity and risk management

— Leadership by target agreements at all levels of the organisation.

Strategic objectives are reviewed and redefined annually

As part of the annual planning process, the Management Board of Telefónica Deutschland reviews the corporate strategy with the support of the Strategy division. We develop long-term strategic goals for the positioning of the Company on the German market as well as a strategy plan, including financial planning for the next three years as part of this process. Detailed budget planning for the next financial year is then prepared on the basis of the agreed multi-annual goals. The short-term priorities are defined at the same time. Decisions are based on current market and competitor analyses as well as market forecasts, which are compared with the corporate vision and long-term strategic goals.

This systematic approach serves as the basis for identifying both growth opportunities and risks and as the source of our corporate strategy and investment decisions. The corporate strategy is then translated into concrete strategies for the different organisational units. At this level, the opportunities relevant to the respective organisational unit are prioritised in the operational implementation of the strategy.

Management system of the Telefónica Deutschland Group

We have established key performance indicators (KPIs) for the management of our strategic and operating goals. Financial performance indicators are a component of the management system of the Telefónica Deutschland Group and reflect the interests of our various stakeholders.

The following monitoring parameters were of particular significance for our Company's value-oriented management and evaluation in financial year 2019:

G 04

PERFORMANCE INDICATORS

Key performance indicators also used for the internal management	Revenues	OIBDA adjusted for exceptional effects	Investment ratio (CapEx/sales-ratio)
Other key performance indicators	Free cash flow	Net leverage ratio	

Revenues
The development of revenues is a key indicator of the success of our Company. Revenues depict the total value of our operational activity and are therefore a key indicator of the success of our products' and services' sales on the market. For better comparability with previous years, we consider the performance indicator adjusted for the regulatory effects of the reporting year, insofar as these have a significant influence on the development of the performance indicator.

OIBDA adjusted for exceptional effects
OIBDA corresponds to operating income before depreciation and amortisation of intangible assets, property, plant and equipment and rights of use. On the basis of the OIBDA, we measure the profitability of our operating activities. This analysis provides a comprehensive view of our expense and revenue structure. As exceptional effects make comparability with previous years difficult, we use the OIBDA adjusted for exceptional effects for a transparent presentation. These non-recurring effects have a direct impact on the result of operations and follow from a changed composition of the Group, from sales of businesses, acquisition-related consultancy fees, restructuring expenses or non-operational transactions. We continue to consider the performance indicator adjusted for the regulatory effects of the reporting year, insofar as these have a significant influence on the development of the performance indicator. The effects on earnings are adjusted if the comparability of the performance indicator with prior-year periods is not appropriate due to a transaction carried out during the year. However, as other companies may use a different basis of calculation for OIBDA, it is possible that our representation is not comparable with other companies.

Investment ratio (CapEx/sales-ratio)
For the Telefonica Deutschland Group, the investment ratio (CapEx/sales-ratio) essentially serves to secure our future business activities and reflects the percentage share of investments in revenue. Capital expenditure (CapEx) consists of the additions to property, plant and equipment and other intangible assets. The investments in property, plant and equipment are primarily carried out to expand the coverage and capacity of our network as well as for product development. Investments in mobile frequency licences and mergers are not included in CapEx.

Free cash flow
The free cash flow performance indicator is defined as the sum of the cash flows from operating activities and investing activities. Free cash flow implicitly provides information about the change in working capital. Working capital management is thus an element of free cash flow management in the relevant reporting period.

As a performance indicator, free cash flow describes the change in financial liquidity from operational inflows and outflows of funds as well as all investment-related inflows and outflows that were made for the maintenance or expansion of the business. The figure provides information about the change in the Company's available financial funds, which enable us to make investments in growth or to pay dividends or service debt, for example.

Net leverage ratio
The net leverage ratio is defined as the quotient of the net financial debt and the OIBDA adjusted for exceptional effects for the last twelve months. Net financial debt includes short- and long-term interest-bearing assets and interest-bearing financial liabilities and cash and cash equivalents. Liabilities from the acquisition of mobile communications frequencies are not included in net financial debt.

The net leverage ratio compares the net financial debt level with an operational success parameter (OIBDA adjusted for exceptional effects) and provides management with information about the Company's debt reduction ability. The maximum debt ratio of 1.0x defined as part of our financing policy and valid since 2012 was adjusted to 2.5x with the application of the IFRS 16 accounting standard as of 1 January 2019. The dividend and financing policy was changed accordingly.

Budgeting and planning system defines specific targets

The integrated planning system is based on strategic and operating goals. With respect to the most important performance indicators, the Management Board of Telefónica Deutschland sets internal objectives for the Group. To define a three-year plan, the anticipated market development as well as internal expectations with regard to progress in the areas of growth and efficiency evolution are discussed once a year. The first year of planning is depicted on a monthly basis in order to make a detailed budget possible. For controlling reasons, the budget is updated twice a year by a forecast. Alongside the results that have already been achieved and which are analysed as part of monthly reporting, current market developments and the additional opportunities or risks that are known at the relevant point in time are taken into account in the update. This prognosis is then used to introduce operational improvements and take advantage of new opportunities presenting themselves to the Group.

ECONOMIC REPORT OF THE GROUP

Overall Economic and Industry Conditions

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 US 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 grow[5]
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.

[5] 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" (9 October 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).

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 mobile telecommunications 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). At the 5G frequency auction, which ended in June 2019, the provider 1&1 Drillisch acquired frequencies and plans to establish itself as the fourth wireless services network operator in the future. In the third quarter of 2019, Telefonica Deutschland had a market share of 32.2% in terms of mobile service revenues.

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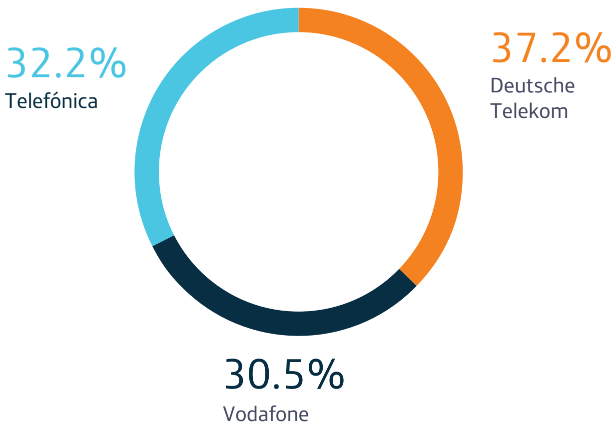
MARKET SHARE IN THE MOBILE COMMUNICATIONS MARKET[6]
BASED ON SERVICE REVENUE (IN %)
3RD QUARTER 2019



[6] 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)

Growth in German fixed line broadband market continues[7]
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.

Regulatory Influences on the Telefónica Deutschland Group

As a provider of telecommunications services and an operator of telecommunications networks, the Telefónica Deutschland Group is required to meet certain regulatory requirements. As such, it is subject to supervision by the Bundesnetzagentur (BNetzA – German Federal Network Agency).

The key regulatory events affecting the Telefónica Deutschland Group in the year under review are discussed below.

Frequencies
Auction to provide new frequencies for the further development of digital infrastructures
The auction to acquire the frequencies at 2 GHz expiring at the end of 2020 and the end of 2025 and the frequencies from 3.4 to 3.7 GHz commenced on 19 March 2019. Vodafone GmbH, Telekom Deutschland GmbH and Drillisch Netz AG (belonging to the 1&1 Drillisch Group) were admitted to the auction in addition to the Telefónica Deutschland Group. The auction finished on 12 June 2019. The

[7] Source: VATM: "Telecommunications Market Study 2019" (9 October 2019); Vodaphone 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);

Telefónica Deutschland Group successfully bid for two paired blocks of 5 MHz at 2 GHz, one to run from 2021 and the other from 2026, together with seven unpaired blocks of 10 MHz each at 3.6 GHz. The acquisition will cost the Telefónica Deutschland Group a total of EUR 1,425 million. The spectrum obtained through auction runs to the end of 2040.

With regard to payment, the Telefónica Deutschland Group, like the other auction participants in a national mobile communications pact, reached an agreement with the Federal Republic of Germany on 5 September 2019 on payment facilities by way of deferral and payment by instalments. In return, the Telefónica Deutschland Group committed itself to the construction of 333 additional mobile sites in white spots by the end of 2021; in addition, 99% of households nationwide are to be supplied with LTE by the end of 2020 and in each federal state by the end of 2021. The payment conditions for the Telefónica Deutschland Group are now as follows: **(1)** For 70 MHz in the 3.6 GHz band, the payment of a total of EUR 1,044 million shall be deferred until 31 December 2019 and shall then be payable in 12 equal annual instalments starting on 31 December 2019, **(2)** for 10 MHz in the 2 GHz band, with availability from 2021, the payment of a total of EUR 211 million shall be deferred until 31 December 2020 and shall then be payable in ten equal annual instalments starting on 1 January 2021 and **(3)** for 10 MHz in the 2 GHz band with availability from 2026, the payment of a total of EUR 170 million shall be deferred until 31 December 2025 and then payable in five equal annual instalments starting from 1 January 2026.

The action brought by the Telefónica Deutschland Group against the decisions issued on 14 May 2018 by the Presidential Chamber of the BNetzA (Presidential Chamber Decisions I and II) about the structure and choice of procedure governing the award of frequencies in the 2 GHz and 3.6 GHz ranges for wireless network access was rejected by the Cologne Administrative Court on 18 February 2019. The Telefónica Deutschland Group has lodged an appeal against this decision with the Federal Administrative Court in Leipzig. A date for the oral hearing has been set for 30 April 2020.

A petition filed in summary proceedings with the Cologne Administrative Court on 4 February 2019 against the decisions issued on 26 November 2018 by the Presidential Chamber of the BNetzA (Presidential Chamber Decisions III and IV) about the rules governing the award and the auction of frequencies in the 2 GHz and 3.6 GHz ranges requesting recognition of the suspensory effect of the action brought on 21 December 2018 was rejected (without possible legal recourse) on 14 March 2019. The action was heard orally before the Cologne Administrative Court on 8 November 2019. A ruling is expected in 2020.

In parallel to the allocation procedure, the BNetzA is preparing an application procedure for local frequency allocations in the 3.7 to 3.8 GHz range, especially for 5G applications. On 31 January 2019, the BNetzA published a draft of the basic framework conditions for the future application procedure and consulted interested parties. In March 2019, “Basic conditions of the future application procedure for the 3,700 MHz - 3,800 MHz range for wireless network access applications” were published on the internet and in the Official Journal. In addition to this, the BNetzA prepared a draft of the “Administrative Regulation for Local Broadband”. It describes the concrete design of the application procedure (rules and forms). As a further prerequisite, the BNetzA has determined the fees for the frequencies in question in agreement with the competent federal ministries. The correspondingly amended Frequency Fees Ordinance entered into force in November 2019. The application procedure was launched on 21 November 2019.

For the frequency range above 24 GHz, the BNetzA is also initially preparing an application procedure for 26 GHz. Here too, local allocations are envisaged, in particular for 5G applications. To this end, the BNetzA developed initial considerations in 2018 and submitted them for consultation, in which the Telefónica Deutschland Group participated. The BNetzA then announced that it would draw up allocation regulations, but this has not been done yet. This is expected to continue at the beginning of 2020.

Overall mobile communications concept

In a resolution dated 26 November 2018, the BNetzA Advisory Council determined that it would like to develop an overall concept for the expansion of mobile communications networks in Germany together with the BNetzA, the German Federal Government, the Bundestag and the federal states. In implementation of this decision, the Federal Government adopted a “mobile communications strategy” on 17 November 2019, which aims at rapidly achieving nationwide coverage. The strategy paper includes, among other things, the simplification and acceleration of licensing procedures, an increase in the number of usable sites, a mobile communications subsidy programme for rural areas and the establishment of a mobile communications infrastructure company to support and accelerate the network expansion.

Telecommunications market

Merger of Telefónica and E-Plus

In December 2019, Telefónica Deutschland agreed on a spectrum lease with the 1&1 Drillisch Group, according to which Telefónica Deutschland will lease a spectrum package of 2x 10 MHz in the frequency range at 2.6 GHz to 1&1 Drillisch until the end of the term at the end of 2025. In return, Telefónica Deutschland receives an annual usage fee. With this spectrum lease, Telefónica Deutschland fulfils another EU requirement imposed by the European Commission arising from the merger of Telefónica Deutschland/E-Plus in 2014.

On 22 February 2019, the EU Commission opened formal proceedings against Telefónica Deutschland by submitting its grounds for objection arising from the implementation of the pledge to grant 4G wholesale access as a result of the merger between Telefónica Deutschland Group/E-Plus in 2014. Telefónica Deutschland responded to the complaints on 26 April 2019.

German legislature works on the implementation of the EU Electronic Communications Code

The EU Electronic Communications Code entered into force on 20 December 2018 and must be transposed into national law by 20 December 2020. The EU Code provides for a fundamental revision of the rules for the telecommunications industry. Core aspects include the standardisation of consumer protection regulations under telecommunications law in Europe, extending the regulatory targets to include “encouraging investment in very high-capacity networks” and considerations on the regulation of OTT services. The proposal also contains regulations on frequency usage, investment-friendly access regulation and the future institutional framework. For transposition into national law the German legislature is preparing a corresponding amendment to the Telecommunications Act. This amendment could also include other current political topics, such as the overall mobile communications concept, local roaming, a right to fast internet access as well as questions regarding network security. As things stand at present, the first draft of the transposing law is to be published in the first quarter of 2020.

Discontinuation of data retention by BNetzA

In 2017, BNetzA published a notification according to which it will refrain from issuing ordinances and taking other measures to enforce the retention obligations in respect of all companies required to do so until the lawfulness of the retention obligations had been legally clarified. For this reason, Telefónica Deutschland Group temporarily discontinued the retention in 2017. The legally binding clarification of the legality of the storage obligation also continued in 2019.

Access and price regulation

Merger between Vodafone and Unitymedia in Germany

In a decision taken on 18 July 2019, the EU Commission approved Vodafone’s planned acquisition of the business activities of Liberty Global in Germany, the Czech Republic, Hungary and Romania. The acquisition includes, in particular, the operation of Liberty Global’s cable networks in these countries. In light of the competition concerns voiced by the EU Commission in March 2019 – especially with regard to Germany – the approval is conditional upon the full implementation of a package of binding commitments proposed by Vodafone. One of these binding commitments is the agreement between Telefónica Deutschland and Vodafone governing wholesale access to the cable network operated by Vodafone and Unitymedia in Germany. By approving the acquisition, the EU Commission has also approved this agreement which has therefore come into effect.

Roam-like-at-home

In 2017, the Federation of German Consumer Organisations (Verbraucherzentrale Bundesverband e.V. – VZBV) issued a warning to Telefónica Germany GmbH & Co. OHG with regard to individual aspects of the implementation of Roam-like-at-home. As the implementation was in line with the specifications of BNetzA, the warning was not agreed to. The VZBV nevertheless brought an action before the Munich Regional Court I. Following the hearing on 26 February 2019, the court decided by order of 4 June 2019 to stay the proceedings and refer the legal question to the Court of Justice of the European Union for a preliminary ruling on whether the EU Roaming Regulation mandates that all customers must be automatically migrated to a roam-like-at-home tariff when it enters into force. A decision by the Court of Justice is expected in the second half of 2020 at the earliest.

New price caps for intra-EU calls and SMS since May 2019

By way of an amendment to the Roaming Regulation that came into force in December 2018, charges for calls and SMS from Germany to other EU countries were capped with effect from 15 May 2019. Since that time, a maximum charge of EUR 0.19 per minute can be levied for calls and EUR 0.06 per SMS (net in each case) for SMS messages. This change has a direct effect in all EU member states and did not require a national legal transposition act.

MTR and FTR

The most recent mobile termination rates (MTRs) of EUR 0.95 per minute approved by the BNetzA in its resolution of 6 March 2017 expired on 30 November 2019. For the period beginning on 1 December 2019, the BNetzA set a termination rate of EUR 0.90 per minute until 30 November 2020 in its decision of 28 November 2019. Subsequently, a rate of EUR 0.78 per minute until 30 November 2021 and a rate of EUR 0.70 per minute from 1 December 2021 until 31 December 2022 were approved. The draft is subject to the revocation proviso that a delegated act sets uniform rates throughout Europe.

In a resolution issued on 28 June 2019, the fixed-line termination rates (FTR) were set retroactively for the year 2019 in the amount of EUR 0.08 per minute. For the year 2020, the rate is EUR 0.06 per minute and for 2021 EUR 0.05 per minute. This decision is also subject to the revocation proviso that a delegated act sets uniform rates throughout Europe.

From 31 December 2020, a delegated act is to be adopted as part of the revision of the European regulatory framework for telecommunications services, which will set a Europe-wide maximum limit for the MTR and FTR. This ceiling would also apply to the Telefónica Deutschland Group. Currently, the delegated act is being drafted and consulted by the EU Commission. It is therefore not yet possible to predict how high the limit for MTRs and FTRs will be, whether there will be transition periods and what form regulation will take in the individual member states.

Mobile number porting fees

In a procedure for the retroactive regulation of mobile number porting fees at the wholesale level, the BNetzA ruled vis-à-vis Vodafone GmbH that if the contractual partner of the retail customer changes, no higher fee than EUR 3.58 (plus value-added tax) may be charged by Vodafone's retail customers for porting a telephone number at the wholesale level. On 16 October 2019, proceedings were opened against the Telefónica Deutschland Group and an oral hearing was held on 14 November 2019. In its decision of 16 December 2019, the BNetzA also imposed a wholesale porting fee of up to EUR 3.58 (plus VAT) on Telefónica Deutschland.

BNetzA consultation and market investigation on fibre-optic infrastructures continues

The investigations initiated by the BNetzA in 2017 on "Issues of price regulation for FttH/B-based wholesale products with a view to the roll-out of high-performance fibre-optic infrastructures" as well as on the need for regulation and the existence of significant market power on markets 3a (= market for wholesale access provided locally at a fixed location) and 3b (= market for wholesale mass market products provided centrally at a fixed location) continued in 2019. The core issues of these investigations were the questions of the regulatory support for an accelerated roll-out of fibre-optic networks based on charges and the allocation of FttH/B-based wholesale products to the nationwide access market, which also includes copper-based and cable connections. The first decisions are expected in 2020 at the earliest.

Overview of the Financial Year 2019

In 2019, the market environment in the German mobile communications market remained dynamic but rational across all segments. The focus on profitable growth continued to be supported by customers' continued demand for larger data volumes. Accordingly, the Telefónica Deutschland Group also recorded high demand for its O_2 Free portfolio in 2019. The strong development of the consumer business in combination with a solid partner business therefore resulted in a significant increase in post-paid net adds from 1,002 thousand in 2018 to 1,455 thousand in 2019, an increase of 45.2%. The prepaid business also recorded an improvement in 2019 compared to the previous year, but net adds continued to decline (-447 thousand compared to -1,338 thousand in 2018), which is still attributable to lower demand for prepaid as a result of regulatory changes and a general market trend towards post-paid offers.

The number of mobile connections increased by 2.4% and amounted to 43.8 million. The number of mobile connections in the post-paid business grew by 6.5% year-on-year, reaching 23.7 million connections or 54.1% of the total mobile customer base. The post-paid business benefited from our clear ARPU-up and churn down strategy, which was additionally supported by business investments to position the O_2 brand. Customer loyalty measures and the significant improvements in network quality confirmed by independent network tests resulted in a continued low churn rate. In particular, the churn rate in the O_2 post-paid consumer business again improved slightly year-on-year to -1.3% in 2019 (-1.4% in 2018). In addition, the contribution of partner brands remained strong and once again delivered around 60% of post-paid gross additions in the reporting year, not least due to the continued focus on 4G and the associated migrations to the Telefónica Deutschland Group's network.

We also recorded strong demand for our O_2 Free products in the fixed-line business and realised 127 thousand net new adds (8 thousand in 2018), mainly driven by the high demand for VDSL services. The DSL retail customer base rose accordingly by 6.1% to a total of 2.2 million.

Revenues in the financial year 2019 were thus EUR 7,399 million, an increase of 1.1% year-on-year, supported by continued strong demand for mobile devices and the positive development of mobile service revenues. This reflects positive ARPU effects from new O_2 Free customers, while countervailing effects from the composition of the customer base, among other factors, are gradually weakening. Excluding negative regulatory effects in the amount of EUR 59 million, revenues in the 2019 financial year increased by +1.9% year-on-year to EUR 7,458 million and were thus in line with expectations.

The OIBDA according to IAS 17 adjusted for exceptional effects came to EUR 1,866 million in the reporting year, -1.0% compared to the previous year. The exceptional effects amounted to EUR 52 million in accordance with IAS 17 and are essentially attributable to restructuring costs in connection with remaining network rental agreements and provisions for severance payments.

The OIBDA according to IAS 17 adjusted for exceptional and regulatory effects of EUR 38 million amounted to EUR 1,903 million in 2019, as expected, an increase of 1.0% over the previous year. In accordance with IFRS 16, OIBDA adjusted for exceptional effects grew by 22.9% year-on-year to EUR 2,316 million in financial year 2019. This is reflected in a 5.6 percentage point increase in the OIBDA margin to 31.3%.

As expected, the investment ratio in 2019 was 14.1%, reflecting the continued focus on the customer experience in the network during the ongoing LTE rollout. The capital expenditure (CapEx) thus amounted to EUR 1,044 million.

T 01

OVERVIEW OF THE FINANCIAL YEAR 2019

	Actual 2018 (in EUR million)	**Outlook 2019**[8] (developments y-o-y in %)	**2019 financial year** (year-on-year in %)	**Evaluation**
Revenues	7,320	Broadly stable y-o-y (adjusted for regulatory effects of EUR 60-70 million)	EUR 7,458 million (adjusted for regulatory effects of EUR 59 million) +1.9%	As expected
OIBDA adjusted for exceptional effects	1,884	Broadly stable to slightly positive y-o-y (adjusted for regulatory effects of EUR 40-50 million)	EUR 1,903 million (adjusted for regulatory effects of EUR 38 million) +1.0%	As expected
CapEx/sales-ratio	13.2%	Approx. 13-14%	14.1%	As expected

[8] The effects from the implementation of IFRS 16 as of 1 January 2019 are not reflected in the financial outlook.

Business development is further detailed in the following sections.

Results of Operations

T 02

CONSOLIDATED INCOME STATEMENT

1 January to 31 December

(in EUR million)	**2019**	2018	Change	% change
Revenues	**7,399**	**7,320**	**79**	**1.1**
Other income	183	177	6	3.6
Operating expenses	(5,290)	(5,700)	410	(7.2)
Supplies	(2,372)	(2,459)	87	(3.5)
Personnel expenses	(592)	(610)	17	(2.9)
Impairment losses in accordance with IFRS 9	(77)	(79)	2	(2.4)
Other expenses	(2,249)	(2,552)	303	(11.9)
Operating income before depreciation and amortisation (OIBDA)	**2,292**	**1,797**	**495**	**27.6**
OIBDA margin	**31.0%**	**24.6%**	**–**	***6.4%-p.***
Depreciation and amortisation	(2,416)	(1,987)	(429)	21.6
Operating income	**(124)**	**(190)**	**67**	**(35.0)**
Financial result	(55)	(42)	(13)	30.6
Profit/(loss) before tax	**(179)**	**(233)**	**54**	**(23.1)**
Income tax	(33)	3	(36)	(1,412.2)
Profit/(loss) for the period	**(212)**	**(230)**	**18**	**(7.9)**

The new accounting standard IFRS 16 "Leases" has been applied since 1 January 2019. Prior-year figures have not been adjusted. Please refer to Note 3, Accounting Policies, for more information.

T 03

REVENUE BREAKDOWN

1 January to 31 December

(in EUR million)	**2019**	2018	Change	% change
Mobile business	**6,647**	**6,539**	**108**	**1.6**
Mobile service revenues	5,301	5,267	34	0.6
Handset revenues	1,346	1,272	74	5.8
Fixed line/DSL business revenues	**741**	**767**	**(26)**	**(3.4)**
Other revenues	**11**	**13**	**(2)**	**(18.0)**
Revenues	**7,399**	**7,320**	**79**	**1.1**

T 04

RECONCILIATION OF PERFORMANCE INDICATORS ALSO USED FOR THE INTERNAL MANAGEMENT

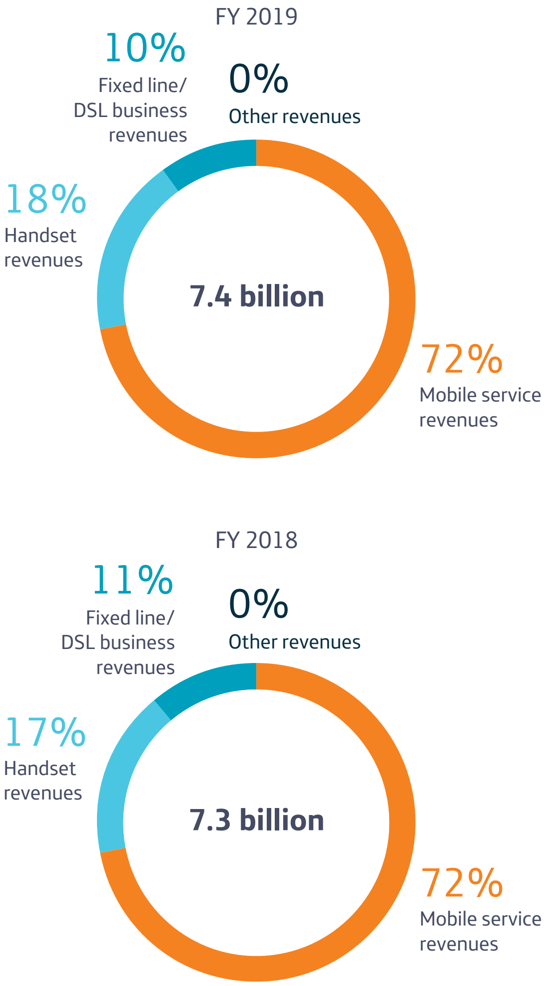
1 January to 31 December

(in EUR million)	**Consolidated Income Statement 2019**	**Regulatory effects[8] 2019**	**Exceptional effects from restructuring 2019**	**Other exceptional effects 2019**	**IFRS 16 effects**	**2019 adjusted**	2018 adjusted	Change	% change
Revenues	**7,399**	**59**	**–**	**–**	**–**	**7,458**	**7,320**	**138**	**1.9**
Other income	183	–	–	–	–	183	177	6	3.4
Operating expenses	(5,290)	(21)	22	1	(451)	(5,739)	(5,613)	(126)	2.2
Supplies	(2,372)	(21)	–	–	(43)	(2,436)	(2,459)	23	–
Personnel expenses	(592)	–	5	–	(4)	(591)	(591)	–	–
Impairment losses in accordance with IFRS 9	(77)	–	–	–	–	(77)	(79)	2	(2.5)
Other expenses	(2,249)	–	17	1	(404)	(2,635)	(2,484)	(151)	6.1
Operating income before depreciation and amortisation (OIBDA)	**2,292**	**38**	**22**	**1**	**(451)**	**1,903**	**1,884**	**19**	**–**

[8] Regulatory effects include effects from the amended determination of mobile termination rates, fixed-line termination rates and roaming fees.

G 06

REVENUES
(IN % AND IN EUR BILLION)



Increase in revenue

In 2019, total revenue rose by 1.1% compared to the previous year. Excluding regulatory effects, total revenues were 1.9%, significantly higher than the comparable level of the previous year. Revenues from mobile services and mobile hardware had a positive effect on revenue. These more than compensated for the lower revenue in the fixed-line/ DSL business compared to the previous year.

Increase in mobile service revenues

In a German market that continues to be challenging and highly competitive and which has been impacted by regulatory factors, mobile service revenues increased. Excluding the regulatory effects mainly from the reduction in mobile termination rates, mobile service revenues were 1.7% higher than the prior-year level. In 2019, the Telefonica Deutschland Group recorded steady customer growth, with our post-paid mobile customer base growing by 1,455 thousand in financial year 2019 to 23.7 million (increase in financial year 2018: 1,002 thousand). This resulted in an increase of the post-paid share of total mobile customers of 2.1 percentage points year-on-year to 54.1%. Despite a comparatively low price level in our partner business and the influence of regulatory effects, the average revenue per user (ARPU) remained unchanged year-on-year at EUR 10.0 (financial year 2018: EUR 10.0). As a result of the steady increase in LTE network coverage and a growing number of LTE-enabled mobile devices, the use of mobile audio and video applications is increasing and, as a consequence, the demand for larger data packages. Non-SMS data revenues as a percentage of data revenues rose by 5.4 percentage points to 90.7% in financial year 2019 compared to the previous year.

Increase in handset revenues

Handset revenues are generally subject to fluctuation, as they depend on the launch of new mobile devices. Due to continued strong demand for handsets in financial year 2019, sales figures for devices – including to mobile service partners – significantly increased year-on-year.

Decline in fixed-line/DSL business revenues

Revenues from the fixed-line business developed positively and were only 3.4% below the previous year's figure, whereas the decline of the previous year was 11.0%. The decline is primarily attributable to effects from the decommissioning of the outdated ULL infrastructure. The declining trend in fixed-line sales in the private customer business continued to weaken. This is due to a higher customer base year-on-year as a result of the ongoing demand for VDSL and a higher proportion of bundles in the customer base.

Lower operating expenses

Operating expenses decreased in financial year 2019 compared with the previous year, mainly due to the application of the IFRS 16 accounting standard since 1 January 2019. As a result, lease expenses are no longer shown under operating expenses. Hardware cost of sales and maintenance expenses were higher, which had the opposite effect. Operating expenses include exceptional effects of EUR 23 million, which are mainly attributable to follow-up costs relating to the consolidation of the network.

Decrease in supplies

Cost for supplies in financial year 2019 were lower than in the previous year mainly as a result of applying the IFRS 16 accounting standard since 1 January 2019, which resulted in much lower network lease expenses and lower mobile termination rates. This was offset by the increased cost of sales for hardware in line with the strong demand for devices.

Personnel expenses down year-on-year

Personnel expenses decreased in financial year 2019 mainly due to lower restructuring expenses, which amounted to EUR 5 million in the reporting year (financial year 2018: EUR 19 million).

Strong decrease in other expenses

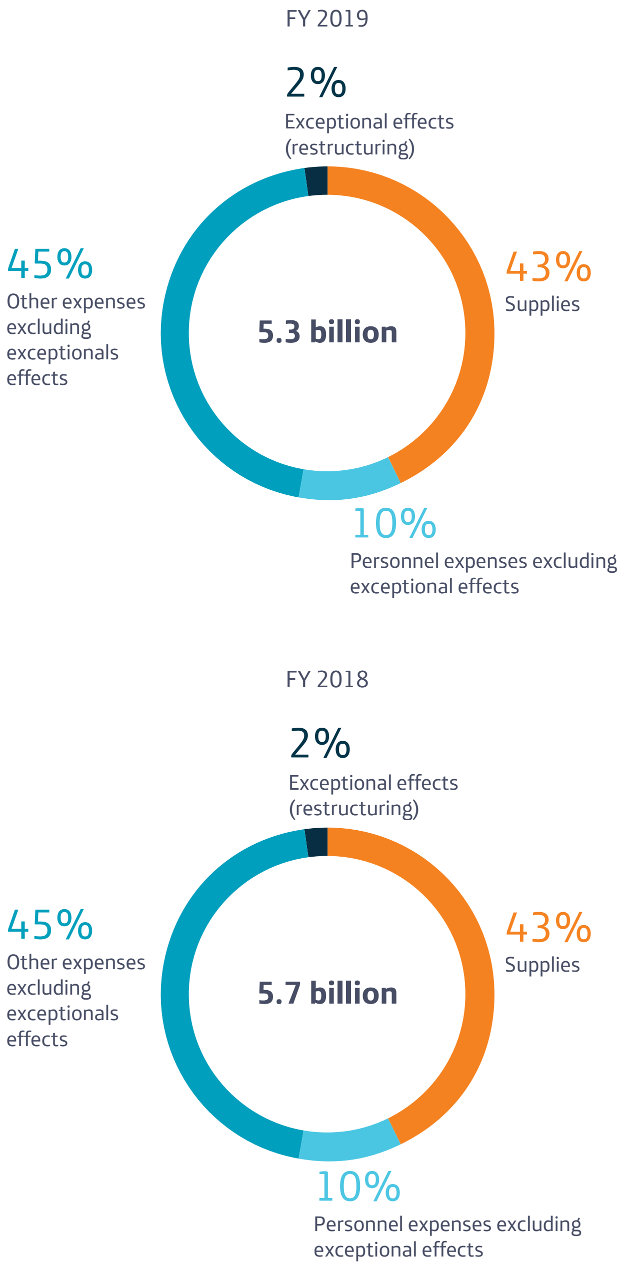
In financial year 2019, other operating expenses decreased significantly year-on-year, mainly as a result of applying the IFRS 16 accounting standard since 1 January 2019. In financial year 2019, other expenses included restructuring costs of EUR 17 million compared to EUR 66 million in the previous year. Selling and maintenance expenses developed in the opposite direction.

Increase in OIBDA in accordance with IAS 17 adjusted for exceptional and regulatory effects

OIBDA according to IAS 17 adjusted for exceptional effects (excl. regulatory effects) increased year-on-year by 1.0% in financial year 2019. The exceptional effects (EUR 52 million in accordance with IAS 17) are mainly related to follow-up costs of network consolidation. Negative regulatory effects amounted to EUR 38 million. They arose primarily in connection with the reduction of mobile termination fees.

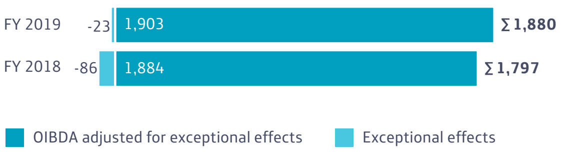
G 07

OPERATING EXPENSES
(IN % AND IN EUR BILLION)



G 08

THE OIBDA ACCORDING TO IAS 17 ADJUSTED FOR EXCEPTIONAL EFFECTS (IN EUR MILLION)
OIBDA (IN EUR BILLION)



Increase in depreciation and amortisation
The increase was mainly caused by depreciation of the capitalised right-of-use assets following application of IFRS 16 starting on 1 January 2019.

Operating income improved
This development resulted in particular from lower restructuring and termination expenses, which were partially offset by higher selling and maintenance expenses.

Decline in the financial result
The financial result decreased in the reporting period from EUR -42 million to EUR -55, primarily as a result of the additional interest expense arising from the application of the IFRS 16 accounting standard starting on 1 January 2019.

Income tax
The Telefónica Deutschland Group did not record any positive taxable income in 2019 and will as a result not pay any current income taxes, as in the previous period. The tax expense of EUR 33 million in the financial year therefore relates primarily to changes in deferred taxes, which mainly result from the net increase in taxable temporary differences. In the previous year, income from deferred taxes amounted to EUR 3 million.

Financial Position

Principles and goals of financial management

Risk control and a central management are the fundamental principles of financial management at the Telefónica Deutschland Group. 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 those using corresponding measures. At present, there are no circumstances which would indicate that the Telefónica Deutschland Group cannot meet its financial obligations.

One key performance indicator is the net leverage ratio (MANAGEMENT SYSTEM).

Finance

Borrowed capital is obtained through credit facilities and capital market instruments.

Refinancing of the syndicated loan
On 22 March 2016, the Telefónica Deutschland Group signed a syndicated credit line in the amount of EUR 750 million, which on 17 December 2019 was replaced by a new revolving syndicated credit line in the same amount with a term until 17 December 2024. The credit line serves general corporate purposes and has not been drawn as of 31 December 2019.

Financing agreements with the European Investment Bank (EIB)
On 13 June 2016, the Telefónica Deutschland Group signed its first financial agreement with the EIB, which amounted to EUR 450 million. The facility is intended to finance the consolidation, modernisation and expansion of the Telefónica Deutschland Group's mobile network after the acquisition of the E-Plus Group and was fully utilised as of 31 December 2019. The funds provided by the EIB have terms of up to eight years.

On 18 December 2019, the Group signed an additional financing agreement with the European Investment Bank (EIB) in the amount of EUR 300 million. This loan has not been drawn yet as of 31 December 2019. The EIB loan will also have a maturity of eight years as of drawdown and will be repaid in equal instalments.

Promissory notes and registered bonds
On 13 March 2015, the Telefónica Deutschland Group completed an initial placement of promissory notes and registered bonds with different maturities up to 2032 and a total volume of EUR 300 million. In February 2018, further promissory notes in various tranches and a registered bond with a total volume of EUR 250 million with various maturities up to 2033 were issued. In financial year 2019, further promissory notes in various tranches with a total volume of EUR 360 million with maturities up to 2029 were placed on 25 April.

Bond liabilities
In February 2014, O2 Telefónica Deutschland Finanzierungs GmbH placed a bond with a nominal amount of EUR 500 million and a term of seven years. In July 2018, this was followed by another bond with a nominal amount of EUR 600 million and a term of seven years. The issuer transferred the net proceeds on the issue of the bonds to its shareholder Telefónica Germany GmbH & Co. OHG as a loan. Both bonds are guaranteed by Telefónica Deutschland. The details are as follows:

T 04

NOMINAL AMOUNT

Nominal amount (in EUR million)	Term from	until	Coupon p.a.
500	10/02/2014	10/02/2021	2.375%
600	05/07/2018	05/07/2025	1.75%

Intercompany loan
On 31 July 2017, Telefónica Deutschland Group entered into a EUR 500 million bilateral revolving line of credit with the financing company of the Telefónica S.A. Group, Telfisa Global B.V., which was not extended when the contract expired on 31 July 2019.

Telefónica Deutschland Group continues to benefit from the Telefónica, S.A. Group cash pooling
The Telefónica Deutschland Group will continue to participate in the liquidity management system of the Telefónica, S.A. Group. Agreements have been made with Telfisa Global B.V. for deposits and liquidity management. The liquidity of the entire Telefónica, S.A. Group is centralised by means of these agreements. This allows us to benefit from the economies of scale of the entire Telefónica, S.A. Group. The cash pool means that the Group continues to have access to short-term overdraft facilities up to a maximum of EUR 454 million. Telefónica, S.A. has guaranteed the performance of Telfisa Global B.V.'s obligations arising from the cash pooling agreements.

Unused credit facilities provide financial flexibility
The Group's financial flexibility remains secure reasoned to the availability of unused credit facilities totalling EUR 2,214 million. This comprises bilateral revolving credit facilities with various banks in the amount of EUR 710 million with a remaining term of more than one year, the undrawn syndicated credit line of EUR 750 million, the undrawn EIB loan of EUR 300 million and available short-term overdraft facilities of Telfisa Global B.V. of EUR 454 million.

Working capital strengthened by silent factoring
We have entered into factoring agreements with various credit institutions regarding the sale of receivables in order to strengthen our working capital. This mainly relates to factoring transactions for instalment receivables with a total net cash effect of EUR 677 million in financial year 2019. The sold receivables were fully derecognised at the time of sale, with the exception of continuing involvement. Further information on silent factoring can be found in the Notes to the Consolidated Financial Statements for the year ended 31 December 2019 (› Note 4.5 Trade and other receivables).

Financial efficiency and payment flexibility due to extension of payment periods
In order to obtain greater financial efficiency and cash flexibility, the Telefónica Deutschland Group has entered into agreements with certain commercial suppliers to extend payment periods. The industry-standard payment terms were not exceeded, so that a reclassification is not required, and the payments are shown within trade payables.

Financial analysis

Net financial debt influenced by IFRS 16
Net financial debt, a key component of the net leverage ratio, which was 1.7x in the reporting year, increased as of 31 December 2019 year-on-year by EUR 2,731 million to EUR 3,860 million.

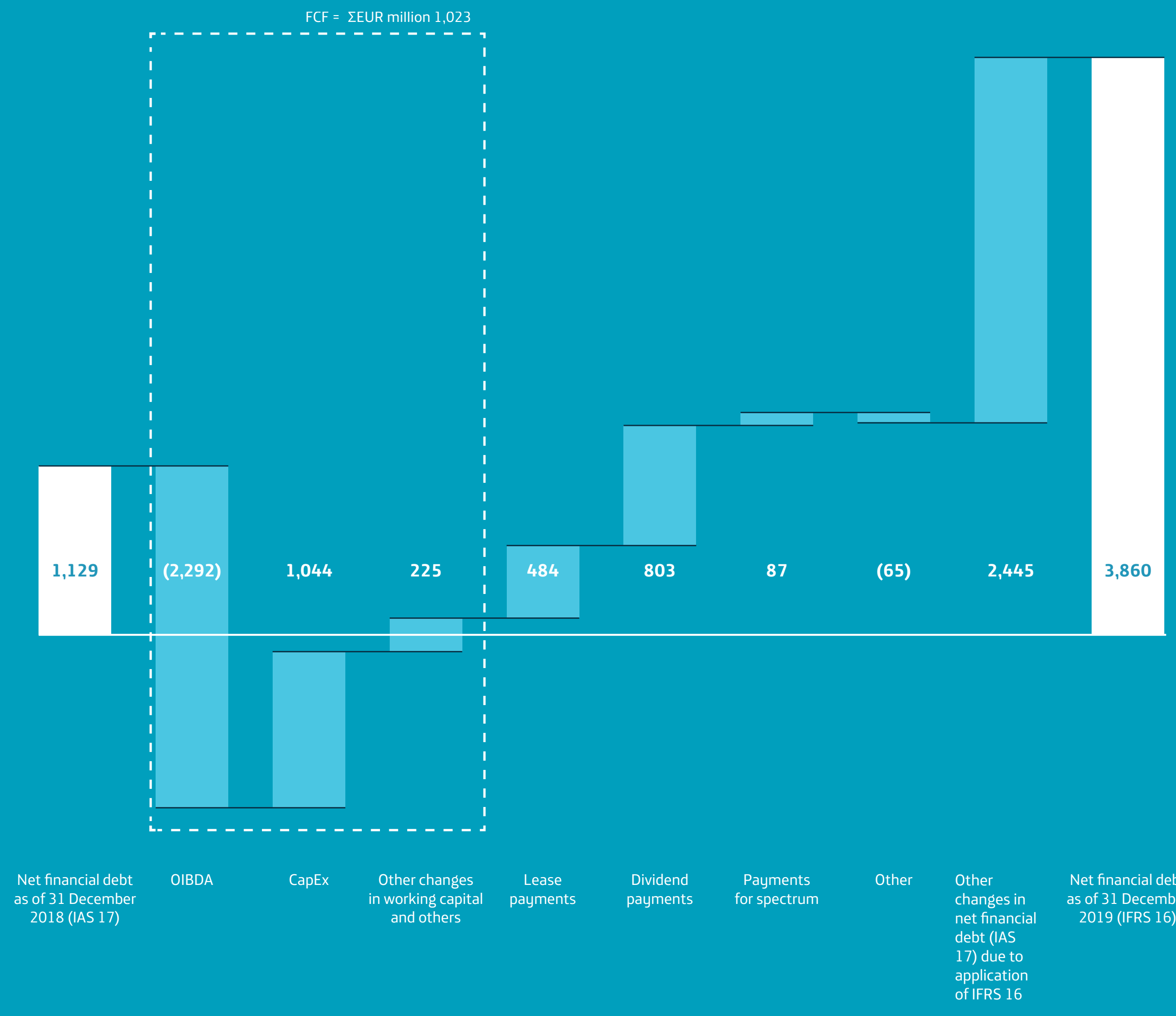
Table 5 shows the composition of net financial debt – i.e. the net amount of interest-bearing financial liabilities less any cash and cash equivalents and interest-bearing financial assets.

The increase in net financial debt as of 31 December 2019 was influenced by the first-time recognition of the lease liability in the amount of EUR 2,489 million due to the mandatory first-time adoption of IFRS 16 as of 1 January 2019. The dividend payment for financial year 2018 (EUR 803 million) and the free cash flow of EUR 1,023 million also contributed to this change.

The graphic below illustrates the development of net financial debt in the 2019 financial year.

G 09

DEVELOPMENT OF NET FINANCIAL DEBT
(IN EUR MILLION)



T 05

COMPOSITION OF NET FINANCIAL DEBT

As of 31 December

(in EUR million)	**2019**	2018	Change	% change
A Liquidity	781	751	30	4.0
B Current financial assets[1]	211	182	29	15.9
C Current financial debt[2]	801	145	656	452.7
D=C-A-B Current net financial debt	(191)	(788)	597	(75.7)
E Non-current financial assets[1]	129	87	42	48.1
F Non-current financial debt[2]	4,180	2,004	2,176	108.6
G=F-E Non-current net financial debt	4,051	1,917	2,134	111.3
H=D+G Net financial debt[3]	3,860	1,129	2,731	241.9

[1] Current and non-current financial assets include handset receivables not yet due, net investment in the lease (in accordance with IFRS 16 from 1 January 2019), the positive performance of the fair value hedge for fixed interest financial debt and loans issued to third parties.
[2] Current and non-current financial debt includes lease liabilities (according to IFRS 16 from 1 January 2019) or lease obligations (according to IAS 17 until 31 December 2018), issued bonds, promissory notes and registered bonds and other loans.
[3] Net financial debt includes current and non-current interest-bearing financial assets and interest-bearing financial liabilities as well as cash and cash equivalents.
Notes:
Handset receivables are presented in trade and other receivables in the Consolidated Statement of Financial Position.

Off-balance sheet obligations

Obligations under operating leases have been recognised in accordance with the requirements of the IFRS 16 Standard since 1 January 2019. The purchase obligations and other contractual obligations increased by EUR 263 million to EUR 2,801 million, especially due to an increase in commitments for services. Further information can be found in the notes to the consolidated financial statements as of 31 December 2019 (> NOTE 18. PURCHASE AND OTHER CONTRACTUAL OBLIGATIONS).

Liquidity analysis

T 06

CONSOLIDATED STATEMENT OF CASH FLOWS

1 January to 31 December

(in EUR million)	**2019**	2018
Cash and cash equivalents at the beginning of the period	**751**	**587**
Cash flow from operating activities	2,015	1,690
Cash flow from investing activities	(992)	(957)
Cash flow from financing activities	(993)	(569)
Net increase (decrease) in cash and cash equivalents	**30**	**164**
Cash and cash equivalents at the end of the period	**781**	**751**

Consolidated Statement of Cash Flows

The following is an analysis of the cash flow development of the Telefónica Deutschland Group in the financial years 2019 and 2018.

Cash flow from operating activities increased by first-time application of IFRS 16

The increase in cash flow from operating activities was primarily caused by the improvement in OIBDA, mainly as a result of lower rental expenses due to application of IFRS 16 starting on 1 January 2019.

Change in cash flows from investing activities driven by lower cash outflows

Cash outflows of EUR 995 million were EUR 13 million above those of the previous year. This was mainly due to the EUR 23 million increase in the silent factoring deposit. This was offset by slightly lower payments made for investments in property, plant and equipment and intangible assets.

Cash inflows of EUR 3 million were EUR 22 million below those of the previous year, which were mainly influenced by the sale of a consolidated companies in the prior year.

Increase in cash flow from financing activities influenced in particular by first-time application of a new accounting standard

Cash outflows decreased by EUR 1,255 million to EUR 1,821 million and mainly comprise the dividend payment of EUR 803 million, payments of EUR 484 million to redeem lease liabilities, and repayment of the EUR 330 million loan to Telfisa Global B.V., the promissory note loan in the amount of EUR 75 million and the EIB loan in the amount of EUR 42 million. In addition, a payment of EUR 87 million was made in the reporting year to compensate for the payment obligation from the mobile frequency auction. By comparison, EUR 1,680 million in loan repayments to Telfisa Global B.V., the repayment of the maturing bond of EUR 600 million and the dividend payment of EUR 773 million were made in the previous year.

Cash inflows from interest-bearing borrowings decreased by EUR 1,679 million to EUR 828 million compared with the previous year and stemmed mainly from the issue of a new promissory note for EUR 360 million, the short-term utilisation of the loan facility with Telfisa Global B.V. in the amount of EUR 330 million and a further short-term credit facility of EUR 130 million.

Increase in cash and cash equivalents

As a result of the cash inflows/(outflows) described above, cash and cash equivalents increased by EUR 30 million compared to the prior-year reporting date and amounted to EUR 781 million as of 31 December 2019.

T 07

CALCULATION OF FREE CASH FLOW

1 January to 31 December

(in EUR million)	2019	2018	Change	% change
OIBDA	**2,292**	**1,797**	**495**	**27.6**
- CapEX	(1,044)	(958)	(86)	9.0
= Operating cash flow (OpCF)	**1,248**	**839**	**409**	**48.7**
+/- Other non-cash expenses/income	–	(15)	15	(100.0)
+/- Change in working capital	(148)	(79)	(70)	88.3
+/- Gains/(Losses) from sale of assets	(1)	(0)	(1)	197.3
+/- Proceeds from the change in consolidation scope	–	21	(21)	(100.0)
+/- Proceeds from sale of property, plant and equipment, and other effects	3	0	3	567.9
+ Net interest payments	(49)	(33)	(15)	45.2
+/- Proceeds from/payments for financial assets	(21)	1	(22)	(1,540.4)
= Free cash flow before acquisition of companies, net of cash acquired	**1,032**	**734**	**298**	**40.6**
- Acquisition of companies, net of cash acquired	(9)	(1)	(8)	1,409.7
= Free cash flow	**1,023**	**733**	**290**	**39.5**
- Payments made for the repayment of lease liabilities	(484)	–	(484)	(>100)
- Payments for spectrum	(87)	–	(87)	(>100)
- Dividends paid	(803)	(773)	(30)	3.8
+/- Cash inflow/outflow for interest-bearing debt	373	224	150	66.9
+/- Other proceeds/payments relating to financing activities	8	(19)	28	(141.9)
= Net increase/(decrease) in cash and cash equivalents	**30**	**164**	**(134)**	**(81.7)**

Net Assets

T 08

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of 31 December

(in EUR million)	2019	2018	Change	% change
Goodwill and other intangible assets	7,348	6,687	661	9.9
Property, plant and equipment	3,750	3,793	(43)	(1.1)
Right-of-use assets	2,499	–	2,499	>100
Trade and other receivables	1,469	1,371	99	7.2
Deferred tax assets	314	204	110	54.3
Other financial assets	150	111	39	35.5
Other non-financial assets	675	619	55	9.0
Inventories	165	261	(96)	(36.9)
Cash and cash equivalents	781	751	30	4.0
Total assets = Total equity and liabilities	**17,151**	**13,796**	**3,354**	**24.3**
Interest-bearing debt	2,492	2,149	343	16.0
Lease liabilities	2,489	–	2,489	>100
Trade and other payables	2,508	2,438	70	2.9
Payables – Spectrum	1,272	–	1,272	>100
Provisions	729	714	15	2.1
Other non-financial liabilities	103	39	64	165.0
Deferred income	710	712	(2)	(0.3)
Deferred tax liabilities	314	177	137	77.8
Equity	**6,534**	**7,569**	**(1,035)**	**(13.7)**

Increase in intangible assets due in particular to investments in mobile communications frequencies
The year-on-year increase is attributable to additions from auctioned mobile frequencies in the amount of EUR 1,425 million. Furthermore, additions of EUR 251 million were recorded in reporting year, mainly due to software investments. Amortisation of intangible assets with a finite useful life of EUR 1,014 million had the opposite effect.

Decrease in property, plant and equipment particularly due to depreciation
The development compared to the previous year of EUR 851 million is mainly due to planned depreciation. In contrast, additions in the financial year 2019 amounted to EUR 807 million.

Right-of-use assets according to IFRS 16
Right-of-use assets are recognised in the reporting period following the first-time application of IFRS 16 starting on 1 January 2019.

Increased investment ratio (CapEx/sales-ratio)
Investments (CapEx) rose to EUR 1,044 million in financial year 2019 compared with EUR 966 million in 2018. As a result, the investment ratio also increased in the reporting period to 14.1% (previous year: 13.2%).

Increased trade and other receivables
The increase is mainly due to increased voucher sales at year-end as well as the increased revenues and at the same time a decline in factoring transactions in relation to major customer receivables in the last quarter of the reporting year.

Deferred tax assets
Deferred tax assets increased due mainly to the separately reported increase in deferred tax liabilities, which allow a corresponding proportionate recognition of deferred tax assets
(>DEFERRED TAX LIABILITIES).

Other financial assets increased
The increase in other financial assets was mainly due to a higher silent factoring deposit and to the required recognition of net investments in subleases of the Telefonica Deutschland Group as a result of applying IFRS 16 starting on 1 January 2019
(> NOTE 4 ACCOUNTING POLICIES).

Increase in other non-financial assets
The increase is mainly due to the increased capitalised costs of obtaining contracts.

Inventories of mobile devices decrease
The decrease was due to the reduction of the elevated inventory level, which in the previous year was mainly due to the ban on sales of certain mobile communications models from one supplier, as had been expected at the time.

Increase in cash and cash equivalents
This development is attributable to several effects, which are described in more detail in the chapter FINANCIAL POSITION.

Interest-bearing debt up on previous year
This increase resulted in particular from the raising of a promissory note loan of EUR 360 million and the utilization of a short-term credit line of EUR 130 million. This was offset by the repayment of a promissory note loan of EUR 75 million and the loan with the EIB of EUR 42 million. Furthermore, the application of IFRS 16 since 1 January 2019 resulted in the reclassification of lease liabilities in the amount of EUR 30 million.

Lease liabilities
Lease liabilities are recognised in the reporting period since the first-time application of IFRS 16 on 1 January 2019.

Payables – Spectrum
The liabilities are attributable to the outstanding payment obligations from the 2019 mobile frequency auction, for further details > REGULATORY IMPACT ON THE TELEFONICA DEUTSCHLAND GROUP.

Provisions almost the same as previous year
The change is mainly due to the decrease in restructuring obligations of EUR 63 million and the decrease in other provisions of EUR 18 million. The net defined benefit liability developed in the opposite direction at EUR 60 million and largely reflect interest rate developments.

Deferred tax liabilities
This development is attributable to the tax-reducing temporary differences, which include additional tax depreciation and longer depreciation periods for tax purposes in connection with intangible assets and which were realised as scheduled.

Equity declines
The changes to equity mainly result from the dividend payment of EUR 803 million on 24 May 2019 and the result for the period of EUR -212 million. Other effects recognized in equity relate in the amount of EUR -36 million to the remeasurement of post-employment benefits and to deferred taxes thereon. The decline was partially offset by the effects recognised in equity in the amount of EUR 17 million following first-time application of IFRS 16 starting on 1 January 2019.

SUBSEQUENT EVENTS

With regard to transactions of particular significance that occurred after the end of the reporting year, please see > NOTE 21 SUBSEQUENT EVENTS.

REPORT ON RISKS AND OPPORTUNITIES

The Telefónica Deutschland Group anticipates opportunities that are important for achieving its strategic goals. To take advantage of these opportunities, however, the Company also has to take certain risks. Our risk management is designed to recognise these risks at an early stage and actively mitigate them.

Risk Management and Risk Reporting

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.

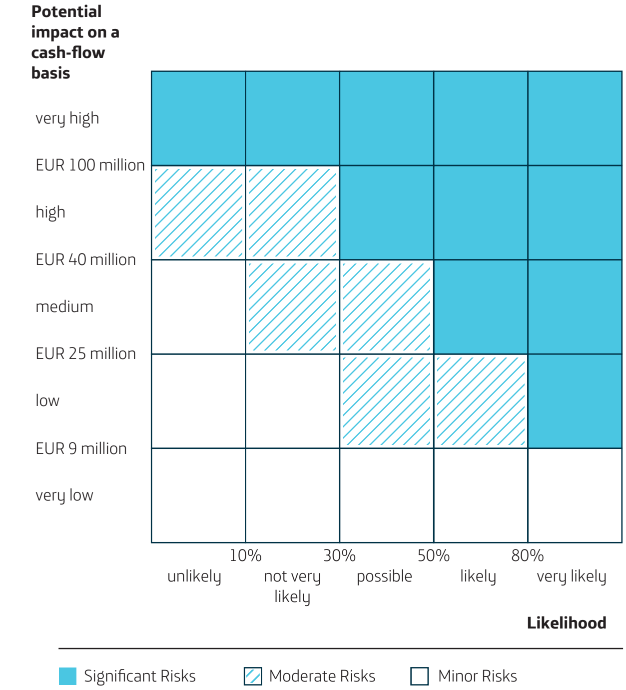
Opportunities are not recorded in the risk management system.

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.

To identify the risks illustrated in the following with material influence on business development, we use a 5 × 5 matrix as a starting point, within which the potential level of impact and the relevant likelihood of occurrence are each divided into five categories:

G 10

RISK PROFILE



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.

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.

Our Company 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.

Risks

Business risks

Competitive markets and changing customer demands
We operate in markets characterised by a high level of competition and continuous technological developments. Our Company faces increasing competition from alternative telecommunications service providers – among them cable operators, MVNOs and consumer electronics companies – and also competes with alternative telecommunications services like OTT (over-the-top). There is the risk that our growth targets and planned revenues will not be reached. In order to prevail against these companies and developments, we must also continue to provide competitive services and successfully market our products in the future. In doing so, we systematically observe new customers' needs, our competitors' business activities, technological changes, and the general economic, political and social conditions and take them into account in our planning. We classify this risk as significant.

Geopolitical risks
Political conflict can influence our international trade relations and directly or indirectly impact both our supply chain and the economic environment. The current political tension between the US and China could also impact our relations with suppliers as a result of existing or future trade barriers.

If certain network technologies or hardware were no longer to be available, the resulting follow-on costs could be enormous. Equally, the sale of devices could suffer and result in less turnover. We classify this risk as significant.

Market acceptance and technological transformation

In an environment characterised by major technological transformation, there is the risk that we will not be able to anticipate and implement technical requirements and customers' requirements in time. False interpretations or incorrect decisions could harbour the risk of negatively influencing the acceptance of our products by customers and could lead to us not reaching our growth and earnings targets. We counter this moderate risk by monitoring our gross margin, churn rates and through extensive market research activities.

Regulatory environment

We operate in a strongly-regulated market environment. Decisions made by the regulatory authorities can directly and critically influence services, products and prices.

Licences and frequencies

Our licences and the licence usage rights granted to us are time-limited and depend on prior allocation. If we cannot extend or cannot newly obtain the licences and frequency usage rights necessary for our business or if the financial conditions for the use of these licenses and rights change significantly, this will lead to higher investment costs than planned. A potential change to the network expansion resulting from this could also have a negative impact on expected revenues. Overall, we classify the risk as moderate after the conclusion of the frequency auction in 2019.

Regulatory requirements in connection with the acquisition of the E-Plus Group

In approving the acquisition of the E-Plus Group, the European Commission obligated the Telefónica Deutschland Group to meet various requirements. This includes an obligation to provide frequencies, infrastructure and network capacities to a potential new mobile network operator in exchange for payment. In fulfilment of the frequency part of this condition, Telefónica Deutschland agreed with the 1&1 Drillisch Group to transfer 2x 10 MHz in the frequency range at 2.6 GHz to 1&1 Drillisch until the end of the term at the end of 2025; in return, Telefónica Deutschland will receive an annual usage fee. The contract was approved by the EU Commission. To meet another requirement of the European Commission, we entered into extensive agreements with the Drillisch Group in 2014 on the provision of network capacities and services. An extensive project was launched to ensure strict compliance with the contracts concluded and hence prevent the possibility of significant fines. We classify this risk as moderate.

Regulatory influences on our transmission power

The electromagnetic compatibility of transmitters could be subject to new regulations due to potential, as yet unproven, health risks. In this case, if the requirements regarding maximum permitted transmission power were changed this would negatively affect the performance and expansion of our mobile network. We classify this risk as moderate.

Other regulatory influences

Our business activity is subject to significant influences and requirements by regulatory authorities. Any deviations in the interpretation of these requirements may result in fines and therefore have a negative effect on our financial position or reputation.

The regulatory authorities could take additional measures at any time in order to curtail tariffs and fixed or mobile telecommunications termination rates even more. They could similarly oblige us to grant third parties access to our networks at reduced prices. There is a moderate risk that measures by regulatory authorities could negatively affect our business activity as well as our financial and earnings position.

In order to guard against the stated regulatory risks, the Telefónica Deutschland Group maintains close communications with the decision makers on a national and international level. This allows us to introduce our interests and views to the decision-making process in good time. Moreover, we review and use legal protective mechanisms against decisions of the regulatory authorities in order to actively foster positive changes for us.

Insurance

Considering the existing opportunities and evaluating financial efficiency, the Telefónica Deutschland Group counters risks by concluding comprehensive insurance contracts. In particular, this substantially reduces risks that might arise from the operation of the technical infrastructure as well as from potential violations of the copyrights or patent rights. Despite this, unforeseen events could, inter alia, result in financial losses if our insurance protection or our provisions should prove to be insufficient. As part of the management of our insurance cover, a regular review takes place in order to achieve the best possible and most economical cover. We classify this risk as moderate.

Operational risks

Reliability of our services

Attracting and retaining customers

The success of our business depends on our ability to attract new customers and retain existing customers. In an environment characterised by continuous further development of products, services and tariffs, we must also keep an eye on the performance of our network and that of our competitors. If our offers are not accepted on the market, we would lose out to our competitors in acquiring new customers. We counter this significant risk by intensively monitoring and evaluating customer satisfaction and by extensively monitoring our network elements.

Damage caused by cyberattacks

Cyberattacks on our network or our IT systems that are not detected or averted in good time could lead to disruptions or damage that could also affect our services and thus result in lost revenue and customer dissatisfaction. The availability and confidentiality of data that we process may be impacted by these attacks. In addition to reputational losses, legal consequences would also be possible, and we could be fined. We counter this risk, on the one hand, by analysing and reducing weaknesses and focusing on an early warning system, and, on the other hand, we are constantly improving our systems for rectifying faults and establishing increased risk awareness among our employees with regard to cyberattacks. We classify this risk as significant.

Technical faults

Lasting or repeated disturbances or damages to our mobile telecommunications or fixed networks and in our technical facilities and systems could have a negative influence on customer satisfaction and result in a loss of customers or revenue losses. We implement extensive monitoring of our network elements and systems here, too. In addition, insurable risks are covered by our insurance programme. Comprehensive crisis and emergency management should enable the Company to continue its core business in the event of a disruption and then ensure the resumption of all business operations in order to achieve its corporate goals. Despite the continuous adjustment of the planned measures, the resumption of business operations could be delayed in the event of disruptions or failures. We consider this risk to be significant because even minor faults can result in substantial losses in sales.

Supply chain disruptions

As a mobile and fixed network operator and a provider of telecommunications services and products, we are dependent on a few main suppliers in the same way as other companies in the industry. These suppliers provide us with important products and services that are primarily related to the IT and network infrastructure and mobile devices. If these suppliers do not provide or are unable to provide their products and services as expected, this could jeopardise the operation and expansion of the network and the sale of telecommunications products, which in turn could adversely affect our Company and earnings. The same applies if service providers to whom we award projects for reasons of efficiency do not perform the services in time or with the required quality. As part of our supplier management, we assess the quality of the services provided and any potential risks in this regard on a continuous basis. This allows us to identify weak points at an early stage and to counter them. We classify this risk as moderate.

Loss of advantages in the event of reduced integration in the Telefónica, S.A. Group

Use of trademark rights

The use of the core brand O_2 in Germany is subject to a licence agreement with O_2 Worldwide Ltd, a subsidiary of Telefónica, S.A. The trademark rights are of major importance for our business activities. The loss of a brand in particular could have a negative impact on customer growth, and hence on our revenues. We classify this risk as significant, even if there are no indications of future disruptions to the contractual relationships.

Use of services

The Telefónica Deutschland Group still obtains services and inputs from the Telefónica, S.A. Group to a significant extent. There are a range of contracts, particularly in the areas of financial management and IT services. If inputs from the Telefónica, S.A. Group are no longer provided, there is a moderate risk of not being able to procure them on the market, or not at the same favourable conditions. Likewise, there are no indications of future disruptions to these service relationships.

Legal risks

As part of its business activity, the Telefónica Deutschland Group is required to comply with a large number of laws. An infringement of legal provisions poses an intrinsic risk to the business activities, success and reputation of the Company.

Data privacy regulations

In the course of our business activities, we also collect and handle customer data and other personal data. There is the risk of misuse or loss of these data. This could represent a breach of the relevant laws and provisions and result in fines, loss of reputation and the migration of customers, and hence the loss of revenues. We classify this risk as moderate.

Contractual relationships
Contractual penalties or claims could result from contracts with sales partners, suppliers and customers if we do not comply with our contractual or legal obligations or fail to meet agreed purchasing quantities, for example. We classify this risk as moderate.

Violation of customers' rights
Our customer relationships and the contractual terms arising from these relationships are monitored by consumer protection agencies on a continuous basis. Interpretations differing from the Company's viewpoint may result in these agencies regarding them as a violation of customers' rights and taking legal actions against us. There is the moderate risk that this could negatively affect our business result or our reputation.

In order to avoid legal risks, particularly from competition and data protection law, the Telefónica Deutschland Group has established a compliance management system. Components of this management system include the applicable business principles, a number of guidelines and ongoing employee training with regard to the main legal provisions and standards, in particular also the General Data Protection Regulation and the topic of information security. In supplement, legal risks are covered by insurance to the extent permitted. The Telefónica Deutschland Group also maintains an internal compliance and legal department, and enters into continuous contact with external law firms, authorities, associations and official groups.

Financial risks

Taxes
Like every company, we are subject to regular tax audits. These include an intrinsic risk that higher subsequent tax payments for prior tax periods may be imposed if the tax authorities have a divergent opinion about the interpretations and calculation principles that form the basis of our tax declaration. The acquisition of the E-Plus Group could also result in additional tax payments in this connection. Furthermore, changes in tax laws or in the interpretation of existing regulations by courts or tax authorities may also have an adverse effect on our business activities as well as on our financial position and results of operations. We counter this moderate risk by providing regular training to our employees, discussing matters with our external tax advisors, and taking part in expert discussions and working groups on a regular basis. We are thus able to identify changes regarding the interpretation of the tax laws at an early stage and can initiate respective measures.

Other (global) risks

There were no material other (global) risks at the end of the financial year.

Risks from Financial Instruments

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.

Currency risk
The underlying currency of the financial reports of the Telefónica Deutschland Group is the euro. All financial statements of all subsidiaries of the Telefónica Deutschland Group are also prepared in euros; thus the Telefónica Deutschland Group is not subject to any translation risk.

The regional focus of the Telefónica Deutschland Group's activities means that the transaction risk arising from the Group's business relationships with its suppliers or business partners in countries with a different national currency than the euro is not material. Because the Telefónica Deutschland Group finances itself exclusively through internally generated cash in euros as well as euro-denominated equity and debt, there is also no exchange rate risk.

The effects before taxes on the Consolidated Income Statement of a simultaneous, parallel increase (decrease) in the euro of 10% as against all foreign currencies in the financial years 2019 and 2018 would have been as follows:

T 09

CURRENCY RISK

1 January to 31 December

(in EUR million)	2019 Risk position	2019 +/(-) 10%	2018 Risk position	2018 +/(-) 10%
USD	(4.9)	0.4/(0.5)	(5.7)	0.5/(0.6)
GBP	–	(0.0)/0.1	1.0	(0.1)/0.1

There are no direct effects from exchange rate fluctuations on the equity of the Telefónica Deutschland Group.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flow of a financial instrument could fluctuate as a result of changes in market interest rates. The Group manages its interest rate risk by seeking to ensure it has a balanced portfolio of fixed-interest and variable-interest financing instruments. Where necessary, interest rate swaps are used in achieving this aim. Interest rate risks are managed as part of interest rate management.

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. 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). Hedge accounting for these hedge relationships complies with IFRS 9.

The relationship between the hedge instrument and the underlying transaction as well as the goal and strategy of the hedge were documented at the inception of each hedge. A specific allocation of the hedging instrument to the corresponding liability was made.

The existing hedge is continuously monitored for effectiveness. The hypothetical derivative method is used to measure effectiveness. Since there is always an economic relationship between the underlying and hedging transactions (same term or same payment dates, same hedged nominal volume, etc.), there is no significant ineffectiveness. The only driver of possible ineffectiveness is the credit risk adjustment of the derivatives. These are low at the present time and are expected to remain so in the future and are therefore not recorded. For further information on hedging accounting relationships, please refer to > 4.10 Interest-bearing debt.

The effects before taxes on the Consolidated Income Statement of a change in the interest rates of variable interest-bearing financial instruments of +/-100 basis points as of the reporting dates 31 December 2019 and 2018 are shown below. There is no impact recognised directly in equity. This analysis assumes that all other variables remain unchanged.

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INTEREST RATE RISK

1 January to 31 December

(in EUR million)	2019	2018
+100bp	5	4
-100bp	(9)	2

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.

On the balance sheet date on 31 December 2019, the Telefónica Deutschland Group had unused credit lines from current overdraft facilities and revolving credit facilities with a total volume of EUR 2,214 million; on 31 December 2018 the unused credit lines amounted to EUR 2,015 million.

Cash and cash equivalents amounted to EUR 781 million as of 31 December 2019 and EUR 751 million as of 31 December 2018.

The following table shows the maturity profile of the financial liabilities of the Telefónica Deutschland Group on the basis of the contractual undiscounted payments (including interest):

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MATURITIES OF FINANCIAL LIABILITIES

As of 31 December 2019 (in EUR million)	Total carrying amount	Gross cash outflow	Remaining term < 1 year	1–5 years	> 5 years
Non-current interest-bearing debt	2,153	2,286	–	1,294	992
Non-current lease liabilities	2,027	2,060	–	1,248	811
Non-current trade and other payables	15	15	–	15	–
Non-current payables - Spectrum	1,186	1,251	–	432	818
Current interest-bearing debt	339	352	352	–	–
Current lease liabilities	462	469	469	–	–
Current trade and other payables	2,493	2,481	2,481	–	–
Current payables - Spectrum	86	87	87	–	–
Financial liabilities	**8,675**	**9,000**	**3,301**	**2,990**	**2,622**

As of 31 December 2018 (in EUR million)	Total carrying amount	Gross cash outflow	Remaining term < 1 year	1–5 years	> 5 years
Non-current interest-bearing debt	2,004	2,152	–	1,169	983
Non-current trade and other payables	19	19	–	19	–
Current interest-bearing debt	145	156	156	–	–
Current trade and other payables	2,419	2,419	2,419	–	–
Financial liabilities	**4,587**	**4,745**	**2,575**	**1,188**	**983**

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 recognised in the risk register nor quantified.

Opportunities

Increase in mobile data usage
A further increase in mobile data usage by customers could accelerate the demand for high-quality O_2 tariffs. A significant increase in demand for mobile data may result from several developments. Significant improvements in LTE network availability in conjunction with a strong increase smartphone usage will enable more customers to use high data transfer rates. At the same time, more very data-intensive mobile services are emerging, such as music or TV/video streaming. Both effects can lead to an increase in the average monthly data consumption per customer and thus further increase the demand for tariffs with larger data volumes. If these effects are more positive than expected, they could have a more positive impact on our revenues.

In addition, a stronger demand for mobile-based WLAN routers, which can be used as an alternative to the traditional DSL connection, can also increase data usage.

Moreover, a stronger increase in demand for convergent offerings and mobile bundled products, e.g. for families, could have a positive effect on average revenue per customer as well as on customer loyalty, thus increasing revenues.

Expansion of our LTE network
In 2020, we will continue to push ahead with the expansion of our LTE network, especially in rural areas. If our expansion of the LTE network proceeds more quickly due to more positive general conditions or if our customers respond to the better LTE network quality more positively than described in our outlook, our share of the mobile data business could grow more strongly than predicted and thus our revenues and operating results could exceed our current forecast. As a result, our revenues and operating income could exceed our current guidance.

5G and new business models
The Telefónica Deutschland Group secured 90 MHz of spectrum for nationwide use in the mobile frequency auction, which ended in June 2019, with a term until 2040. The future 5G mobile communications standard will open up completely new areas of application thanks to further increases in transmission speeds and lower latency times. This is particularly important for industrial applications, and the benefits for residential customers will become apparent somewhat later. 5G lays the foundation for numerous new business models in areas such as campus networks, autonomous driving, virtual reality and the Internet of Things. The Telefónica Deutschland Group is already working on 5G projects nationwide.

Telefónica Deutschland is preparing intensively for the launch of 5G and is incorporating the findings from the pilot projects into its expansion planning.

If the roll-out of the 5G network proceeds faster than planned and customer demand for 5G services is higher than anticipated, this could have a positive impact on our revenues and operating income.

Fixed-line cooperation agreements via various technologies
As an integrated telecommunications provider, Telefónica Deutschland not only provides comprehensive mobile telephony services but also fixed-line services, which are made possible by various cooperation agreements. Since 2013, we have been focusing on a nationwide strategic partnership with Telekom Deutschland GmbH, through which we can offer our customers DSL products. A cooperation agreement with the platform of vitroconnect GmbH, which is independent of network operators, also provides us with access to the VDSL network of EWE TEL GmbH in Lower Saxony.

If Telekom Deutschland GmbH and other partners accessed via vitroconnect GmbH increase the availability of high-speed connections via VDSL or supervectoring faster than planned, this could lead to stronger than expected demand for our fixed-network products and have a positive effect on our revenues.

In addition, new cooperation agreements complement our existing positioning in the fixed-line market and also open up further growth opportunities. Telefónica Deutschland and Vodafone have entered into an agreement giving us future access to the cable network of Vodafone and Unitymedia in Germany. This access will allow Telefónica Deutschland to supply up to 24[9] million cable households in Germany with O2 fixed-line products with higher speeds than VDSL. In addition, the Telefónica Deutschland Group has concluded a cooperation agreement with Tele Columbus, giving it long-term access to a further 2.3[10] million households that are supplied with IP products by Tele Columbus via cable and fibre optic networks. This cooperation significantly expands Telefónica Deutschland's offering of high-speed Internet in the fixed-line business for O2 customers. In addition, the agreement allows data speeds of up to 1 Gbit/s to be provided to customers in the future. If the anticipated increase in demand for our fixed-line products is greater than expected, the resulting effect on our revenues could be positive. In addition, the cooperation agreements with Deutsche Telekom, Vodafone and Tele Columbus open up additional growth opportunities for us in the area of convergent offerings.

Digital innovation

In order to fully exploit our position on the German market for mobile telecommunications services and to monetise additional opportunities for growth, we have introduced innovative digital products and value added services in various areas such as communication services and financial services. We are also developing new digital market segments such as the Internet of Things (IoT) for all our customer groups.

Should the demand for our digital products and services develop better than currently expected, this could positively affect our revenues and operating results exceeding our forecast.

Digitalisation of processes and use of artificial intelligence

We are moving ahead strongly with the digital transformation of our Company and the associated process optimisation. This makes interaction with customers simpler and more intuitive, since customers can, for example, use intuitive self-care offers or identify and buy the desired product more quickly. We are also using digital transformation to reduce, simplify and automate our processes. Our overall goal is to create a consistent customer experience across all contact points.

If the digital transformation of our Company can take place faster than expected and the customer response is even more positive than expected, this could lead to higher customer satisfaction, revenues and cost savings and thus increase our OIBDA.

Potential in the SME segment of the business customer market

Our planning focuses on the expansion of our still relatively small market share in the segment of small and medium-sized enterprises (SMEs). The size of this market segment makes it attractive for us, so that we expect to be able to win corresponding SME customers with lean, tailor-made mobile communications and fixed-network products and tap the resulting growth potential.

If our renewed product portfolio for business customers, with products such as O_2 Free Business or O_2 Business Fusion, meets the customer needs of small and medium-sized companies even better than expected, demand could be even higher than expected.

Membership of the Telefónica, S.A. Group

As part of one of the largest telecommunications corporations in the world, the Telefónica Deutschland Group benefits from economies of scale in the areas of purchasing, cooperation and the development of digital products. Should these economies of scale develop better than currently expected, this could positively affect our revenues and our earnings position and lead to us exceeding our forecast.

Summary of the Risks and Opportunities

Based on our assessment, the intensive competition on the German telecommunications market, the regulatory environment and the need to ensure reliable service pose our greatest risks. Developments in international trade relations have shown us that we are subject to geopolitical risks that could have a direct or indirect impact on our supply chain. In view of this development, we have added a new section on geopolitical risks. Furthermore, the risk of licences and frequencies was reduced.

[9] Vodafone Group Plc Results for the half year ended 30 September 2019, page 39.
[10] Tele Columbus AG, Financial report for the half year ended 30 June 2019, page 4.

In our estimation, the situation regarding the significant risks and opportunities for the Telefónica Deutschland Group has not changed substantially compared to the previous year, except for the items described above. We have not identified any risks at this time that could threaten the ability of our Company to continue as a going concern, either individually or in the aggregate.

In the coming financial year, we are confident that we will again be able to identify relevant risks at an early stage and take appropriate measures to counter them by continuing to implement the risk management approach applied to date.

We are also confident that our corporate strategy will enable us to exploit the market opportunities that present themselves to us and to deploy the necessary resources.

ACCOUNTING-RELATED INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

The following statements contain information in accordance with section 289 (4) HGB and section 315 (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 described in the chapter > REPORT ON RISKS AND OPPORTUNITIES 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 Stock Corporation Act (AktG) and 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.

The data basis for the preparation of the Consolidated Financial Statements consists of the financial statement information reported by Telefónica Deutschland, its subsidiaries and joint ventures, which in turn is based on the accounting entries recorded within the companies. The financial reporting of the individual companies is performed either by the Finance & Accounting department or in close cooperation with it. For certain topics requiring specialist knowledge, such as the valuation of pension obligations, we draw upon the support of external service providers. The Consolidated Financial Statements are prepared within our consolidation system on the basis of the reported financial statement information. The steps to be taken when preparing the Consolidated Financial Statements are subject to both manual and system-based controls at all levels.

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.

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.

The Consolidated Financial Statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. If required, e.g. for the purposes of the HGB Annual Financial Statements or for tax purposes, a reconciliation based on the relevant provisions is performed at account level. Accordingly, the correct preparation of the IFRS financial statement information also serves as an important basis for the Annual Financial Statements of Telefónica Deutschland Holding AG. For Telefónica Deutschland Holding AG and other Group companies reporting in accordance with HGB, the conceptual framework described above is supplemented by an HGB chart of accounts.

As the parent company of the Telefónica Deutschland Group, Telefónica Deutschland Holding AG is included in the aforementioned Group-wide accounting-related internal control system. As a matter of principle, the information presented above also applies to the HGB Annual Financial Statements of Telefónica Deutschland Holding AG and the other Group companies reporting in accordance with HGB.

REPORT ON EXPECTED DEVELOPMENTS

Economic Outlook

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.

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

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GDP GROWTH 2018 – 2020
GERMANY (CALENDAR-ADJUSTED)

In %	2018	2019	**2020**
Germany	1.5	0.5	**1.0**

Market Expectations

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.

Many of the new technologies will require higher data transmission rates: 5G technology 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 remains 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 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.

Source: 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)

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 word 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.

We expect 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 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 including the envisaged switch-off of our 3G network by the end of 2022. 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.

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FINANCIAL OUTLOOK 2020

	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%

OTHER DISCLOSURES

Report on Relations with Affiliated Companies

In the period from 1 January to 31 December 2019, Telefónica Deutschland Holding AG was a directly dependent company of Telefónica Germany Holdings Limited, Slough, United Kingdom, within the meaning of section 312 AktG. In addition, Telefónica Deutschland Holding AG was an indirectly dependent company of O2 (Europe) Limited, Slough, United Kingdom and of Telefónica, S.A., Madrid, Spain, within the meaning of section 312 AktG. There is neither a domination agreement nor a profit and loss transfer agreement between Telefónica Deutschland Group and the aforementioned companies.

Accordingly, the Management Board of Telefónica Deutschland Holding AG has prepared a report on relations with affiliated companies in accordance with section 312 (1) AktG. This report includes the following final declaration:

"Our company has, with regard to the legal transactions listed in the dependency report for the reporting period, and based on the circumstances which were known to us at the time at which the legal transactions were carried out, received adequate compensation for each legal transaction. It has not been disadvantaged as a result of measures being taken or refrained from during the reporting period."

Remuneration Report

The remuneration report describes the structure and design of the remuneration for the Management Board and Supervisory Board of Telefónica Deutschland Holding AG. Furthermore, the remuneration of each member of the Management Board and Supervisory Board is disclosed for the 2019 financial year and reported according to integral parts.

The report complies with the requirements of the German Commercial Code (HGB) and the recommendations of the German Corporate Governance Code, as amended on 7 February 2017 (GCGC), taking into account German Accounting Standard No. 17 (DRS 17) and International Financial Reporting Standards (IFRS).

Remuneration of members of the Management Board

Contract extensions and changes in the composition of the Management Board

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

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

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

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

Structure and components of the remuneration of the Management Board
The total remuneration of the Management Board members consists of a fixed remuneration, fringe benefits, a one-year variable remuneration (Bonus I) and long-term remuneration components (Bonus II, Bonus III / PSP, PIP). In addition, the members of the Management Board receive pension commitments.

In deviation from this, for the new member of the Management Board, Mallik Rao, only the payment of a fixed remuneration and fringe benefits to settle all contractual claims was agreed for his work in 2019, i.e. for the limited period from 15 October 2019 to 31 December 2019. In this respect, the explanations below on the variable remuneration components do not apply to him. With regard to pension entitlements, inclusion in the Company's pension plan will take place on 1 January 2020.

The fixed, non-performance-related remuneration components (fixed remuneration and fringe benefits) accounted for 56% of total remuneration in 2019. The variable, performance-related remuneration components accounted for 44%. Of this, 33% is attributable to the one-year variable remuneration and 11% to components with a long-term incentive effect.

Fixed remuneration and fringe benefits
The fixed component comprises the annual fixed salary, which is paid in twelve equal monthly instalments, and the fringe benefits. The fringe benefits mainly comprise a company car, life and accident insurance, travel allowances, rent allowances, reimbursement of social security costs, committee fees and expat bonuses. Not all Management Board members receive all of these fringe benefits.

One-year variable remuneration
The one-year variable remuneration component is an annual cash bonus (Bonus I). Bonus I is calculated using the formula target bonus multiplied by the business performance. The target bonus is equivalent to a set percentage of the annual fixed salary. The business performance factor can have a minimum value of 0% and a maximum value of 125%. The members of the Management Board (with the exception of Mallik Rao) can therefore receive a maximum payment of 125% of the respective target bonus (CAP).

The business performance factor consists of two components: The first component is based on the success of Telefónica Deutschland Holding AG (Telefónica Deutschland component) and has a weighting of 70%. The second component is based on the success of Telefónica, S.A. (Telefónica, S.A. component) and has a weighting of 30%.

The key performance indicators (KPIs) relevant for measuring the Telefónica Deutschland component, their weighting, target values and payout curves are determined annually by the Supervisory Board. Besides the financial targets, targets have also been agreed for 2019 that relate directly and indirectly to customer satisfaction and environmental and social factors. If less than a certain percentage of the respective target value is achieved, the value for the business performance factor is 0%. If the target is reached, the factor is 100%. If the target value is exceeded, the factor increases up to an upper limit, which for 2019 is 140% for one financial target and 125% for all other targets. Intermediate values of target achievement are not linearly interpolated, but calculated according to a payout curve set by the Supervisory Board. The payout curve assigns a corresponding business performance factor (in %) to the percentage target value actually achieved for each performance indicator. In order to create an increased incentive for the simultaneous achievement of all annual targets, the Supervisory Board has decided for 2019 that those factors below 120% will be increased to 120% if all targets are achieved. The sum of the weighted company performance factors determines the Telefónica Deutschland component.

The Telefónica, S.A. component is set by the Supervisory Board at its due discretion. This discretionary decision is guided by the business performance of Telefónica, S.A. in the respective year.

Components with a long-term incentive effect
The multi-year variable remuneration of the members of the Management Board consists of several components. All members of the Management Board (with the exception of Mallik Rao) participate in the Deferred Bonus Plan (Bonus II) of Telefónica Deutschland Holding AG.

The CEO is also generally entitled to participate in a long-term variable remuneration plan of Telefónica, S.A. These are the "Performance & Investment Plan" (PIP) and its successor plan, the "Performance Share Plan" (PSP). The Supervisory Board has approved participation in the Performance Share Plan (PSP) for 2019.

For the other Management Board members (with the exception of Mallik Rao), however, it has been agreed as Bonus III that the Supervisory Board will decide annually whether they will receive an additional allocation from the Deferred Bonus Plan (Bonus II) or an allocation from a long-term variable remuneration plan of Telefónica, S.A. or an allocation from another long-term variable remuneration plan to be approved by the Supervisory Board of the company. The grant value corresponds to a certain portion of the annual fixed salary. For 2019, the Supervisory Board approved an allocation from the current long-term variable remuneration plan of Telefónica, S.A., the Performance Share Plan (PSP).

Deferred Bonus Plan (Bonus II): Bonus II is a deferred bonus. The members of the Management Board are promised an amount equal to a percentage of their annual fixed salary as a bonus. The Management Board member has the right to the full amount (CAP) after a period of three years if the total shareholder return of Telefónica Deutschland Holding AG is in the upper quartile of the total shareholder return of the peer group comprising the DAX 30 companies. Each Management Board member has the right to receive 50% of Bonus II if the total shareholder return of Telefónica Deutschland Holding AG corresponds to the median of the peer group. If the total shareholder return of Telefónica Deutschland Holding AG lies between the median and the upper quartile, Bonus II is calculated on a linear proportional basis. If the total shareholder return of Telefónica Deutschland Holding AG lies below the median, there is no entitlement to payments.

In 2019, the grant value equals 80% of the annual fixed salary for the CEO and 33% each for the other members of the Management Board (with the exception of Mallik Rao). Participation in Bonus II for the period from 2016 to 2019 did not result in any payment.

Performance & Investment Plan (PIP): The Performance & Investment Plan was approved by the Annual General Meeting of Telefónica, S.A. on 30 May 2014 and consists of three allocation cycles starting on 1 October 2014, 1 October 2015 and 1 October 2016. The term is three years in each case. There are two versions, namely the version for members of the ExComm of Telefónica, S.A., applicable to Markus Haas, and the version for senior management; the difference between the two versions is that members of the ExComm of Telefónica, S.A. – as described in greater detail below – may be allocated 125% of the performance shares awarded.

In accordance with the PIP, members of the Management Board are, with the approval of the Supervisory Board, allocated a certain number of performance shares as an award. The number of performance shares is calculated by dividing an amount corresponding to a certain proportion of the annual fixed salary of the relevant Management Board member by the average share price of Telefónica, S.A. (Core Award). After three years, the performance shares give the right to the acquisition of the corresponding number of Telefónica, S.A. shares (free of charge) provided that the beneficiary is still employed by a company of Telefónica, S.A. Group at the end of the time period and that the total shareholder return of Telefónica, S.A. over the three-year "vesting period" is at least equal to the median of the total shareholder return of a peer group of global telecommunication companies. 30% of the performance shares are awarded if Telefónica, S.A.'s total shareholder return corresponds to the median of these companies. The number of shares awarded increases to 100% if Telefónica, S.A.'s total shareholder return is in the upper quartile of the peer group. If Telefónica, S.A.'s total shareholder return is between the median and the upper quartile, the number of awarded shares is calculated on a linear proportional basis. If Telefónica, S.A.'s total shareholder return is below the median of the peer group, the entitlements are forfeited. Members of the ExComm of Telefónica, S.A. earn 125% if the total shareholder return of Telefónica, S.A. reaches at least the total shareholder return of the upper decile of the peer group. The members of the Management Board can therefore receive a maximum entitlement to 100% or 125% of the originally allocated performance shares in the form of real shares (CAP).

As an alternative to the Core Award, the PIP also provides for an Enhanced Award whereby the number of performance shares is increased by 25% in comparison with the Core Award. To be entitled to receive the Enhanced Award, Management Board members must personally acquire a certain number of shares in Telefónica, S.A. (currently 25% of the Core Award) at their own expense. If the conditions for the Enhanced Award are met, the number of shares to be actually allocated is calculated on the basis of the Enhanced Award rather than the Core Award.

The members of the Management Board did not participate in the 2016 allocation cycle. Consequently, no shares were earned in 2019 from the 2016 allocation cycle.

Performance Share Plan (PSP): The Performance Share Plan was approved by the Annual General Meeting of Telefónica, S.A. on 8 June 2018 and consists of three allocation cycles starting on 1 January 2018, 1 January 2019 and 1 January 2020. The term is three years in each case. At the beginning of the term, with the approval of the Supervisory Board, a certain number of performance shares are allocated to the members of the Management Board corresponding to a certain proportion of the annual fixed salary of the respective member of the Management Board. The number of shares actually earned at the end of the three-year term is calculated as the product of the number of allocated performance shares and a target achievement factor that depends on the fulfilment of certain performance conditions and can reach a minimum value of 0% and a maximum value of 100%. The members of the Management Board can therefore receive a maximum entitlement to 100% of the originally allocated performance shares in the form of real shares (CAP). For plan participants who are also members of the Executive Committee of Telefónica, S.A. (Markus Haas), a holding period of 12 months for at least 25% of the shares earned is provided for.

As in the 2018 allocation cycle, the target achievement factor for the 2019 allocation cycle consists of two components: The first component is based on the total shareholder return of Telefónica, S.A. (TSR target achievement factor) and has a weighting of 50%. The second component is based on the achievement of free cash flow targets (FCF target achievement factor) and also has a weighting of 50%.

The TSR target achievement factor depends on how the total shareholder return of Telefónica, S.A. has developed over the three-year period compared to the total shareholder return of selected global telecommunications companies: If the total shareholder return of Telefónica, S.A. is below the median of the peer group, the TSR target achievement factor is 0%. If the median is reached, the TSR target achievement factor is 30%. The TSR target achievement factor is increased by linear interpolation to up to 100% if the total shareholder return of Telefónica, S.A. reaches the upper quartile of the peer group.

The FCF target achievement factor corresponds to the average of annual target achievement factors, which can be between 0% and 100% depending on the achievement of annual targets for free cash flow. The respective annual targets for free cash flow and the associated target achievement curve are generally calculated annually by the Board of Directors of Telefónica, S.A.

All members of the Management Board (with the exception of Mallik Rao) have received a grant of performance shares from the 2019 allocation cycle following approval by the Company's Supervisory Board.

Pension commitments
Markus Haas, Markus Rolle, Guido Eidmann, Valentina Daiber, Wolfgang Metze and Nicole Gerhardt participate in the Company's pension plan. The new member of the Management Board, Mallik Rao, is not eligible to participate in the Company's pension plan in 2019. His inclusion in the plan will take place on 1 January 2020. Alfons Lösing receives a fixed contribution for a reinsured commitment from the Essener Verband (EV). The Management Board member Cayetano Carbajo Martín has no commitment regarding company-financed retirement pension from the company, but participates in the Spanish plan for Directors.

The Management Board members who participate in the company's pension plan, will receive an annual financing contribution in the amount of 20% of the annual fixed salary, which is invested in a reinsured support fund. The Management Board members may choose between 6 specified pension packages, which hedge the risks of surviving dependants' pension, work disability and old-age to varying degrees. Besides the statutory guaranteed interest, there is no further interest guarantee. The Management Board members have the option to choose between a one-off payment, a payment in 3 or 6 instalments or the drawing of a pension. Old-age pension or the payout is received by the Management Board member when they have reached the age limit and left the services of the Company. The Management Board member who is a member of the Essener Verband (EV), receives a fixed financing amount for the so-called BOLO (contribution-based benefit ordinance of the EV). There is a specific pensionable age. Furthermore, surviving dependants' and work disability pension benefits are granted. The Management Board member also receives a pension from Benefit Ordinance B of the EV. Commitments are also provided for retirement, surviving dependants' and work disability pensions. The benefits from the commitments, which are not covered by the pension insurance association, are insured within the scope of reinsurance policy.

Commitments in the event of premature termination of business activities
Early termination of the service agreement: In the event of premature termination of the employment contract without good cause, the Management Board contracts contain a clause within the meaning of section 4.2.3 of the GCGC that any payments to be made to the Management Board member, including fringe benefits, should not exceed the value of two years' remuneration and the value of the remuneration for the remaining term of the Management Board member service agreement. This is to be based on the total remuneration for the past financial year and, if applicable, also on the expected total remuneration for the current financial year.

Change of control: In the event of a change of control, the Management Board member has the right to terminate the employment relationship extraordinarily with a notice period of three months to the end of the month and to resign from office as a Management Board member with this notice period. In this case, the Company shall pay the Management Board member a one-time remuneration equal to a fixed annual salary and the last annual cash bonus received (Bonus I), but not exceeding the remuneration that would have been payable up to the end of the employment contract.

Death benefit: In the event of the death of a member of the Management Board during the term of the employment contract, such member's widow/widower and children, provided they are under the age of 27, shall be entitled as joint creditors to the continued payment in full of such member's annual fixed salary. Such payment shall be received for the month in which death occurred and the following six months. Such payment shall not exceed the term of the contract.

Other remuneration components

Discretionary bonus: The Supervisory Board is authorised, at its discretion, to award members of the Management Board a discretionary bonus, which may not exceed 100% of their annual fixed salaries, for extraordinary merits that are not already rewarded by the regular remuneration and which cause a material economic advantage for the Company. As in previous years, the Supervisory Board did not grant any discretionary bonus to members of the Management Board in 2019.

D&O insurance: The Company has taken out D&O insurance (Directors & Officers Liability Insurance) for the benefit of the members of the Management Board with a deductible of 10% of the loss up to one and a half times the annual fixed salary of the respective Management Board member.

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

Post-contractual non-competition covenant: A non-competition covenant and/or post-contractual non-competition covenant has been agreed with the members of the Management Board. During the term of the post-contractual non-competition covenant, members of the Management Board will receive a compensation equal to 50% of the most recently received contractual remuneration. The Company shall be entitled to waive compliance at any time.

Return of Company property: Members of the Management Board must immediately return all objects in their possession belonging to the Company, including company cars, upon termination of their employment relationship as well as in the event of a dismissal.

Benefits in connection with the termination of Management Board activities in the financial year

Guido Eidmann left the Management Board on 31 October 2019. On this date, the Management Board employment contract, which had a remaining term until 31 July 2020, was also prematurely terminated. Until the termination date, the contractual remuneration continued to be paid. The one-year variable remuneration (Bonus I) for the 2019 financial year was paid pro rata temporis (EUR 162,500) on the assumption of 100% achievement of targets. Mr Eidmann will receive a severance payment of EUR 662,697 for the settlement of contractual benefits for the remaining term of his employment on the Management Board. The severance payment amount is based on outstanding contractual entitlements to fixed remuneration, fringe benefits, one-year variable remuneration (Bonus I), financing contributions to the Company's pension plan, and the waiver of the post-contractual non-competition clause. Any entitlements from outstanding tranches of the multi-year variable remuneration (Bonus II, Bonus III / PSP) will initially be retained and will be settled pro rata temporis for the respective plan term in accordance with the applicable plan regulations, with a follow-up of one year after leaving the company, i.e. on 31 October 2020. Provisions in the amount of EUR 243,915 were set aside for this purpose. With regard to pension commitments, the contractual obligations will remain at the same level until 31 May 2020. The financing contributions from November 2019 to May 2020 amount to EUR 35,000. The entire acquired pension entitlement is vested.

Cayetano Carbajo Martín left the Management Board on 14 October 2019. His Management Board employment contract, which had a remaining term until 31 December 2019, was prematurely terminated on 8 November 2019. Until the termination date, the contractual remuneration continued to be paid. As Mr Carbajo Martín continued his employment with another company of the Telefónica Group after the termination date, he did not receive any severance payment. Instead, in accordance with the termination agreement, the provisions of the employment contract and the respective plan regulations for multi-year variable remuneration apply: Claims for outstanding fringe benefits are settled in accordance with the employment contract. The one-year variable remuneration (Bonus I) for the 2019 financial year will be calculated pro rata temporis on the basis of actual target achievement and paid out as usual in March 2020. With regard to the multi-year variable remuneration (Bonus II, Bonus III / PSP), allocations made in 2019 from Bonus II and Bonus III/PSP will be reduced pro rata temporis for the calendar year and will each amount to 85.48% of the full allocation value. Otherwise, any entitlements from outstanding tranches of the multi-year variable remuneration will be retained in full and settled regularly in accordance with the applicable plan regulations. Provisions in the amount of EUR 232,250 were set aside for this purpose. The company has no pension commitments to Mr Carbajo Martín.

Disclosure of Management Board remuneration

Management Board remuneration is reported both on the basis of the requirements of the German Commercial Code (HGB) and in accordance with the recommendations of the German Corporate

Governance Code, as amended on 7 February 2017 (GCGC). This results in deviations for individual remuneration components and total remuneration.

In accordance with the GCGC, the presentations follow the recommended model tables 1 and 2, which show the total remuneration of the remuneration components granted and received for the year under review. The overview of the benefits granted also shows the minimum and maximum achievable values. In contrast to the table about granted benefits, the table about received benefits does not show the target values granted for the short-term and long-term variable remuneration components, but instead the values actually received for 2019.

Management Board remuneration in accordance with HGB
The following remuneration was paid to the members of the Management Board who were active in 2019:

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MANAGEMENT BOARD REMUNERATION 2019

2019	Fixed remuneration	Fringe benefits	TOTAL	One-year variable remuneration	Multi-year cash remuneration	Number[2]	Multi-year share remuneration[1] Fair Value[2]	TOTAL: Components with a long-term incentive effect	Total remuneration
	Non-performance-related components			Performance-related components	Components with a long-term incentive effect				
Markus Haas	700,000	19,323	719,323	717,500	–	36,181	192,684	192,684	**1,629,507**
Markus Rolle	400,000	24,415	424,415	266,500	–	17,056	90,835	90,835	**781,749**
Wolfgang Metze	400,000	28,283	428,283	266,500	–	17,056	90,835	90,835	**785,618**
Alfons Lösing	400,000	86,266	486,266	266,500	–	17,056	90,835	90,835	**843,601**
Cayetano Carbajo Martín (until 08/11/2019)	256,667	214,133[3]	470,800	135,292	–	11,218	60,060	60,060	**666,153**
Nicole Gerhardt	300,000	17,253	317,253	199,875	–	12,793	68,126	68,126	**585,255**
Valentina Daiber	300,000	19,768	319,768	199,875	–	12,793	68,126	68,126	**587,769**
Guido Eidmann (until 31/10/2019)	250,000	57,357	307,357	167,375	–	8,467	45,832	45,832	**520,564**
Mallik Rao (since 15/10/2019)	203,871	24,194	228,065	–	–	–	–	–	**228,065**

[1] The **expense** from share-based payment for the members of the Management Board recognised in accordance with IFRS for the financial year amounted to EUR 527,979. The following amounts were attributable to the members of the Management Board: Markus Haas EUR 140,061, Markus Rolle EUR 66,028, Wolfgang Metze 66,028, Alfons Lösing EUR 66,028, Cayetano Carbajo Martín EUR 0, Nicole Gerhardt EUR 49,522, Valentina Daiber EUR 49,522, Guido Eidmann EUR 90,790, Mallik Rao EUR 0.

[2] The reported number and the related fair values include allocations from the 2018 and 2019 PSP allocation cycle. The number of shares actually vested at the end of the plan term depends 50% on the TSR target achievement factor and 50% on the FCF target achievement factor. The figures shown take account of the fact that under IFRS 2, only those performance shares for which corresponding target values were fixed at the time of granting are considered to be allocated.

[3] The fringe benefits for Mr Cayetano Carbajo Martín include various expatriate allowances, in particular rental costs, cost-of-living allowance, travel budget.

The following remuneration was paid to the members of the Management Board who were active in 2018:

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MANAGEMENT BOARD REMUNERATION 2018

	Non-performance-related components			Performance-related components	Components with a long-term incentive effect				
2018	Fixed remuneration	Fringe benefits	TOTAL	One-year variable remuneration	Multi-year cash remuneration	Multi-year share remuneration[1] Number[2]	Multi-year share remuneration[1] Fair Value	TOTAL: Components with a long-term incentive effect	**Total remuneration**
Markus Haas	700,000	16,616	716,616	594,020	–	27,570	145,979	145,979	**1,456,615**
Markus Rolle	400,000	18,602	418,602	243,599	–	12,998	68,820	68,820	**731,021**
Wolfgang Metze	400,000	17,496	417,496	243,599	–	12,998	68,820	68,820	**729,914**
Alfons Lösing	400,000	61,193	461,193	243,599	–	12,998	68,820	68,820	**773,611**
Cayetano Carbajo Martín	300,000	225,099[3]	525,099	192,215	–	9,748	51,616	51,616	**768,929**
Nicole Gerhardt	300,000	18,550	318,550	182,699	–	9,748	51,616	51,616	**552,865**
Valentina Daiber	300,000	16,538	316,538	182,699	–	9,748	51,616	51,616	**550,853**
Guido Eidmann	300,000	64,607	364,607	182,699	–	9,748[4]	51,616[4]	51,616	**598,922**

[1] The expense from share-based payment for the former members of the Management Board recognised in accordance with IFRS in the 2018 financial year amounted to EUR 130,795. The following amounts were attributable to the members of the Management Board at that time: Markus Haas EUR 34,162, Markus Rolle EUR 16,105, Wolfgang Metze EUR 16,105, Alfons Lösing EUR 16,105, Cayetano Carbajo Martín EUR 12,079, Nicole Gerhardt EUR 12,079, Valentina Daiber EUR 12,079, Guido Eidmann EUR 12,079.

[2] The number of shares actually vested at the end of the plan term depends 50% on the TSR target achievement factor and 50% on the FCF target achievement factor. The number shown takes account of the fact that under IFRS 2, only those performance shares for which corresponding target values were fixed at the time of granting are considered to be allocated.

[3] The fringe benefits for Mr Cayetano Carbajo Martín include various expatriate allowances, in particular rental costs, cost-of-living allowance, school fees, tax compensation.

[4] Under the termination agreement, the number of performance shares allocated from the 2018 PSP allocation cycle will be reduced from 9,748 to 9,207. The fair value of the reduced number is EUR 48,748.

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PENSION COMMITMENTS AND OTHER BENEFITS

	Service cost according to IFRS		Service cost according to HGB[1]		Projected unit credit value of the pension benefit commitment according to IFRS		Projected unit credit value of the pension benefit commitment according to HGB	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018
Markus Haas	143,885	142,308	102,103	250,263	1,214,343	860,277	744,108	622,074
Markus Rolle	82,128	37,574	75,529	68,573	771,771	481,681	396,959	311,446
Wolfgang Metze	82,391	37,869	10,750	22,531	74,029	45,877	45,106	33,300
Alfons Lösing	93,626	97,934	28,221	206,453	2,833,122	2,352,689	1,879,623	1,793,862
Cayetano Carbajo Martín (until 08/11/2019)	66,350	86,804	65,037	86,898	–	1,108	–	1,093
Nicole Gerhardt	61,678	196	20,096	8,449	49,201	13,429	31,118	10,683
Valentina Daiber	61,592	39,619	24,590	57,909	272,459	194,831	174,488	145,244
Guido Eidmann (until 31/10/2019)	61,752	26,736	16,113	36,208	134,968	92,092	91,144	72,716
Mallik Rao (since 15/10/2019)	–	–	1,416	–	1,438	–	1,416	–

[1] Personnel expenses recognised in the respective financial year without interest effect

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MANAGEMENT BOARD REMUNERATION IN ACCORDANCE WITH GCGC, (BENEFITS GRANTED AND INFLOWS)

	Markus Haas Chief Executive Officer (CEO)				Markus Rolle Chief Financial Officer				Wolfgang Metze Chief Consumer Officer			
Benefits granted	2018	**2019**	**2019 (min)**	**2019 (max)**	2018	**2019**	**2019 (min)**	**2019 (max)**	2018	**2019**	**2019 (min)**	**2019 (max)**
Fixed remuneration	700,000	700,000	700,000	700,000	400,000	400,000	400,000	400,000	400,000	400,000	400,000	400,000
Fringe benefits	16,616	19,323	19,323	19,323	18,602	24,415	24,415	24,415	17,496	28,283	28,283	28,283
Total	**716,616**	**719,323**	**719,323**	**719,323**	**418,602**	**424,415**	**424,415**	**424,415**	**417,496**	**428,283**	**428,283**	**428,283**
One-year variable remuneration	**700,000**	**700,000**	**–**	**875,000**	**260,000**	**260,000**	**–**	**325,000**	**260,000**	**260,000**	**–**	**325,000**
Multi-year variable remuneration	**705,979**	**752,684**	**–**	**n.a.**	**200,820**	**222,835**	**–**	**n.a.**	**200,820**	**222,835**	**–**	**n.a.**
Bonus II (2018 – 2021)	560,000	–	–	–	132,000	–	–	–	132,000	–	–	–
PSP / Bonus III (2018 – 2020)[1]	145,979	35,638	–	n.a.	68,820	16,801	–	n.a.	68,820	16,801	–	n.a.
Bonus II (2019 – 2022)	–	560,000	–	560,000	–	132,000	–	132,000	–	132,000	–	132,000
PSP / Bonus III (2019 – 2021)[1]	–	157,046	–	n.a.	–	74,034	–	n.a.	–	74,034	–	n.a.
Total	**2,122,595**	**2,172,007**	**719,323**	**n.a.**	**879,422**	**907,249**	**424,415**	**n.a.**	**878,316**	**911,118**	**428,283**	**n.a.**
Pension expenses	142,308	143,885	143,885	143,885	37,574	82,128	82,128	82,128	37,869	82,391	82,391	82,391
Total remuneration	**2,264,903**	**2,315,892**	**863,208**	**n.a.**	**916,996**	**989,377**	**506,543**	**n.a.**	**916,185**	**993,509**	**510,674**	**n.a.**

	Alfons Lösing Chief Partner and Wholesale Officer				Cayetano Carbajo Martín Chief Technology Officer Until: 08/11/2019				Nicole Gerhardt Chief Human Resources Officer			
Benefits granted	2018	**2019**	**2019 (min)**	**2019 (max)**	2018	**2019**	**2019 (min)**	**2019 (max)**	2018	**2019**	**2019 (min)**	**2019 (max)**
Fixed remuneration	400,000	400,000	400,000	400,000	300,000	256,667	256,667	256,667	300,000	300,000	300,000	300,000
Fringe benefits	61,193	86,266	86,266	86,266	225,099	214,133	214,133	214,133	18,550	17,253	17,253	17,253
Total	**461,193**	**486,266**	**486,266**	**486,266**	**525,099**	**470,800**	**470,800**	**470,800**	**318,550**	**317,253**	**317,253**	**317,253**
One-year variable remuneration	**260,000**	**260,000**	**–**	**325,000**	**195,000**	**166,833**	**–**	**208,542**	**195,000**	**195,000**	**–**	**243,750**
Multi-year variable remuneration	**200,820**	**222,835**	**–**	**n.a.**	**150,616**	**144,685**	**–**	**n.a.**	**150,616**	**167,126**	**–**	**n.a.**
Bonus II (2018 – 2021)	132,000	–	–	–	99,000	–	–	–	99,000	–	–	–
PSP / Bonus III (2018 – 2020)[1]	68,820	16,801	–	n.a.	51,616	12,601	–	n.a.	51,616	12,601	–	n.a.
Bonus II (2019 – 2022)	–	132,000	–	132,000	–	84,625	–	84,625	–	99,000	–	99,000
PSP / Bonus III (2019 – 2021)[1]	–	74,034	–	n.a.	–	47,460	–	n.a.	–	55,525	–	n.a.
Total	**922,012**	**969,101**	**486,266**	**n.a.**	**870,714**	**782,319**	**470,800**	**n.a.**	**664,166**	**679,380**	**317,253**	**n.a.**
Pension expenses	97,934	93,626	93,626	93,626	86,804	66,350	66,350	66,350	196	61,678	61,678	61,678
Total remuneration	**1,019,946**	**1,062,727**	**579,892**	**n.a.**	**957,519**	**848,668**	**537,150**	**n.a.**	**664,362**	**741,058**	**378,931**	**n.a.**

[1] Under the PSP, the maximum number of shares to be earned is limited. The maximum is 100% of the originally allotted performance shares. However, there is no limitation on the development of the share price. Consequently, it is not possible to specify a maximum value.

Benefits granted	Valentina Daiber Chief Officer for Legal and Corporate Affairs				Guido Eidmann Chief Information Officer Until: 31/10/2019				Mallik Rao Chief Technology and Information Officer Since: 15/10/2019			
	2018	**2019**	**2019 (min)**	**2019 (max)**	2018	**2019**	**2019 (min)**	**2019 (max)**	2018	**2019**	**2019 (min)**	**2019 (max)**
Fixed remuneration	300,000	300,000	300,000	300,000	300,000	250,000	250,000	250,000	–	203,871	203,871	203,871
Fringe benefits	16,538	19,768	19,768	19,768	64,607	57,357	57,357	57,357	–	24,194	24,194	24,194
Total	**316,538**	**319,768**	**319,768**	**319,768**	**364,607**	**307,357**	**307,357**	**307,357**	**–**	**228,065**	**228,065**	**228,065**
One-year variable remuneration	**195,000**	**195,000**	**–**	**243,750**	**195,000**	**162,500**	**–**	**203,125**	**–**	**–**	**–**	**–**
Multi-year variable remuneration	**150,616**	**167,126**	**–**	**n.a.**	**150,616**	**81,582**	**–**	**n.a.**	**–**	**–**	**–**	**–**
Bonus II (2018 – 2021)	99,000	–	–	–	99,000[2]	–	–	–	–	–	–	–
PSP / Bonus III (2018 – 2020)[1]	51,616	12,601	–	n.a.	51,616[3]	11,900	–	n.a.	–	–	–	–
Bonus II (2019 – 2022)	–	99,000	–	99,000	–	35,750	–	35,750	–	–	–	–
PSP / Bonus III (2019 – 2021)[1]	–	55,525	–	n.a.	–	33,931	–	n.a.	–	–	–	–
Total	**662,154**	**681,894**	**319,768**	**n.a.**	**710,223**	**551,439**	**307,357**	**n.a.**	**–**	**228,065**	**228,065**	**228,065**
Pension expenses	39,619	61,592	61,592	61,592	26,736	61,752	61,752	61,752	–	–	–	–
Total remuneration	**701,773**	**743,486**	**381,360**	**n.a.**	**736,959**	**613,191**	**369,109**	**n.a.**	**–**	**228,065**	**228,065**	**228,065**

[1] Under the PSP, the maximum number of shares to be earned is limited. The maximum is 100% of the originally allotted performance shares. However, there is no limitation on the development of the share price. Consequently, it is not possible to specify a maximum value.

[2] Under the termination agreement, the allotment amount is reduced from EUR 99,000 to EUR 68,750.

[3] Under the termination agreement, the number of performance shares allocated from the 2018 PSP allocation cycle will be reduced from 9,748 to 9,207. The fair value of the reduced number is EUR 48,748.

Benefits received	Markus Haas Chief Executive Officer (CEO)		Markus Rolle Chief Financial Officer		Wolfgang Metze Chief Consumer Officer	
	2019	2018	**2019**	2018	**2019**	2018
Fixed remuneration	700,000	700,000	400,000	400,000	400,000	400,000
Fringe benefits	19,323	16,616	24,415	18,602	28,283	17,496
Total	**719,323**	**716,616**	**424,415**	**418,602**	**428,283**	**417,496**
One-year variable remuneration[1]	**700,000**	**717,500**	**260,000**	**266,500**	**260,000**	**266,500**
Multi-year variable remuneration	**–**	**–**	**–**	**–**	**–**	**–**
Bonus II (2015 – 2018)	–	–	–	–	–	–
PIP / Bonus III (2015 – 2018)	–	–	–	–	–	–
Bonus II (2016 – 2019)	–	–	–	–	–	–
PIP / Bonus III (2016 – 2019)	–	–	–	–	–	–
Other	–	–	–	–	–	–
Total	**1,419,323**	**1,434,116**	**684,415**	**685,102**	**688,283**	**683,996**
Pension expenses	143,885	142,308	82,128	37,574	82,391	37,869
Total remuneration	**1,563,208**	**1,576,424**	**766,543**	**722,676**	**770,674**	**721,865**

[1] At the time the report was prepared, the Supervisory Board had not yet decided on the amounts to be paid for the one-year variable remuneration. The one-year variable remuneration is reported on the basis of the estimated amount paid out.

Benefits received	Alfons Lösing Chief Partner and Wholesale Officer 2019	2018	Cayetano Carbajo Martín Chief Technology Officer Until: 08/11/2019 2019	2018	Nicole Gerhardt Chief Human Resources Officer 2019	2018
Fixed remuneration	400,000	400,000	256,667	300,000	300,000	300,000
Fringe benefits	86,266	61,193	214,133	225,099	17,253	18,550
Total	**486,266**	**461,193**	**470,800**	**525,099**	**317,253**	**318,550**
One-year variable remuneration[1]	**260,000**	**266,500**	**166,833**	**199,875**	**195,000**	**199,875**
Multi-year variable remuneration	**–**	**–**	**–**	**–**	**–**	**–**
Bonus II (2015 – 2018)	–	–	–	–	–	–
PIP / Bonus III (2015 – 2018)	–	–	–	–	–	–
Bonus II (2016 – 2019)	–	–	–	–	–	–
PIP / Bonus III (2016 – 2019)	–	–	–	–	–	–
Other	–	–	–	–	–	–
Total	**746,266**	**727,693**	**637,633**	**724,974**	**512,253**	**518,425**
Pension expenses	93,626	97,934	66,350	86,804	61,678	196
Total remuneration	**839,892**	**825,627**	**703,983**	**811,778**	**573,931**	**518,621**

Benefits received	Valentina Daiber Chief Officer for Legal and Corporate Affairs 2019	2018	Guido Eidmann Chief Information Officer Until: 31/10/2019 2019	2018	Mallik Rao Chief Technology and Information Officer Since: 15/10/2019 2019	2018
Fixed remuneration	300,000	300,000	250,000	300,000	203,871	–
Fringe benefits	19,768	16,538	57,357	64,607	24,194	–
Total	**319,768**	**316,538**	**307,357**	**364,607**	**228,065**	**–**
One-year variable remuneration[1]	**195,000**	**199,875**	**162,500**[2]	**199,875**	**–**	-
Multi-year variable remuneration	**–**	**–**	**–**	**–**	**–**	**–**
Bonus II (2015 – 2018)	–	–	–	–	–	–
PIP / Bonus III (2015 – 2018)	–	–	–	–	–	–
Bonus II (2016 – 2019)	–	–	–	–	–	–
PIP / Bonus III (2016 – 2019)	–	–	–	–	–	–
Other	–	–	–	–	–	–
Total	**514,768**	**516,413**	**469,857**	**564,482**	**228,065**	**–**
Pension expenses	61,592	39,619	61,752	26,736	–	–
Total remuneration	**576,360**	**556,032**	**531,609**	**591,218**	**228,065**	**–**

[1] At the time the report was prepared, the Supervisory Board had not yet decided on the amounts to be paid for the one-year variable remuneration. The one-year variable remuneration is reported on the basis of the estimated amount paid out.

[2] In accordance with the termination agreement, payment was made pro rata temporis on the basis of 100% target achievement.

Remuneration of members of the Supervisory Board

The members of the Supervisory Board receive fixed remuneration of EUR 20 thousand annually in accordance with the articles of association, payable at the end of the financial year. The Chairperson of the Supervisory Board receives EUR 80 thousand and the Deputy Chairperson of the Supervisory Board receives EUR 40 thousand. The Chairperson of the Audit Committee receives an additional EUR 50 thousand if the Chairperson of the Supervisory Board or the Deputy Chairperson does not hold the chair in this committee. Supervisory Board members who hold office in the Supervisory Board or the position of Chairperson of the Supervisory Board or Chairperson of a Committee only for a certain part of the financial year receive proportionate remuneration on a pro rata temporis basis.

In addition to the remuneration, the company reimburses the members of the Supervisory Board for the expenses arising in the fulfilment of their duties as Supervisory Board members as well as any value-added tax on their remuneration and their expenses.

Four members of the Supervisory Board who have an executive function in one of the Telefónica, S.A. Group companies waived their remuneration for their current term of office up to an amount of EUR 2,000 per year.

Outside of the aforementioned activities of the Supervisory Board and the committees, no services, in particular no consulting or mediation services, were provided.

Name	Member of the Supervisory Board	**Remuneration (in EUR) 2019**	Remuneration (in EUR) 2018
Laura Abasolo García de Baquedano	Since 12 May 2015	2,000	2,000
Eva Castillo Sanz	From 05 October 2012 to 25 May 2018	–	26,849
Christoph Braun	Since 01 July 2016	40,000	38,575
Sally Anne Ashford	Since 18 September 2014	20,000	20,000
Martin Butz	Since 17 May 2018	20,000	12,548
Pablo de Carvajal Gonzalez	Since 25 July 2018	2,000	2,000
Patricia Cobian González	Since 18 September 2012	2,000	2,000
Peter Erskine	Since 19 May 2016	20,000	20,000
María García-Legaz Ponce	Since 07 June 2018	2,000	2,000
Cansever Heil*	Since 03 April 2019	14,959	–
Christoph Heil*	From 3 June 2013 to 17 May 2018; since 3 April 2019	14,959	7,507
Sandra Hofmann**	From 17 May 2018 to 18 February 2019	2,685	12,548
Michael Hoffmann	Since 05 October 2012	70,000	70,000
Julio Linares López	Since 16 October 2017	20,000	20,000
Enrique Medina Malo	From 18 September 2012 to 24 July 2018	–	2,000
Thomas Pfeil	Since 03 June 2013	20,000	20,000
Joachim Rieger***	Since 31 October 2014	24,500	24,500
Jürgen Thierfelder	From 31 October 2014 to 31 December 2018	–	23,168
Marcus Thurand	From 03 June 2013 to 17 May 2018	–	7,507
Dr Jan-Erik Walter	Since 03 June 2013	20,000	20,000
Claudia Weber	Since 03 June 2013	20,000	20,000

*Christoph Heil and Cansever Heil were appointed by the court as employee representatives on the Supervisory Board with effect from 3 April 2019 and confirmed in their offices by the delegates' meeting on 26 September 2019.

**Sandra Hofmann resigned from her office with effect from the end of the Supervisory Board meeting on 18 February 2019.

***In addition to the remuneration pursuant to section 20 of the articles of association of Telefónica Deutschland Holding AG, Mr Joachim Rieger received for his work as a member of the Supervisory Board of the Subsidiary TGCS Essen & Potsdam GmbH an annual remuneration of EUR 4,500, which is already included in the table.

The members of the Supervisory Board received remuneration for their work on the Supervisory Board of Telefónica Deutschland Holding AG and its subsidiaries amounting to EUR 315 thousand in 2019 and EUR 353 thousand in 2018.

As of 31 December 2019, the Telefónica Deutschland Group has not granted the members of its Supervisory Board any securities or loans, and has not assumed any guarantees on their behalf.

Separate combined non-financial report

Telefónica Deutschland will publish a separate, non-financial, combined report which contains the information for both Telefónica Deutschland Group and Telefónica Deutschland, at the following website address: www.telefonica.de/nfe. This non-financial report in accordance with section 315 (5) HGB in conjunction with section 289b HGB is part of this combined management report.

Disclosures in accordance with section 289a and section 315a HGB

Composition of subscribed capital

The registered share capital of Telefónica Deutschland Holding AG amounts to EUR 2,974,554,993, which is consistent with the prior year. The share capital is divided into 2,974,554,993 no-par value registered shares, each with a proportionate interest in the share capital of EUR 1.00 ("shares"). The registered share capital is fully paid. As of 31 December 2019 and at the time this Management Report was prepared, Telefónica Deutschland Holding AG did not hold any of its own shares. In accordance with section 6 (2) of the articles of association, the shareholders do not have the right to securitise shares. Each no par value share grants one vote at the Annual General Meeting. The shares are freely transferable.

Voting restrictions and restrictions on the transferability of shares

There are no general limitations on voting rights. We are not aware of any contractual agreements with Telefónica Deutschland Holding AG or other agreements about limitations on voting rights or the transferability of shares. In addition to the statutory provisions on insider trading and the prohibition on trading in accordance with the Market Abuse Regulation, the Company informs the relevant parties about "silent periods" of 30 days prior to the publication of financial data with corresponding recommendations to refrain from trading in this period. Other than this, there are no internal governance provisions providing for restrictions on the purchase and sale of shares by Management Board members or employees.

Participation in the share capital of more than 10% of the voting rights

As of 31 December 2019, Telefónica Germany Holdings Limited, Slough, United Kingdom, holds approximately 69.2% of the shares of Telefónica Deutschland Holding AG and the same amount of voting rights. Both O2 (Europe) Limited, Slough, United Kingdom, and Telefónica, S.A., Madrid, Spain, indirectly hold approx. 69.2% of the shares in Telefónica Deutschland Holding AG via Telefónica Germany Holdings Limited. Other than this, we were not informed of any participation in the share capital of Telefónica Deutschland Holding AG of more than 10% of the voting rights and we are not aware of any such participations.

Shares with special rights

There are no shares with special rights, and in particular no shares with rights that grant control.

Control of voting rights when employees hold stakes in the share capital

Just like all other shareholders, employees who hold shares in Telefónica Deutschland Holding AG exercise their control rights directly in accordance with the statutory provisions and the articles of association.

Appointment and dismissal of Management Board members

Pursuant to section 7 of the articles of association and section 84 AktG, the Supervisory Board determines the number of members of the Management Board and is responsible for their appointment and dismissal as well as for the appointment of the Chair of the Management Board (Chief Executive Officer, CEO). Deputy members of the Management Board may be appointed.

As of 31 December 2019, the Management Board of Telefónica Deutschland Holding AG consisted of seven members. From 1 January to 31 October 2019, it consisted of eight members.

Management Board members are appointed by the Supervisory Board for a term of no more than five years. They can be re-appointed and their term can be extended provided one period of office does not exceed a period of five years. The Supervisory Board may dismiss a Management Board member in the event of good cause, such as a gross breach of duties or if the Annual General Meeting adopts a no-confidence resolution in relation to the respective Management Board member. Other reasons for dismissal – such as mutual termination – remain unaffected.

Telefónica Deutschland Holding AG is subject to the provisions of the German Co-Determination Act (Mitbestimmungsgesetz – MitbestG).

Pursuant to section 31 MitbestG, a majority of two-thirds of the votes of Supervisory Board members is required for the appointment and dismissal of Management Board members. If this majority is not reached in the first round of voting by the Supervisory Board, the appointment or dismissal may occur on the recommendation of the Mediation Committee, which is to be formed in accordance with section 27 (3) MitbestG, in a further round of voting with a simple majority of the votes of the Supervisory Board members. If the mandatory majority is still not achieved, a third round of voting must take place which again requires a simple majority; for this round of voting, however, the Chair of the Supervisory Board has two votes.

If a required Management Board member is missing, the Munich Local Court must appoint the member on application by a party concerned pursuant to section 85 (1) AktG in urgent cases.

Changes to the articles of association
In accordance with section 179 (1) sentence 1 AktG, any change to the articles of association of Telefónica Deutschland Holding AG requires a resolution of the Annual General Meeting. In accordance with section 27 of the articles of association together with section 179 (2) sentence 2 AktG, resolutions of the Annual General Meeting of Telefónica Deutschland regarding changes to the articles of association are passed with a simple majority of the votes cast and a simple majority of the share capital represented at the passing of the resolution. If the law requires a higher majority of votes or capital, this majority must be applied. In connection with changes that only affect the wording of the articles of association, the Supervisory Board is entitled to make changes in accordance with section 179 (1) sentence 2 AktG in conjunction with section 17 (3) of the articles of association.

Authorisation of the Management Board to issue shares
The powers of the Management Board are governed by sections 76 et seqq. AktG in conjunction with sections 8 et seqq. of the articles of association. In particular, the Management Board runs the company and represents it in and out of court.

The authorisation of the Management Board to issue shares is governed by section 4 of the articles of association in conjunction with the statutory provisions. As of 31 December 2019, the following authorisations of the Management Board exist for the issuing of shares:

Authorised capital
As of 31 December 2019, the Management Board is authorised, with the approval of the Supervisory Board, to increase the share capital of the company in the period until 18 May 2021, on one or more occasions, by a total of EUR 1,487,277,496 by issuing up to 1,487,277,496 new registered no-par value shares in exchange for cash and/or non-cash contributions (Authorised Capital 2016/I). The authorisation stipulates that shareholder subscription rights can, in certain cases, be completely or partially excluded (section 4 (3) of the articles of association). This was resolved by the Shareholders' Meeting on 19 May 2016, which at the same time cancelled the existing Authorised Capital 2012/I.

Conditional capital
For the purpose of the issue of registered no-par value shares to the holders or creditors of bonds, the share capital of the company is conditionally increased by up to EUR 558,472,700 by issuing 558,472,700 new registered no-par value shares (Conditional Capital 2019/I). This was resolved by the Shareholders' Meeting on 21 May 2019, which at the same time cancelled the existing Conditional Capital 2014/I.

Authorisation of the Management Board to buy back shares
The authorisation of the Management Board to buy back own shares is governed by section 57 (1) sentence 2 and sections 71 et seqq. AktG.

The Shareholders' Meeting on 19 May 2016 cancelled the existing authorisation to buy back own shares dated 5 October 2012 and resolved a new authorisation in accordance with section 71 (1) 8 AktG to buy back 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.

Change of control/compensation agreements
Telefónica Deutschland Group's significant agreements containing a change-of-control clause relate to financing.

In the event of a change of control, the rating of Telefónica Deutschland or of the outstanding non-current liabilities within the Group will be examined with regard to capital market liabilities. In the event of a deterioration in the rating as contractually defined, the contracts grant O2 Telefónica Deutschland Finanzierungs GmbH as the issuer the option to terminate the financing early at a redemption amount of 101% of the nominal amount plus accrued interest. Otherwise, the interest rate will be increased by 1.25% p.a. until maturity or by 3.0% p.a. for the bond issued on 5 July 2018.

A small number of other contracts grant the contracting partners the right of termination in the event of a change of control in accordance with normal practice; this would result in an obligation to fulfil all outstanding obligations or the termination of the right to receive benefits.

The service contracts of the Management Board members of Telefónica Deutschland Holding AG grant the right to terminate these contracts in the event of a takeover offer by a third party with three months' notice to the end of the month; however, this termination must occur within six months of a change of control. In this case, the relevant Management Board member is entitled to a one-off compensation to the value of one fixed annual salary plus the last annual bonus received. However, the compensation may not exceed the remuneration that would have been payable by the end of the contract.

BUSINESS DEVELOPMENT OF TELEFÓNICA DEUTSCHLAND HOLDING AG

The Annual Financial Statements of Telefónica Deutschland Holding AG were prepared in accordance with the German Commercial Code (HGB).

Telefónica Deutschland acts as a holding company and as a service provider, it is responsible for the management and strategic approach of the Telefónica Deutschland Group. As the parent company of the Telefónica Deutschland Group, Telefónica Deutschland Holding AG has no relevant financial key performance indicators on its own.

Telefónica Deutschland Holding AG is integrated into the management system of the Telefónica Deutschland Group.

Since 1 January 2019, TDH AG has been the controlling company for an extended group of controlled companies of the TDH AG VAT group.

As of 31 December 2019, Telefónica Deutschland has no employees.

Results of Operations

Telefónica Deutschland generates its revenues from compensation for services, which it provides for its subsidiaries. In financial year 2019, the reimbursement costs resulted in revenues in the amount of EUR 11 million.

The revenue development for the 2019 financial year is slightly above the previous year's forecast due to a slightly higher cost base and the associated higher costs charged on in the reporting year.

Revenue and operating expenses increased compared to the previous year and resulted in a loss for the period in the amount of around EUR 2 million, which was at the same level as the previous year. The earnings forecast in the previous year, which was similar to the previous year's level, was achieved.

Revenues slightly above previous year's level
In the financial year, revenues in the amount of EUR 11 million (2018: EUR 10 million) were generated. The revenues were essentially comprised of charging on the costs for the remuneration of Management Board members, as well as additional administration costs, which are assumed by Telefónica Germany GmbH & Co. OHG in accordance with compensation agreements for management services. Furthermore, invoiced management services are included in the amount of EUR 240 thousand, which Telefónica Deutschland Holding AG provides for Telefónica Germany GmbH & Co. OHG and Telefónica Germany Management GmbH.

Personnel expenses slightly above previous year's level
Personnel expenses mainly comprise the remuneration of the Management Board including social security contributions and amounted to EUR 9 million (2018: EUR 8 million). The year-on-year increase was mainly due to the change in the constitution of the Management Board in financial year 2019.

Other operating expenses at previous year's level
At EUR 4 million, other operating expenses were at the same level as in the previous year. They essentially include legal and consulting expenses from external service providers.

Loss of the period at the previous year's level
As in 2018, the Company generated a loss of the period of around EUR 2 million in 2019.

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INCOME STATEMENT

Income Statement

1 January to 31 December

(in EUR million)	2019	2018	Change	% change
Revenues	**11**	**10**	**–**	**8.9**
Other income	–	–	–	43.1
Operating expenses	(13)	(12)	(1)	10.0
Personnel expenses	(9)	(8)	(1)	13.3
Other operating expenses	(4)	(4)	–	3.7
Operating income	**(2)**	**(1)**	**–**	**9.3**
Financial result	–	–	–	(6.3)
Profit/(loss) before tax	**(2)**	**(2)**	**–**	**6.9**
Income tax	–	–	–	(100.0)
Profit/(loss) after tax	**(2)**	**(2)**	**–**	**7.7**
Other taxes	**–**	**–**	**–**	**(99.3)**
Profit/(loss) for the period	**(2)**	**(2)**	**–**	**4.8**

Financial Position and Net Assets

Principles and goals of financial management

As a service provider, Telefónica Deutschland Holding AG is responsible for the management of the Telefónica Deutschland Group. It mainly finances itself with equity and generates an operating cash flow from charging on these management services to Telefónica Germany GmbH & Co. OHG and Telefónica Germany Management GmbH. Furthermore, Telefónica Deutschland Holding AG is integrated into the Group-wide financial management of the Telefónica Deutschland Group and is therefore able to fulfil its payment obligations at all times. In this respect, the further information made in the Financial Position section of the Group applies.

Bonds for corporate financing

In February 2014 and July 2018, O2 Telefónica Deutschland Finanzierungs GmbH issued two bonds with a nominal value of EUR 500 million and EUR 600 million, each with a term of seven years.

The bonds of O2 Telefónica Deutschland Finanzierungs GmbH were transferred to Telefónica Germany GmbH & Co OHG as loans.

Within the scope of the Group-wide financial management of the Telefónica Deutschland Group, Telefónica Deutschland Holding AG guarantees the punctual payment of interest, principal and any other additional amounts which are payable under the bond.

Investment projects

There are currently no extensive investments planned at the level of Telefónica Deutschland Holding AG.

Decrease in financial assets

The financial assets comprised the shares of Telefónica Germany GmbH & Co. OHG, Munich, in the amount of EUR 8,547 million (2018: EUR 9,340 million). On the basis of a shareholders' resolution dated 6 May 2019, a withdrawal totalling EUR 803 million took place in the financial year from Telefónica Deutschland, in accordance with section 4 (3) of the articles of association, this led to a corresponding reduction of the investment book value.

The book value of the shares in Telefónica Germany Management GmbH, Munich were unchanged in comparison to the previous period at EUR 10 million.

Increase in receivables from affiliated companies

The increase in receivables from affiliated companies was mainly due to the increase in cash pool receivables from Telfisa Global B.V., Amsterdam from EUR 5 million in 2018 to EUR 54 million in the reporting year. This increase resulted mainly from the payment of the loan granted by Telefónica Germany GmbH & Co. OHG in the reporting year in the amount of EUR 50 million. The loan is being used to pre-finance the payment of the VAT Group liability of the entity by Telefónica Deutschland Holding AG and to finance the general business activities of Telefónica Deutschland Holding AG. In addition, there are receivables from affiliated companies from the VAT Group amounting to EUR 79 million.

Slight decline in provisions

The slight decrease in other provisions at the end of the reporting period resulted mainly from less provisions for outstanding purchase invoices for consulting services.

At EUR 3 million, pension provisions were at the previous year's level.

Increase in liabilities

The increase in liabilities to affiliated companies in the reporting year resulted mainly from the loan granted by Telefónica Germany GmbH & Co. OHG to Telefónica Deutschland Holding AG in the amount of EUR 50 million.

Trade payables were at the previous year's level.

At EUR 76 million, other liabilities were significantly above the previous year's level due to the change in the VAT Group of Telefonica Deutschland Holding AG.

Decline in equity

Equity decreased in the financial year 2019 by EUR 805 million or 8.6% to EUR 8,544 million (2018: EUR 9,349 million). The change in equity resulted from the dividend payment resolved on 21 May 2019 in the amount of EUR 803 million and from the result for the period of EUR -2 million.

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.

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BALANCE SHEET

As of 31 December

(in EUR million)	2019	2018	Change	% change
Fixed assets				
Financial assets				
Investments in affiliated companies	8,547	9,350	(803)	(9)
Current assets				
Receivables from affiliated companies	136	9	126	1,354
Other assets and miscellaneous assets	–	–	–	–
Total assets	**8,683**	**9,360**	**(677)**	**(7)**
Equity	**8,544**	**9,349**	**(805)**	**(9)**
Provisions	**8**	**8**	**–**	**(4)**
Liabilities	**131**	**3**	**129**	**5,133**
Total equity and liabilities	**8,683**	**9,360**	**(677)**	**(7)**

Employees

As in 2018, Telefónica Deutschland Holding AG had no employees in financial year 2019.

Subsequent Events

With regard to business transactions of particular importance that occurred after the end of the reporting year, reference is made to > NOTES, SUBSEQUENT EVENTS IN THE 2019 ANNUAL FINANCIAL STATEMENTS OF TELEFÓNICA DEUTSCHLAND HOLDING AG.

Risks and opportunities

The business development of Telefónica Deutschland Holding AG is basically subject to the same risks and opportunities as that of the Telefónica Deutschland Group. Telefónica Deutschland Holding AG in principle participates in the risks and opportunities of its subsidiaries and holdings corresponding to its respective ownership share.

In its capacity as the parent company of the Telefónica Deutschland Group, Telefónica Deutschland Holding AG assumes warranty obligations for its subsidiaries. With the issueing of the two bonds by O2 Telefónica Deutschland Finanzierungs GmbH, Munich, Telefónica Deutschland has given an unconditional and irrevocable guarantee to each holder of the two issued bonds in February 2014 and July 2018 in the amount of EUR 500 million and EUR 600 million, respectively, for the proper and timely payment of all amounts payable by the issuer on the bond in accordance with the bond conditions.

The risk of a claim under the 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. 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 letters of comfort to Telefónica Germany GmbH & Co. OHG and Telefónica Germany Management GmbH in the financial year 2016. The letters of comfort remain valid and may be terminated at the end of a financial year of the companies by giving six months' notice.

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

The letters of comfort do not significantly change the economic substance of the opportunities and risks. The risk of a claim under these contingent liabilities is considered to be low.

For further information > RISK AND OPPORTUNITIES MANAGEMENT.

Telefónica Deutschland Holding AG, as the parent company of the Telefónica Deutschland Group, is integrated in the Group-wide risk management system. For further information > RISK MANAGEMENT AND RISK REPORTING.

The required description of the internal control system in accordance with section 289 (5) HGB for Telefónica Deutschland Holding AG is given in > INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM BASED ON THE CONSOLIDATED FINANCIAL REPORTING PROCESS.

Outlook 2020

Telefónica Deutschland Holding AG functions as a management and holding company. The long-term future development is therefore crucially based on the development of the operating companies of the Telefónica Deutschland Group, particularly Telefónica Germany GmbH & Co. OHG. With regard to the financial and market development, as well as the expected development of important key figures at the Telefónica Deutschland Group level, we refer to the > FORECAST REPORT.

MANAGEMENT DECLARATION

The Company has published this declaration, which also contains the declaration of compliance pursuant to section 161 AktG, section 76 (4) and section 111 (5) AktG, and the statements on the diversity concept for the Supervisory Board and Management Board on its website **(www.telefonica.de/management-declaration-2019)** and in the Corporate Governance/Compliance Statement of the annual report. This management declaration in accordance with section 289f HGB in conjunction with section 315d HGB forms part of this combined management report.

Munich, 14 February 2020

Telefónica Deutschland Holding AG

The Management Board

Markus Haas

Markus Rolle

Valentina Daiber

Nicole Gerhardt

Alfons Lösing

Wolfgang Metze

Mallik Rao

CONSOLIDATED FINANCIAL STATEMENTS

For the financial year 2019

Consolidated Financial Statements
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Consolidated Financial Statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of 31 December

Assets (in EUR million)	Notes	**2019**	2018
A) Non-current assets		**14,367**	**11,061**
Goodwill	[4.1]	1,964	1,960
Other intangible assets	[4.2]	5,384	4,727
Property, plant and equipment	[4.3]	3,750	3,793
Right-of-use assets	[4.4]	2,499	–
Trade and other receivables	[4.5]	104	70
Other financial assets	[4.6]	133	101
Other non-financial assets	[4.7]	220	206
Deferred tax assets	[5.7]	314	204
B) Current assets		**2,783**	**2,736**
Inventories	[4.8]	165	261
Trade and other receivables	[4.5]	1,366	1,301
Other financial assets	[4.6]	17	9
Other non-financial assets	[4.7]	455	413
Cash and cash equivalents	[4.9]	781	751
Total assets (A+B)		**17,151**	**13,796**

Equity and Liabilities (in EUR million)	Notes	**2019**	2018
A) Equity		**6,534**	**7,569**
Subscribed capital	[4.10]	2,975	2,975
Additional paid-in capital	[4.10]	4,800	4,800
Retained earnings		(1,240)	(205)
Total equity attributable to owners of the parent		6,534	7,569
B) Non-current liabilities		**6,532**	**2,901**
Interest-bearing debt	[4.11]	2,153	2,004
Lease liabilities	[4.12]	2,027	–
Trade and other payables	[4.13]	15	19
Payables – Spectrum	[4.14]	1,186	–
Provisions	[4.15]	624	526
Deferred income	[4.13]	213	176
Deferred tax liabilities	[5.7]	314	177
C) Current liabilities		**4,084**	**3,326**
Interest-bearing debt	[4.11]	339	145
Lease liabilities	[4.12]	462	–
Trade and other payables	[4.13]	2,493	2,419
Payables – Spectrum	[4.14]	86	–
Provisions	[4.15]	104	188
Other non-financial liabilities	[4.7]	103	39
Deferred income	[4.13]	497	535
Total equity and liabilities (A+B+C)		**17,151**	**13,796**

The new accounting standard IFRS 16 "Leases" has been applied since 1 January 2019. Prior-year figures have not been adjusted. Please refer to Note 3, Accounting Policies, for more information.

CONSOLIDATED INCOME STATEMENT

1 January to 31 December

(in EUR million)	Notes	2019	2018
Revenues	[5.1]	7,399	7,320
Other income	[5.2]	183	177
Supplies		(2,372)	(2,459)
Personnel expenses	[5.3]	(592)	(610)
Impairment losses in accordance with IFRS 9		(77)	(79)
Other expenses	[5.4]	(2,249)	(2,552)
Operating income before depreciation and amortisation (OIBDA)		**2,292**	**1,797**
Depreciation and amortisation	[5.5]	(2,416)	(1,987)
Operating income		**(124)**	**(190)**
Finance income		3	2
Exchange gains		0	1
Finance costs		(58)	(44)
Exchange losses		(0)	(1)
Financial result	[5.6]	**(55)**	**(42)**
Profit/(loss) before tax		**(179)**	**(233)**
Income tax	[5.7]	(33)	3
Profit/(loss) for the period		**(212)**	**(230)**
Profit/(loss) for the period attributable to owners of the parent		**(212)**	**(230)**
Profit/(loss) for the period		**(212)**	**(230)**
Earnings per share	[8]		
Basic earnings per share in EUR		**(0.07)**	**(0.08)**
Diluted earnings per share in EUR		**(0.07)**	**(0.08)**

The new accounting standard IFRS 16 “Leases” has been applied since 1 January 2019. Prior-year figures have not been adjusted. Please refer to Note 3, Accounting Policies, for more information.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

1 January to 31 December

(in EUR million)	Notes	2019	2018
Profit/(loss) for the period		**(212)**	**(230)**
Items that will not be reclassified to profit/(loss)			
Remeasurement of benefits after termination of employment	[4.15]	(53)	7
Income tax impact	[5.7]	17	(2)
Other comprehensive income/(loss)		**(36)**	**5**
Total comprehensive income/(loss)		**(248)**	**(225)**
Total comprehensive income/(loss) attributable to owners of the parent		(248)	(225)
Total comprehensive income/(loss)		**(248)**	**(225)**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(in EUR million)	Notes	Subscribed capital	Additional paid-in capital	Retained earnings	Total equity attributable to owners of the parent	Equity
Financial position as of 1 January 2018		**2,975**	**4,800**	**523**	**8,297**	**8,297**
Adjustment due to first-time application of IFRS 9 and IFRS 15 (after taxes)		–	–	274	274	274
Financial position as of 1 January 2018, adjusted		**2,975**	**4,800**	**797**	**8,571**	**8,571**
Profit/(loss) for the period		–	–	(230)	(230)	(230)
Other comprehensive income/(loss)		–	–	5	5	5
Total comprehensive income/(loss)		**–**	**–**	**(225)**	**(225)**	**(225)**
Dividends	[4.10]	–	–	(773)	(773)	(773)
Other movements	[13]	–	–	(4)	(4)	(4)
Financial position as of 31 December 2018		**2,975**	**4,800**	**(205)**	**7,569**	**7,569**
Financial position as of 1 January 2019		**2,975**	**4,800**	**(205)**	**7,569**	**7,569**
Adjustment due to first-time application of IFRS 16 (after taxes)		–	–	17	17	17
Financial position as of 1 January 2019, adjusted		**2,975**	**4,800**	**(189)**	**7,586**	**7,586**
Profit/(loss) for the period		–	–	(212)	(212)	(212)
Other comprehensive income/(loss)		–	–	(36)	(36)	(36)
Total comprehensive income/(loss)		**–**	**–**	**(248)**	**(248)**	**(248)**
Dividends	[4.10]	–	–	(803)	(803)	(803)
Financial position as of 31 December 2019		**2,975**	**4,800**	**(1,240)**	**6,534**	**6,534**

The new accounting standard IFRS 16 "Leases" has been applied since 1 January 2019. Prior-year figures have not been adjusted. Please refer to Note 3, Accounting Policies, for more information.

CONSOLIDATED STATEMENT OF CASH FLOWS

1 January to 31 December

(in EUR million)	Notes	2019	2018
Cash flow from operating activities			
Profit/(loss) for the period		**(212)**	**(230)**
Adjustments to profit/(loss)			
Financial result	[5.6]	55	42
Gains on disposals of assets		(1)	(0)
Income taxes	[5.7]	33	(3)
Depreciation and amortisation	[5.5]	2,416	1,987
Other non-cash expenses/income		–	(15)
Change in working capital and others			
Other non-current assets	[4.5], [4.6], [4.7]	(95)	18
Other current assets	[4.5], [4.6], [4.7],[4.8]	35	(160)
Other non-current liabilities and provisions	[4.13], [4.15]	(61)	(166)
Other current liabilities and provisions	[4.13], [4.15]	(106)	249
Others			
Interest received		4	6
Interest paid		(53)	(40)
Cash flow from operating activities		**2,015**	**1,690**
Cash flow from investing activities			
Proceeds from disposals of property, plant and equipment and intangible assets		3	0
Payments from the disposal of consolidated entities	[7]	–	21
Payments on investments in property, plant and equipment and intangible assets	[4.2], [4.3]	(966)	(979)
Acquisition of companies, net of cash acquired		(9)	(1)
Proceeds from financial assets		0	4
Payments for financial assets		(21)	(3)
Cash flow from investing activities		**(992)**	**(957)**

1 January to 31 December

(in EUR million)	Notes	2019	2018
Cash flow from financing activities			
Payments made for the repayment of lease liabilities[1]	[4.12]	(484)	–
Payments made relating to frequency auctions	[4.14]	(87)	–
Proceeds from interest-bearing debt	[4.11]	820	2,526
Payments made for the repayment of interest-bearing debt[1]	[4.11]	(446)	(2,302)
Dividends paid		(803)	(773)
Other proceeds/payments relating to financing activities		8	(19)
Cash flow from financing activities		**(993)**	**(569)**
Net increase/(decrease) in cash and cash equivalents		**30**	**164**
Cash and cash equivalents at the beginning of the period	[4.9]	**751**	**587**
Cash and cash equivalents at the end of the period	[4.9]	**781**	**751**

The new accounting standard IFRS 16 “Leases” has been applied since 1 January 2019. Prior-year figures have not been adjusted. Please refer to Note 3, Accounting Policies, for more information.

[1] As of 31 December 2018, payments made for the repayment of finance leases in accordance with IAS 17 of EUR 22 million were reported under “Payments made for the repayment of interest-bearing debt”.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the financial year 2019

1. Reporting Entity

The Consolidated Financial Statements of Telefónica Deutschland Holding AG have been prepared as of and for the year ending 31 December 2019 and comprise Telefónica Deutschland Holding AG (also referred to as "Telefónica Deutschland") and its subsidiaries as well as joint operations (together referred to as the "Telefónica Deutschland Group" or the "Group").

The Telefónica Deutschland Holding AG is a stock corporation (AG) incorporated under German law and is listed on the regulated market of the Frankfurt Stock Exchange. The German Securities Identification Number (WKN) is A1J5RX, the International Securities Identification Number (ISIN) is DE000A1J5RX9.

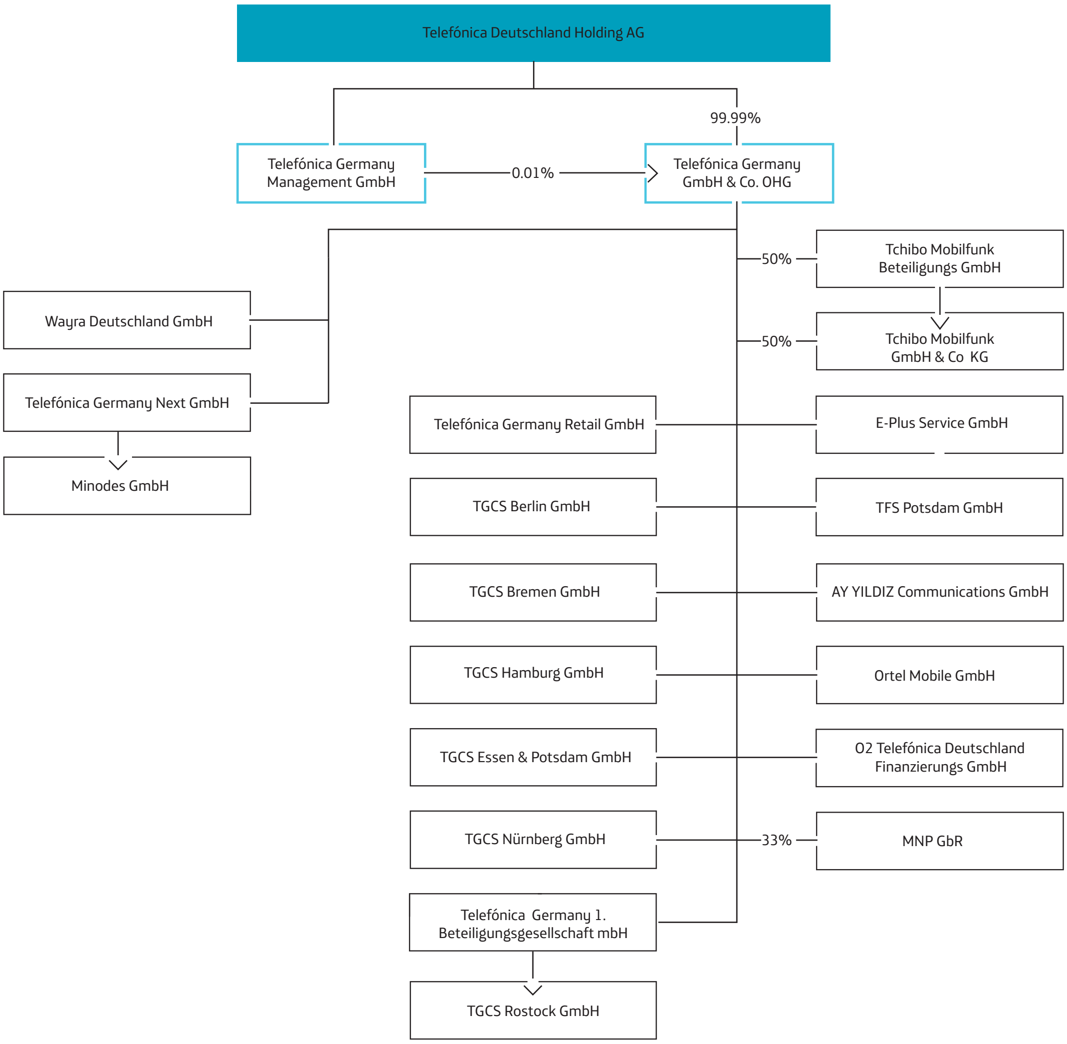
As of 31 December 2019, 30.8% of the shares were in free float. 69.2% were held by Telefónica Germany Holdings Limited, Slough, United Kingdom (Telefónica Germany Holdings Limited), an indirect wholly owned subsidiary of Telefónica, S.A., Madrid, Spain (Telefónica, S.A.). According to a press release for Koninklijke KPN N.V. dated 13 June 2019, all shares held by Koninklijke KPN N.V. in Telefónica Deutschland Holding AG have been sold.

The company's name is "Telefónica Deutschland Holding AG". The company's registered office is located in Munich, Germany. Telefónica Deutschland Holding AG is registered in the commercial register of the local court in Munich under registration number HRB 201055. The company's business address is Georg-Brauchle-Ring 50, 80992 Munich, Germany (telephone number: +49 (0)89 2442-0; www.telefonica.de). Telefónica Deutschland Holding AG was established for an indefinite period.

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

The Telefónica Deutschland Group is one of the three leading integrated network operators in Germany. The Telefónica Deutschland Group offers private and business customers voice, data and value added services in mobile and fixed-line networks. In addition, the Telefónica Deutschland Group ranks among the leading wholesale providers in Germany. Wholesale partners are offered access to the Group's infrastructure and services. The Telefónica Deutschland Group is part of the Telefónica, S.A. Group, one of the biggest telecommunications corporations in the world.

As of 31 December 2019, the companies included in the Consolidated Financial Statements of the Telefónica Deutschland Group were organised as shown in the following organisation chart:



Unless stated otherwise, the ownership interests amount to 100%. For changes in the Group structure, please refer to Note 10, Group companies of the Telefónica Deutschland Group.

2. Basis of Preparation

The Consolidated Financial Statements of Telefónica Deutschland Holding AG are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

In addition, the accounting policies are in line with the previous year's disclosures in the published Consolidated Financial Statements for the financial year ending 31 December 2018. Exceptions are the amendments to the IFRS and the measurement changes as presented in Note 3 (letter p) Accounting Policies). Furthermore, the Group applied the additional requirements of German commercial law pursuant to section 315e (1) of the German Commercial Code (HGB).

The Consolidated Financial Statements of Telefónica Deutschland Holding AG were approved by the Supervisory Board on 17 February 2020.

Functional currency and presentation currency
These Consolidated Financial Statements are presented in euro, which is the functional currency of Telefónica Deutschland Holding AG and its subsidiaries.

Unless stated otherwise, the figures in these Consolidated Financial Statements are presented in millions of euros (in EUR million) and rounded according to established commercial principles. Therefore, recalculations may slightly differ from the totals shown in the tables.

3. Accounting Policies

The principal accounting policies used in preparing the accompanying Consolidated Financial Statements are as follows:

a) Business combinations

Business combinations are accounted for in accordance with the acquisition method. The costs of an acquisition are measured according to the fair values of the assets transferred and the liabilities incurred or assumed on the acquisition date.

Transaction costs are recognised in other expenses at the date they are incurred. Telefónica Deutschland Group initially recognises identifiable assets acquired in a business combination and the liabilities assumed, including contingent liabilities, at fair value at the acquisition date.

b) Goodwill

For business combinations, goodwill represents the excess of acquisition costs over the fair values of identifiable assets acquired and liabilities assumed at the acquisition date. Cost of acquisition is the sum of the fair value of consideration transferred and the value attributed to existing non-controlling interests. For each business combination, the Telefónica Deutschland Group determines the value of non-controlling interests at either their fair value or their proportional part of the net identifiable assets acquired.

For business combinations that occurred after 1 January 2004, goodwill represents the excess of the acquisition costs including transaction costs over the acquirer's interest, at acquisition date, in the fair values of the identifiable assets, liabilities and contingent liabilities of the acquired business.

After initial measurement, goodwill is carried less any accumulated impairment losses.

Goodwill is not amortised on a scheduled basis but must be reviewed for impairment annually. In addition, an impairment test is carried out if events or circumstances indicate that the carrying amount is higher than the recoverable amount (see Note 4.1 Goodwill).

c) Other intangible assets

Other intangible assets are carried at cost, less any accumulated amortisation and any accumulated impairment losses. Subsequent expenditure is capitalised only for existing other intangible assets if it increases the future economic benefit embodied in the asset to which it relates. All other expenditures on internally generated goodwill and brands are recognised in the Consolidated Income Statement as incurred.

Costs include external and internal costs comprising purchased assets and services, direct labour used in installation work and the allocable portion of indirect costs required for the related investment. The latter two items are recorded in Other Income – Own Work Capitalised.

Borrowing costs within the scope of IAS 23 that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as a component of the cost of the respective asset.

The useful lives of other intangible assets either finite or indefinite are determined individually. The Telefónica Deutschland Group has not recognised other intangible assets with indefinite useful lives. Other intangible assets with finite useful lives are amortised on a scheduled basis over the economic useful life and are assessed for impairment if events or circumstances indicate that their carrying amount may not be recoverable. Other intangible assets that are not yet available for use are also tested for impairment annually. Residual values of assets, useful lives and amortisation methods are reviewed annually at year-end and, when appropriate, adjusted.

Licences
This category mainly comprises the acquisition costs for the agreements in which various authorities grant mobile frequency licences to provide telecommunication services. It also includes the values assigned to the mobile frequency licences held by particular companies at the time they were incorporated into the Telefónica Deutschland Group. The purpose of acquiring the mobile frequency licences is to build up a network and is to be classified as a qualifying asset within the definition of IAS 23. These mobile frequency licences and the corresponding network are reported under construction in progress until the network is completed and the frequencies are therefore fully usable.

These frequency licences are amortised on a straight-line basis over the life of the respective frequency blocks (mostly between eight and 20 years) once commercial exploitation begins.

Customer bases
This category is for customer relationships which were acquired through company transactions, and which were therefore capitalised. Amortisation takes place on a straight-line basis for the estimated duration of the customer relationship (essentially seven and 15 years).

Software
Software is classified as a cost and is amortised on a straight-line basis over its useful life. The estimated useful life is generally between one and five years.

Brand names
This category is for brand names which were acquired through company transactions, and hence they were capitalised. Brand names will be amortised on a straight-line basis over their expected useful lives (generally between five and 19 years).

d) Property, plant and equipment

Property, plant and equipment are carried at cost less any accumulated depreciation and any accumulated impairment losses. Land is not depreciated.

Costs include external and internal costs comprising purchased capital goods and services and warehouse material used, direct labour used in installation work and the allocable portion of indirect costs required for the related investment. The latter two items are recorded in Other Income – Own Work Capitalised.

Costs include also, where appropriate, the estimate of the costs at initial recognition for dismantling and removing the item and restoring the site on which it is located to the extent that the entity incurs the obligation either when the item is acquired or as a consequence of having used it. Any corresponding valuation changes in subsequent years are allocated to the respective asset.

The costs of expansion, modernisation, or improvement leading to increased productivity, capacity and efficiency or to an extension of the useful lives of assets are capitalised if the recognition criteria are met.

Repair and maintenance costs are expensed as incurred.

The Telefónica Deutschland Group depreciates its property, plant and equipment once they are in full working condition using the straight-line method based on the following estimated useful lives of the assets. The useful lives are reviewed periodically and, where appropriate, updated based on technological progress and the rate of dismantling:

	Estimated useful life (in years)
Buildings	5 – 20
Plant and machinery (incl. telephone installations, networks and subscriber equipment)	1 – 20
Furniture, office equipment, tools and other items	2 – 13

The estimated residual values of assets and depreciation methods are also regularly reviewed and, where appropriate, adjusted at each financial year-end.

e) Impairment of property, plant and equipment, goodwill and other intangible assets

Goodwill and intangible assets and assets with indefinite useful lives which have not yet been placed in service are tested for impairment annually at the reporting date or if there are any indications of an impairment. Property, plant and equipment and intangible assets with a finite useful life are tested for impairment only if any indications of impairment exist at the reporting date. Assets and goodwill are tested for impairment at the level of the cash-generating unit to which the asset belongs. As of 31 December 2019, the Telefónica Deutschland Group comprises one single cash-generating unit, the reportable segment Telecommunications. Within the Telefónica Deutschland Group, there are no further identifiable groups of assets below Group level that generate cash inflows that are largely independent of the cash inflows from other assets. An impairment is required if the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount.

As a matter of principle, the Telefónica Deutschland Group determines the recoverable amount of a cash-generating unit based on its fair value less costs to sell. The fair value is determined based on the market capitalisation of Telefónica Deutschland Holding AG as of the reporting date. Costs to sell contain costs such as legal and consulting fees that can be directly allocated to the sale of the cash-generating unit.
If the recoverable amount of a cash-generating unit to which goodwill is allocated is less than the carrying amount of the unit, an impairment loss shall be recognised corresponding to the difference. If the impairment loss exceeds the carrying amount of the goodwill, the remainder shall be allocated pro rata on the basis of the respective carrying amounts of the other assets.

If the carrying amount of an asset exceeds its recoverable amount, the carrying amount is written down to its recoverable amount and the resulting loss is recognised in the Consolidated Income Statement. Future depreciation or amortisation charges are adjusted for the asset's new carrying amount over its remaining useful life.

If the conditions for impairments recorded in earlier periods no longer apply, the relevant assets (with the exception of goodwill) are written up through profit and loss.

f) Inventories

Inventories are stated at the lower of cost and net realisable value and are written down, if necessary. The costs are determined on the basis of the weighted average costs. Estimates of the net realisable value are based on the most reliable evidence available and are based on the amount for which the inventories are expected to sell. These estimates take into consideration the fluctuations of sales prices or costs, as well as the purpose for which the inventory is held.

If the circumstances that previously caused inventories to be written down to an amount below cost no longer exist, the amount of the write-down is reversed, so that the new carrying amount is the lower of cost and revised net realisable value.

The Group's inventory mainly consists of merchandise intended for sale to end customers. At the time of the sale or transfer of the risk to the customer, inventory is expensed through cost of sales. The change in inventories is recorded in the item Supplies.

g) Cash and cash equivalents

Cash and cash equivalents are defined as short-term, highly liquid financial investments with a maximum term of three months, which can be converted into cash at any time and are not materially impacted by the risk of a change in values.

h) Financial instruments

A financial instrument in accordance with IFRS 9, is a contract that simultaneously gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial instruments are recognised as soon as Telefónica Deutschland Group becomes a contractual party to the financial instrument. All standard purchases of financial assets are recognised using trade date accounting, i.e. the date on which the Telefónica Deutschland Group commits to purchase the asset. Upon initial recognition, financial instruments are measured at fair value, which generally corresponds to the transaction price. Transaction costs directly attributable to the acquisition or issuance are considered in determining the initial value if the financial instruments are not measured at fair value through profit or loss.

For the purpose of subsequent measurement, financial instruments are subdivided into the following categories:

- Financial assets measured at fair value through profit or loss
- Financial liabilities at fair value through profit or loss
- Financial assets and liabilities measured at amortised cost
- Financial assets measured at fair value through other comprehensive income (debt instruments)

Telefónica Deutschland Group does not make use of the option to classify financial assets at fair value through profit or loss upon initial recognition (“fair value option”). Likewise, the option to classify equity instruments at fair value through other comprehensive income upon initial recognition is currently not used.

In accordance with IFRS 9 financial assets are classified depending on the business model and cash flow characteristics. Reclassification of financial assets is only permitted if the business model has changed; financial liabilities may not be reclassified.

Financial assets: Assessment of the cash flow criterion
The cash flow criterion involves assessing whether the contractually agreed cash flows are solely interest and principal payments on the outstanding principal amount. Principal payments imply the outstanding principal repayments and interest represents remuneration for the time value of money, credit and liquidity risk and other costs and profit margins incurred during the life of the financial instrument in the course of “holding” it. In the assessment, the contractual terms of the individual instruments are analysed in detail. This also includes an analysis of possible agreements that may affect the amount or timing of contractual cash flows and jeopardise non-compliance with the criterion.

Financial assets: Assessment of the business model
If the cash flow criterion is met, the Telefónica Deutschland Group uses the business model criterion to assess how the financial assets are managed at portfolio level. This decision is made by persons in key positions. In particular, the objectives for the portfolio, the guidelines and practical and concrete instructions for action are taken into account. In principle, three types of business models are possible: “Hold”, “Hold and Sell” and “Other”. Decisive for the classification into these business models are, in particular, the frequency, volume, reasons and timing of sales of financial assets from previous periods as well as expectations regarding future sales. If the business model of financial assets is “hold” in order to collect contractual cash flows, these are measured at amortised cost. All financial assets whose main purpose is to be collected and sold are measured at fair value through other comprehensive income. If the conditions for the aforementioned business models are not met, for example if the intention to trade exists, the financial assets are allocated to the measurement category “at fair value through profit or loss”.

Financial assets
Financial assets mainly include trade and other receivables, other financial assets as well as cash and cash equivalents.

Financial assets measured at fair value through profit or loss
Financial assets at fair value through profit or loss are primarily investments in start-ups. Initial and subsequent measurement is at fair value through profit or loss. Derivatives that are not included in hedging relationships are also reported in this category.

Financial assets measured at amortised cost
These mainly relate to trade receivables and other receivables as well as loans. After initial recognition, these financial assets are carried at amortised cost using the effective interest method less any impairment losses. Gains and losses are recognised in the Consolidated Income Statement when the financial assets are sold, amortised or impaired. Interest effects from the application of the effective interest method are also recognised in profit or loss.

Effective interest method: The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the interest rate that exactly discounts the estimated future cash receipts or payments through the expected life of the financial instrument or, where appropriate, a shorter period to the net carrying amount on initial recognition. The interest income or expense is recognised on an effective interest basis.

Financial assets measured at fair value through other comprehensive income
These assets are primarily trade receivables for which the "hold and sell" business model applies. These receivables are subject to the factoring program and are resold depending on the capital requirements. These are subsequently measured at fair value. Changes in fair value are recognised in other comprehensive income. However, interest income, foreign currency gains and losses, impairment losses and reversals of impairment losses are recognised in the income statement. Upon derecognition, the accumulated gains and losses in other comprehensive income are reclassified to the profit and loss statement.

Impairment of financial assets
The Telefónica Deutschland Group recognises impairment losses on all financial assets that are debt instruments and that are measured at amortised cost or at fair value through other comprehensive income in the amount of the expected credit loss, unless the loss is considered to be immaterial.

Impairment losses on financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

In the case of financial assets in the measurement category through other comprehensive income, the impairment is recognised in profit or loss and derecognised from the other comprehensive income.

In determining the impairment, a distinction must be made between the expected loss within the next 12 months and the total term. Upon initial recognition, the expected loss within the next 12 months is initially recognised as an impairment loss. This does not apply to trade receivables, contract assets and receivables from leases. If a significant increase in credit risk becomes apparent, the recognition of impairment losses is extended to the entire term.

The Telefónica Deutschland Group believes that a debt instrument has a low credit risk if its credit risk rating meets the global definition of investment grade. Accordingly, a decrease in the rating below investment grade is considered a significant increase in credit risk. In addition, the Telefónica Deutschland Group assumes that the credit risk for a financial asset has increased significantly if it is more than 30 days past due.

The Telefónica Deutschland Group continuously assesses whether financial assets carried at amortised cost or at fair value through other comprehensive income are specifically at risk of default and whether the receivables are transferred to external collection partners. The Group generally assumes this to be the case if an internal collection measure has been unsuccessful.

At each reporting date, the Telefónica Deutschland Group assesses whether financial assets carried at amortised cost or at fair value through other comprehensive income are at risk of default. The Telefónica Deutschland Group generally assumes that a financial asset is at risk of default if:

— It is unlikely that the borrower will settle its loan obligations to the Telefónica Deutschland Group in full without the Telefónica Deutschland Group resorting to measures such as the realisation of collateral (if any).

— The financial asset is 90 days or more past due.

— A debtor is in severe financial difficulty or is unwilling to pay.

The gross carrying amount of a financial asset is derecognised in full or in part unless there is a realistic prospect of recovery. This is generally the case if the Telefónica Deutschland Group determines that the debtor does not have any assets or sources of income that could generate sufficient cash to repay the amounts due. Write-downs of financial assets may continue to be subject to foreclosure proceedings.

Impairment losses on trade receivables and contract assets are generally recognised at the amount of the expected credit loss over the entire term using the simplified approach. In estimating expected credit losses, the Telefónica Deutschland Group considers appropriate information that is relevant and reasonably available. This includes both quantitative and qualitative information and analyses based on the Telefónica Deutschland Group's historical experience and credit ratings, as well as forward-looking information. Expected credit losses are derived from a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all defaults and late payments (i.e. the difference between the cash flows due to the entity under the contract and the expected cash flows).

Financial liabilities

Financial liabilities include primarily trade payables, other liabilities, interest-bearing debt, payables - spectrum and lease liabilities. Depending on their maturity, they are reported as current or non-current liabilities. In addition, embedded derivatives are separated from financial liabilities if they are not closely related to the host contract.

Due to their particular significance as specified in IAS 1.55, the financial liabilities from the spectrum auction in the 2019 financial year are reported under a separate item called payables - spectrum.

Financial liabilities measured at amortised cost

After initial recognition, financial liabilities are subsequently remeasured at amortised cost using the effective interest method described above.

Financial liabilities at fair value through profit or loss

A financial liability is recognised at fair value through profit or loss if it does not follow the measurement category of amortised cost. In the case of the Telefónica Deutschland Group, derivative liabilities are included here unless they are accounted for as hedging relationships. They are presented as current or non-current liabilities or debt depending on their maturity.

Financial instruments included in this category are measured at fair value on initial recognition and on every subsequent reporting date. In addition, financial liabilities may be measured using the fair value option of this category. However, this option is not exercised.

Derecognition of financial assets and liabilities

Financial assets are derecognised when the rights to receive cash flows from the assets expire or when the financial assets have been transferred and the Telefónica Deutschland Group has transferred substantially all the risks and rewards incidental to ownership of the financial asset.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of consideration received including the cumulative gains or losses that had been recognised directly in equity, is recognised in the Consolidated Statements of Comprehensive Income. If the Telefónica Deutschland Group does not retain or transfer substantially all risks and rewards, and retains control, it continues to recognise the transferred asset to the extent of its continuing involvement.

Financial liabilities are derecognised when the underlying obligation is settled, cancelled, or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss. A financial instrument must be derecognised even if a substantial modification of the contractual conditions has been made.

Netting

Financial assets and financial liabilities are offset and the net amount recognised in the Consolidated Statement of Financial Position if, and only if, the Telefónica Deutschland Group currently has a legally enforceable right to set off the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Derivative financial instruments
Derivatives are presented as assets if their fair value is positive and as liabilities if their fair value is negative. Changes in the fair value of derivative financial instruments are recognised periodically in the Consolidated Income Statement. In the current financial year, the Telefónica Deutschland Group has an interest rate swap (derivative financial instrument) to hedge interest-rate risks.

Hedging relationships are designated in hedge accounting in the Telefónica Deutschland Group if all of the following criteria are met: a) there is an economic relationship between the hedged item and the hedging instrument, b) the credit risk does not dominate the value changes from that economic relationship, c) the actual hedging ratio corresponds to the hedging ratio defined in the risk strategy. The Group documents its risk management objectives and strategies for undertaking these hedges, including whether changes in the cash flows of the hedging instruments are expected to offset changes in the cash flows of the hedged items. The effectiveness of the hedging accounting relationship is determined at the inception of the hedging accounting relationship and by regular prospective assessments.

If the company hedges a fair value (fair value hedges), the portion of profit or loss attributable to the hedged risk is allocated to the carrying amount of the hedged item. The carrying amount of the hedged item is increased or decreased by the profit or loss that is attributable to the hedged risk. For hedged items that are recorded at amortised cost, the increase or decrease of the carrying amount is completely amortised at maturity of the hedged item.

From the date the hedging instrument expires, or is sold, terminated, or exercised, the accounting of the hedging relationship also ends. The same applies if there is no longer a hedged item within the definition of IFRS 9.

i) Provisions

Pension obligations
The Telefónica Deutschland Group's obligations under defined benefit pension plans are determined using the projected unit credit method and are recognised as personnel expenses unless otherwise stated below.

The Telefónica Deutschland Group determines the net interest expense recognised in the financial result (net interest income) by multiplying the net defined benefit liability (asset) at the beginning of the period with the interest rate used to discount the defined benefit obligation at the beginning of the period.

The discount rate is determined using market yields at the end of the reporting period on fixed-interest high-quality corporate bonds.

The net defined benefit liability (asset) is determined at every reporting date on the basis of an actuary report based on assumptions that are explained below. If the plan assets less the defined benefit obligation result in a surplus, then the level of the reported net defined benefit asset is limited to the present value of economic benefits associated with the plan asset surplus in the form of refunds from the plan or on the basis of reduced future contributions. In addition, in the event of a surplus of the plan, the remeasurement component includes the change in the net defined benefit asset from the application of the asset ceiling, to the extent not taken into account in the net interest component.

Assets incurred by the Telefónica Deutschland Group to meet its pension obligations, which do not qualify as plan assets in accordance with IAS 19, are reported under other financial assets.

As part of the determination of the present value of economic benefits associated with the plan asset surplus, any existing minimum funding requirements are taken into account.

The remeasurement component includes, on the one hand, the actuarial gains and losses from the valuation of the defined benefit obligation and, on the other hand, the difference between the actual return on plan assets and the amounts contained in the net interest on net defined benefit liability (assets).

The company recognises all remeasurement effects in other comprehensive income, whereas the remaining components of the net pension expense (service cost and net interest) are recognised in the Consolidated Income Statement.

In the case of defined contribution plans, the relevant company pays contributions to special purpose pension institutions that are recognised in personnel expenses.

Other provisions including termination benefits
Provisions are recognised when the Telefónica Deutschland Group has a present (legal or constructive) obligation, as a result of a past event that can be estimated reliably and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. If the effect of the time value of money is material, provisions are discounted and the corresponding increase

in the provision due to the passage of time is recognised as interest expense. For the purpose of discounting, the Group applies non-risk market interest rates before tax which are matched to the duration. This does not apply to other long-term employee benefits (partial retirement obligations), for which the discount rate is determined on the same basis used for the measurement of pension obligations. Potential risks are fully taken into account in determining the settlement amount. If the Telefónica Deutschland Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset, but only if the reimbursement is virtually certain. The expense relating to any provision is presented, if applicable, net of any reimbursement, in the Consolidated Income Statement.

Other provisions also include partial retirement obligations, to which the block model applies. Under this model, an outstanding settlement amount is incurred on the part of the employer during the employment phase that equates to the as yet uncompensated portion of work. After the end of the employment phase and during the reporting periods of the second block of the model (time-off phase), in which the employee receives part-time consideration without performing work, the liability is amortised accordingly.

Top-up amounts are accumulated in the amount of the present value of all future payments over a certain time period. The period over which the top-ups are earned extends to the end of the employment phase for all payments. The provision for partial retirement is allocated to other long-term employee benefits.

Provisions for death benefit obligations are recognised on the basis of actuarial reports based on the same parameters as those for pension obligations.

Provisions for restructuring measures, including termination benefits, are recognised if a detailed formal plan for the measures to be taken is available, has been approved by the responsible management bodies and a justified expectation has been raised in those affected that the restructuring measures will be implemented. This is done by beginning the implementation of the measures or communicating the essential elements of the program to those affected.

The provisions for restructuring include only those expenses necessary and directly attributable to the respective measures.

Provisions for the costs of decommissioning and retirement are recognised if the Telefónica Deutschland Group has a legal or constructive obligation to carry out the measures.

Asset retirement obligation
Dismantling obligations arise from the contractual obligation to return the leased property in the condition in which it was when the contract commenced. Since the costs for the future dismantling have not yet been determined at the time the contract is concluded, these costs are estimated. The estimated costs are recognised as an asset and a provision.

The estimated costs of dismantling the network as well as branches and office locations, and interest rate movements are evaluated annually.

j) Income and expenses

Income and expenses are recognised in the Consolidated Income Statement in accordance with the accrual method (i.e. when the respective performance obligation has been met), irrespective of whether payment has actually been received or paid.

k) Revenues from contracts with customers

The Telefónica Deutschland Group mainly generates revenues from service contracts and sales of mobile devices.

In accordance with IFRS 15, revenue is recognised in an amount that reflects the consideration for the performance obligations. To implement this principle, a five-step model is used to determine the amount and timing of sales:

- Identification of the contract,
- Identification of the distinct performance obligations,
- Determination of the transaction price,
- Allocation of the transaction price,
- Revenue recognition with satisfaction of the performance obligation

Revenues from service and multi-component contracts
The Telefónica Deutschland Group provides both mobile and fixed-line services that are satisfied over a specified period of time. The progress of the performance obligation is determined using output-based methods. Applying output-based methods, revenue is recognised on the basis of the value of services transferred to date relative to the remaining services promised under the contract. Accordingly, unsteady discounts on this service are recognised over the term of the contract on a straight-line basis.

In addition to pure service contracts, the Telefónica Deutschland Group offers its customers products under multi-component contracts. In particular, discounts are granted on mobile services if a mobile device is purchased together with the mobile services. There is no discount on the mobile device.

The discounts are allocated, whereby all the contractual components which affect the transaction price of a contract are considered when calculating the allocation factor.

Connection fees to be paid by the end customer are included in the allocation of contractual components as part of the overall assessment and are recognised as revenue accordingly over the underlying contract term. Discounts granted for the simultaneous usage of a mobile contract and a DSL contract are reported as a reduction of mobile service revenue and fixed line/DSL revenue based on the relative stand-alone selling price of the underlying tariffs.

In determining the date of satisfaction of the performance obligations (e.g. in the case of mobile device sales), the transfer of control to the end customer was defined as the relevant assessment criterion.

When determining the transaction price, significant financing components must be taken into account. In accordance with the Standard, the Telefónica Deutschland Group does not consider these financing components because the analysis of the underlying contracts showed that they are insignificant.

In accordance with IFRS 15, it is generally possible to apply the accounting rules to a portfolio of similarly structured contracts if no material effects are expected compared with the individual contract consideration. The Telefónica Deutschland Group analysed the existing contracts and aggregated them into portfolios. The Group applies the sales regulations at the level of these defined portfolios.

<u>Capitalisation of costs of obtaining a contract</u>
The Telefónica Deutschland Group pays commissions to dealers and agents for the acquisition of customers. These costs are capitalised as costs of obtaining a contract if they are incurred in connection with the obtaining of a contract and can be directly allocated to a customer.

Amortisation will depend on how the performance obligations to which the costs relate are transferred to the customer under the relevant contract. Under this method, the costs of obtaining a contract will be recognised in Consolidated Income Statement on a straight-line basis over the underlying amortisation period.

Within the capitalisation of costs of obtaining a contract, the Telefónica Deutschland Group makes use of the practical expedient defined in the standard and only capitalises costs of obtaining a contract with an underlying amortisation period of more than one year. With an amortisation period of up to one year, the costs are expensed as incurred.

In addition to the capitalisation of costs of obtaining a contract, the standard also regulates the capitalisation of costs to fulfil a contract. The analysis of the underlying contracts showed that there are no costs to fulfil a contract that the Telefónica Deutschland Group is required to report in the Consolidated Statement of Financial Position.

<u>Accounting for contract modifications</u>
According to IFRS 15, there are more complex requirements with regard to the reporting of contract modifications compared to the regulations contained in IAS 18. In some cases, contract modifications are accounted for prospectively, forming a separate contract. In other cases, the contract modifications result in a modification of the existing contract. As a result, various cumulated income adjustments may occur.

<u>Principal versus agent considerations</u>
According to IFRS 15, the assessment whether the Telefónica Deutschland Group is the principal or the agent is based on whether the Group has control of particular goods or services before they are transferred to the customer.

l) Income tax

Income taxes include both current and deferred taxes. Current and deferred taxes are recognised in the Consolidated Income Statement unless they relate to business combinations or items directly recognised in equity or in other comprehensive income. To the extent that deferred taxes relate to items recognised directly in equity or in other comprehensive income, these are also recognised in equity or in other comprehensive income.

Current tax assets and liabilities for the current period and prior periods are measured at the amount expected to be recovered from, or paid to, the tax authorities. To calculate the amount, tax rates and tax laws applicable or enacted on the reporting date are used.

Deductible temporary differences and tax losses carried forward result in deferred tax assets in the Consolidated Statement of Financial Position. Taxable temporary differences give rise to deferred tax liabilities in the Consolidated Statement of Financial Position. Temporary differences arise due to the difference between the tax bases of the assets and debts and their respective carrying amounts.

The Telefónica Deutschland Group determines deferred tax assets and liabilities by applying the tax rates that will be effective when the corresponding asset is received or the liability is settled. Tax rates and tax laws that are enacted (or substantively enacted) at the reporting date are used.

Deferred tax assets and liabilities are not discounted to present value and are classified as non-current, irrespective of the date of their reversal.

The carrying amount of deferred tax assets is reviewed at each reporting date and recognised to the extent that it is probable that a sufficient taxable income will be available to utilise the deferred tax asset in the future. Unrecognised deferred tax assets are included in this review.

Deferred tax liabilities on investments in subsidiaries, branches, associates and joint operations are not recognised if the parent company is in a position to control the timing of the reversal and if the reversal is unlikely to take place in the foreseeable future. Cases in which no deferred tax liabilities were recognised for subsidiaries are of minor significance in terms of amount.

Deferred tax assets and liabilities arising from the initial recognition of the purchase price allocation of business combinations impact the amount of goodwill. However, subsequent changes in tax assets acquired in a business combination are recognised as an adjustment to profit or loss.

Deferred tax assets and liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same tax authority.

Uncertain income tax items are accounted at the estimated amount of corresponding tax payments. The adoption of IFRIC 23 does not result in any material impact on the consolidated financial statements as of 31 December 2019.

m) Leases

Accounting as lessee

According to the regulations of IFRS 16, all contracts identified as leases must be accounted for by the lessee in such a way that a right-of-use asset and a lease liability are to be capitalised or carried as liabilities.

A lease is defined as an arrangement whereby an identified asset is placed at the disposal of the lessee in exchange for consideration for a specified period of time and the lessee has the right during this period to obtain substantially all the benefits of its use and to determine the nature and purpose of its use.

Using the interest rate implicit in the lease, the present value of the lease payments that are not paid is to be recognised as a lease liability. If the implicit interest rate cannot be readily determined from a contract, the risk- and maturity-equivalent incremental borrowing rate is applied. The present value of the liabilities is determined using the effective interest method. In addition to fixed payments, lease liabilities also include variable index-linked or interest-linked payments, residual value guarantees issued by the lessee.

The initial value of the liability determines the acquisition cost of the right-of-use asset. The acquired right-of-use asset must be capitalised as an asset. This is shown as a separate item in the balance sheet. The lease liability and the right-of-use asset are reduced by lease payments made or depreciation over the lease term. The right-of-use asset is depreciated on a straight-line basis over the shorter of the lease term and the expected useful life of the right-of-use asset.

If the lease liability is revalued due to a contract modification or a change in the estimates, the corresponding adjustment is recorded in the right-of-use asset. If the right-of-use asset has already been fully depreciated, it is recognised in the income statement.

If there are indications of impairment of the right-of-use asset, an impairment test is carried out in accordance with IAS 36.

The Telefónica Deutschland Group does not apply the regulations of IFRS 16 to contracts with intangible assets. The Telefónica Deutschland Group has not provided any residual value guarantees as lessee.

In accordance with IFRS 16.5, it is possible to deviate from the accounting treatment described above for leased assets of low value or for contracts with a short term (of 12 months or less). The Telefónica Deutschland Group makes use of this recognition exemption whereby the recognition exemption for leased assets of low value is only applied to operating and office equipment. Neither a lease liability nor a right-of-use asset is recognised for these leases. The resulting expenses are therefore recognised directly in the income statement.

Accounting as lessor:
As a lessor, the Telefónica Deutschland Group classifies its leasing agreements as either operating leases or finance leases in accordance with IFRS 16.

A lease is classified as a finance lease if it transfers substantially all risks and rewards incidental to ownership. If this is not the case, the lease is classified as an operating lease.

If the sublease is classified as a finance lease as defined by IFRS 16.61 et seq., the right to use the leased asset is derecognised and a receivable is recognised in the amount of the net investment in the lease. The corresponding payments by the lessee are divided into interest and principal payments using the effective interest method. The interest rate of the head lease is used for discounting lease payments from subleases that have not yet been received.

If a sublease is classified as an operating lease, the right-of-use asset from the head lease continues to be recognised in the balance sheet and the lease payments received from the sublease agreement are recognised in profit or loss over the term of the agreement.

General principles of IFRS 16:
The assessment of the term of the lease in which the Telefónica Deutschland Group acts as lessee or lessor is based on the non-cancellable period of a lease. If the lease agreement contains extension or termination options for the lessee or the lessor, these are taken into account if their exercise or non-exercise can be classified as sufficiently certain as of the balance sheet date, whereby termination options of the lessor are always regarded as not exercised. All relevant facts and circumstances (including foreseeable changes due to technology, regulation, competition, business model) are taken into account.

If a lease contains various contractual components, the services are generally divided into lease and non-lease components. The valuation of the lease therefore does not include any service portions.

n) Use of estimates, assumptions and judgements

The key assumptions concerning the future and other relevant sources of uncertainty in estimates at the reporting date that could have a significant impact on the Consolidated Financial Statements within the next financial year are discussed below. The estimates and associated assumptions are based on historical experience as well as other factors considered to be relevant.

A significant change in the facts and circumstances on which these estimates and related judgements are based could have a material impact on the Telefónica Deutschland Group's net assets, financial position and results of operations.

Unforeseeable development outside management's control may cause actual amounts to differ from the original estimates. In this case the underlying assumptions and, if necessary, the carrying amounts of the pertinent assets and liabilities will be adjusted accordingly.

Changes in estimates are recognised in the period in which they occur, and also in subsequent periods if the changes affect both the reporting period and the subsequent periods.

Pensions / defined benefit plans
The determination of the present value of defined benefit obligations involves the application of actuarial assumptions.

To determine the interest rate for the defined benefit pension plans, the "bond universe" is first established on the basis of the AA corporate bonds available on the reporting date. On the basis of these bonds a yield curve is calculated. Then a uniform average interest rate is calculated with a cash flow that corresponds to the duration of the Telefónica Deutschland Group's portfolio. This latter interest rate is the actuarial discount rate used.

The determination of the expected increase in pensions is aligned with the long-term inflation expectations in the euro area.

The assumption on the fluctuation of the respective employees is based on historical experience. The mortality rate underlying the calculation of the present value of the defined benefit obligation is based on official statistics and mortality tables.

Property, plant and equipment, intangible assets and goodwill
Accounting for investments in property, plant and equipment and intangible assets involves the use of estimates to determine the useful life for depreciation and amortisation purposes and to assess the fair value of assets acquired in a business combination at the acquisition date.

Determining the useful life requires making estimates in connection with future technological developments and alternative uses for assets. There is a significant element of judgement involved in making technological development assumptions, particularly in connection with the timing and scope of future technological advances.

The Telefónica Deutschland Group regularly evaluates the recoverable amount of its cash-generating unit to identify potential impairment of assets or goodwill. Determining the recoverable amount of the cash-generating unit to which goodwill is allocated also entails the use of assumptions and estimates and requires a significant element of judgement. The fair value is determined based on the market capitalisation of Telefónica Deutschland Holding AG as of the reporting date.

Leases
In accounting for leases, the determination of the lease term, whether or not a renewal, termination or purchase option is exercised and the determination of the relevant incremental borrowing rate are subject to certain discretionary decisions and thus involve estimation uncertainties. The Telefónica Deutschland Group takes various parameters into account in the incremental borrowing rate used, such as maturity, type of contract and the economic environment.

The basis for the assessment of the term of the contract is the non-cancellable lease term of a lease. Extension and termination options to which the Telefónica Deutschland Group is entitled as a lessee are taken into account in the lease term if it is reasonably certain to exercise the option at the beginning of the lease and they can be exercised within a forecast period of three years.

Deferred income taxes
The Telefónica Deutschland Group assesses the recoverability of deferred tax assets based on estimates of future results. The ability to recover these taxes depends ultimately on the Telefónica Deutschland Group's ability to generate taxable income over the period for which the deferred tax assets remain deductible. This analysis is based on the estimated schedule for reversing deferred tax liabilities, as well as estimates of the taxable income, which are based on internal projections and updated to reflect the latest trends and estimates. In the past, time horizons of five to seven years have been used to measure loss carried forward and temporary differences. The time horizons used have not changed since the previous year.

The recognition of tax assets and liabilities depends on a series of factors, including estimates with respect to timing and the realisation of deferred tax assets and the projected tax payment schedule. Actual income tax receipts and payments of the Telefónica Deutschland Group could differ from the estimates made by the Telefónica Deutschland Group as a result of changes in tax legislation or unforeseen transactions that could affect the tax balance.

Provisions
Both the recognition and the valuation of provisions involve judgements to a high extent. The amount of the provision is determined based on the best estimate of the outflow of resources required to settle the obligation, bearing in mind all available information at the reporting date, including the opinions of independent experts such as legal counsel or consultants.

Given uncertainties inherent in the estimates used to determine the amount of provisions, the actual outflows of resources may differ from the amounts recognised originally on the basis of the estimates.

Termination benefits
If employees are offered voluntary severance, the benefits are measured on the basis of the number of employees expected to accept the offer. These benefits are recognised at the amount of the obligation regardless of its term.

The amount for termination benefits is determined on the basis of various assumptions, which also require judgements and estimates and can therefore entail uncertainties. These primarily include the assumed salary, length of employment and gardening leave period until the date of departure.

Revenue recognition

Determining the stand-alone selling price of the performance obligation mobile service tariff postpaid

Every mobile service tariff postpaid is classified as a distinct performance obligation as part of the identification of the distinct performance obligations in the five-step model of IFRS 15. To determine the stand-alone selling price of this performance obligation, the transaction price specified on the invoice is used first. Taking into account the average discounts granted to customers of the Telefónica Deutschland Group, this transaction price is then reduced by a lump sum rate in the second step.

The reduced transaction price corresponds to the stand-alone selling price of the above-mentioned performance obligation.

Determination of the average term of the lease

The Telefónica Deutschland Group offers customers the option of concluding contracts with a fixed minimum term. When concluding such a term contract, both Telefónica and the customer are initially bound by the respective contract term. However, Telefónica grants the customer the right to extend the contract prematurely. The contract extensions regularly exercised by customers within this framework lead to an overall reduction in the legally enforceable minimum contract term.

In the portfolio approach, the term is determined on the basis of historical values and is taken into account accordingly when determining the transaction price.

Potential changes in estimates could lead to changes in both the amount and timing of future recognition of revenues.

Joint operations

TCHIBO Mobilfunk Beteiligungs-GmbH and TCHIBO Mobilfunk GmbH & Co. KG were classified as joint operations under application of IFRS 11.17, taking into account the specific facts and circumstances. In particular, the fact that the contractual partners have rights to the entire production output generated by both companies supports our assessment that the arrangement constitutes joint operations.

Contingent Assets and Liabilities

Within the scope of determining the contingent assets and liabilities, (see Note 17 Contingent Assets and Liabilities), estimates, assumptions and discretionary decisions are also used.

These relate, inter alia, to risks from the assertion of patent infringements and participations in judicial and extra-judicial proceedings within the scope of ordinary business.

Cash and cash equivalents

In the opinion of the Management Board, Telfisa Global B.V. maintains sufficient financial resources to meet its obligations, in particular those towards the Telefónica Deutschland Group, at all times.

o) Consolidation methods

The consolidation methods applied are as follows:

— Full consolidation method for companies where the Telefónica Deutschland Group has control. Control is assumed if the Telefónica Deutschland Group has power over an investee and is exposed to variable returns or has rights to these returns. In addition, the ability must exist to use its power over the investee to affect the returns.

— Proportionate consolidation of the attributable assets, liabilities, expenses and income for companies jointly controlled with third parties (joint operations), so that the corresponding share of total assets, liabilities, expenses, income and cash flows of these companies is integrated in the corresponding items in the Consolidated Financial Statements.

All material receivables and liabilities and transactions between the consolidated companies were eliminated in consolidation. The returns generated in transactions involving goods that may be capitalised or services by subsidiaries with other Telefónica Deutschland Group companies were also eliminated in consolidation.

The financial statements of the consolidated companies are prepared using the same accounting policies and have the same financial year-end as the parent company's individual financial statements. In the case of Group companies whose accounting and valuation methods differ from those of the Telefónica Deutschland Group, adjustments are made in consolidation in order to present the Consolidated Financial Statements on a consistent basis.

The Consolidated Income Statement and Consolidated Statement of Cash Flows include the income and expenses as well as the cash flows of companies that are no longer in the Telefónica Deutschland Group up to the date on which the related investment was sold or the company was liquidated.

Income and expenses as well as the cash flows of new Group companies are included from the date on which the investment was acquired or the company was established until the end of the year.

p) Standards and IFRIC interpretations issued and effective as of 31 December 2019

IFRS 16: Leases – Effects of first-time application
On 13 January 2016, the IASB issued IFRS 16 – Leases, which replaced IAS 17 and other existing interpretations. The standard was adopted into European law on 9 November 2017. Application of the standard is mandatory for financial years beginning on or after 1 January 2019.

Under IFRS 16, all contracts identified as leases must generally be accounted for by the lessee in such a way that a right-of-use asset and a lease liability are to be capitalised or carried as liabilities. The distinction previously made under IAS 17 between finance leases and operating leases therefore no longer applies to the lessee side. The lease liability is updated using the effective interest method. As a rule, this method and the resulting interest effects lead to higher expenses at inception of the lease contract. The regulations on the lessor side, on the other hand, are similar to the previous regulations of IAS 17.

The standard gives the user the choice between the following transitional provisions for the time of the first-time application:

— Application retrospectively to all leases with adjustment of previous years (fully retrospective approach)

— Application to all leases from the introduction of the standard (modified retrospective approach)

Since 1 January 2019, the Telefónica Deutschland Group has conducted its accounting in accordance with the regulations of IFRS 16 and has decided to apply the modified retrospective approach. The cumulative effect of first-time adoption will be recognised as an adjustment to the opening balance sheet value in retained earnings in the 2019 reporting period.

The Telefónica Deutschland Group has not adjusted the comparative figures for the same period last year. The lease liabilities were discounted on initial recognition as of 1 January 2019 using the term-equivalent incremental borrowing rate. The weighted average interest rate was 0.5%.

IFRS 16.C8 provides an option for recognition of right-of-use assets as of 1 January 2019 for leases previously classified as an operating lease, which can be exercised on a lease-by-lease basis. The Telefónica Deutschland Group has applied the alternative in IFRS 16. C8 (b) (ii) for the majority of its contracts, so that the right-of-use assets are measured in the amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments. In the transition phase, valuation excludes the initial direct costs. As of 1 January 2019 existing finance leases for which the Telefónica Deutschland Group is the lessee are recognised at the carrying amount determined as of 31 December 2018.

For the Telefónica Deutschland Group as lessor, the transition to IFRS 16 within the framework of sublease does not have any significant effects. However, there is an exception for subleases of shop space, which were previously accounted for as operating leases. In accordance with IFRS 16, the majority of these subleases are classified as finance leases. The corresponding receivables in the amount of the net investment in the lease are now recognised under other financial assets.

For the opening balance as of 1 January 2019, the practical expedient of IFRS 16.C3 was applied with regard to the classification of leases. This means that at the time of first-time application, contracts were not reassessed with regard to whether they constituted or contained a lease. Instead, IFRS 16 was applied to contracts that were previously identified as leases under IAS 17 and IFRIC 4. IFRS 16 was not applied to contracts not previously classified as containing a lease according to IAS 17 and IFRIC 4. In addition, the Telefónica Deutschland Group has made use of the option to account for leases ending on 31 December 2019 at the latest as short-term leases.

The first-time application of IFRS 16 resulted in the following main effects in addition to the initial recognition of right-of-use assets and lease liabilities:

— Depreciation on right-of-use assets and interest expenses on liabilities replace the leasing expenses in the income statement. This had a positive effect on the operating income before depreciation and amortisation (OIBDA) in the first half of 2019. By contrast, the effect on operating income and the financial result was only slightly negative in financial year 2019.

— As of 1 January 2019, provisions for onerous operating lease contracts originally recognised applying IAS 17 for which a right-of-use asset is recognised under IFRS 16 were recognised directly in equity. An allowance according to IAS 36 was not necessary.

— Payments for the principal portion of the lease liability are shown within cash flow from financing activities with a corresponding increase in cash flow from operating activities.

First-time application of IFRS 16 has had the following quantitative effects on the Consolidated Statements of Financial Position as of 31 December 2018 and 1 January 2019, respectively:

(in EUR million)	31 December 2018	Adjustment due to IFRS 16	**1 January 2019**
Non-current assets			
Property, plant and equipment	3,793	(76)	3,717
Right-of-use assets	–	2,889	2,889
Other financial assets	101	13	115
Other non-financial assets	206	(19)	187
Current assets			
Other financial assets	9	4	14
Other non-financial assets	413	(34)	379
Equity			
Retained earnings	(205)	17	(189)
Non-current liabilities			
Interest-bearing debt	2,004	(22)	1,981
Lease liabilities	–	2,258	2,258
Provisions	526	(11)	514
Deferred income	176	–	176
Deferred tax liabilities	177	8	185
Current liabilities			
Interest-bearing debt	145	(8)	137
Lease liabilities	–	551	551
Provisions	188	(14)	174

The reconciliation of lease liabilities according to IAS 17 as of 31 December 2018 was performed on 1 January 2019 as follows:

(in EUR million)	
Obligations arising from operating leases recognised as of 31 December 2018	**2,579**
(Less): short-term leases	(22)
(Less): low value leases	(4)
Add: Leases without termination option	86
Add: Differences arising from inclusion of extension options (and/or non-exercised termination options)	247
Add: Onerous operating leases	29
(Less) Obligations for which the contract term has not yet commenced	(58)
(Less): Other	(15)
Gross lease liabilities as of 1 January 2019	**2,841**
(Less): Discounting	(62)
Discounted using incremental borrowing rate of at the date of initial application of IFRS 16	**2,779**
Add: Finance lease liabilities recognised as of 31 December 2018	30
Lease liabilities recognised as of 1 January 2019	**2,810**

q) New standards and IFRIC interpretations issued, but not yet effective as of 31 December 2019

At the time of publication of the Consolidated Financial Statements, the following standards and interpretations were published, but their application was not yet mandatory.

Standards, interpretations and amendments		Mandatory application for financial years beginning on or after
Various	Amendments to References to the Conceptual Framework in IFRS Standards	1 January 2020
Amendments to IFRS 3	Definition of business	1 January 2020[1]
Amendments to IAS 1 and IAS 8	Definition of material	1 January 2020
IFRS 17	Insurance Contracts	1 January 2021[1]
Changes to IFRS 9, IAS 39 and IFRS 7	Interest rate benchmark reform (IBOR reform)	1 January 2020
Changes to IAS 1	Classification of liabilities as current or non-current	1 January 2022[1]

[1] Endorsement by EU still outstanding, information for first-time application under IASB.

The Telefónica Deutschland Group expects to adopt all required amendments. Except as disclosed otherwise, the Group does not expect the new and revised standards to have a material impact on the net assets, financial position and results of operations, as a result of the application of future standards, interpretations and amendments.

4. Selected Notes to the Consolidated Statement of Financial Position

4.1. Goodwill

(in EUR million)	2019	2018
Carrying amount of goodwill at 1 January	**1,960**	**1,960**
Additions due to acquisition	4	–
Carrying amount of goodwill at 31 December	**1,964**	**1,960**

The increase of EUR 4 million results from the acquisition of a company. For further information, please refer to Note 6 Business combinations.

The impairment test carried out at the level of the Telecommunications cash-generating unit did not result in an impairment for goodwill at the end of 2019, as the recoverable amount of EUR 7,607 million (2018: EUR 10,088 million), based on fair value less costs to sell, was higher than the carrying amount of the cash-generating unit. The Group again did not recognise an impairment charge in financial year 2018.

The impairment test is described in Note 3 Accounting Policies.

4.2. Other intangible assets

(in EUR million)	Service concession arrangements and licences	Customer bases	Software	Thereof own work capitalised	Brand names	Others	Construction in progress/ prepayments on intangible assets	Other intangible assets
Cost								
As of 1 January 2018	**11,574**	**3,076**	**1,379**	**173**	**101**	**44**	**342**	**16,516**
Additions	–	–	263	30	–	0	6	269
Disposals	–	–	(65)	(1)	–	(2)	–	(66)
Reclassifications	–	–	4	(0)	–	–	(3)	–
As of 31 December 2018	**11,574**	**3,076**	**1,582**	**201**	**101**	**42**	**344**	**16,719**
As of 1 January 2019	**11,574**	**3,076**	**1,582**	**201**	**101**	**42**	**344**	**16,719**
Additions	–	9	234	28	–	0	1,428	1,672
Disposals	(0)	(98)	(49)	–	–	(1)	–	(147)
Reclassifications	–	–	2	–	–	–	(2)	–
As of 31 December 2019	**11,574**	**2,988**	**1,769**	**229**	**101**	**42**	**1,770**	**18,244**
Accumulated depreciation								
As of 1 January 2018	**(8,879)**	**(1,190)**	**(875)**	**(121)**	**(54)**	**(33)**	**–**	**(11,030)**
Additions	(412)	(328)	(278)	(26)	(3)	(7)	–	(1,029)
Disposals	–	–	65	1	–	2	–	66
As of 31 December 2018	**(9,291)**	**(1,518)**	**(1,089)**	**(146)**	**(57)**	**(38)**	**–**	**(11,993)**
As of 1 January 2019	**(9,291)**	**(1,518)**	**(1,089)**	**(146)**	**(57)**	**(38)**	**–**	**(11,993)**
Additions	(412)	(324)	(272)	(29)	(3)	(3)	–	(1,014)
Disposals	0	98	49	–	–	1	–	147
As of 31 December 2019	**(9,702)**	**(1,745)**	**(1,313)**	**(174)**	**(59)**	**(41)**	**–**	**(12,860)**
Net book value								
As of 31 December 2018	**2,283**	**1,557**	**493**	**56**	**45**	**4**	**344**	**4,727**
As of 31 December 2019	**1,872**	**1,243**	**456**	**54**	**42**	**1**	**1,770**	**5,384**

Licences

As of 31 December 2019, licences consist primarily of the licences listed below:

In August 2000, Telefónica Germany GmbH & Co. OHG acquired a UMTS licence (3G) that will expire on 31 December 2020. In May 2010, Telefónica Germany GmbH & Co. OHG acquired frequency usage rights in the 2.0 GHz band that will expire in December 2025. As part of the E-Plus Group acquisition on 1 October 2014, another UMTS licence, which will expire on 31 December 2020, as well as additional frequency usage rights in the 2.0 GHz band that will expire in December 2025 were acquired. The carrying amount as of 31 December 2019 is EUR 233 million (2018: EUR 439 million). The 3G licences are amortised on a straight-line basis over the respective useful life. The remaining useful lives range from one to six years.

In May 2010, Telefónica Germany GmbH & Co. OHG also acquired frequency usage rights used for LTE (4G), among others, that will expire in 2025. With the acquisition of the E-Plus Group on 1 October 2014, additional frequency usage rights were acquired by the Telefónica Deutschland Group that can be used for LTE and run until December 2025. In June 2015, Telefónica Germany GmbH & Co. OHG successfully bid for two paired blocks in the 1.8 GHz range, which have been used from 1 January 2017 and are limited until December 2033. Furthermore, there are LTE licences with terms until December 2025/December 2033. The carrying amount of the frequency usage rights as of 31 December 2019 is EUR 1,321 million (2018: EUR 1,504 million). The 4G licences are amortised on a straight-line basis over the respective useful life. The remaining useful lives are six to 14 years.

In June 2015, Telefónica Germany GmbH & Co. OHG successfully bid for two paired blocks in the 900 MHz range (2G), which will be used from 1 January 2017 and have a term until December 2033. The carrying amount of the frequency usage rights as of 31 December 2019 is EUR 317 million (2018: EUR 340 million). The licences are amortised on a straight-line basis over their useful lives. The remaining useful life is 14 years.

Customer bases
The customer bases are primarily a result of the acquisition of the E-Plus Group by Telefónica Deutschland. The customer bases acquired in the E-Plus acquisition on 1 October 2014 are amortised mainly over their remaining useful lives of four to 15 years.

Software
Software mainly includes developments and licences for IT and office applications. In the financial year 2019, additions mainly related to CRM and billing systems as well as enterprise resource planning systems. Software disposals primarily relate to software that reached the end of its useful life.

Brand names
Brand names acquired in the E-Plus Group acquisition on 1 October 2014 are amortised over a remaining useful life of 15 years.

Construction in progress/ prepayments on intangible assets
In June 2019, the Telefónica Deutschland Group successfully bid for abstract frequency blocks in the 2 GHz and 3.6 GHz ranges. The German Federal Network Agency assigned the frequency blocks in August 2019. The acquisition costs for the frequencies amount to EUR 1,425 million. 2x 5 MHz capacity each of the 2 GHz spectrum will be available from 2021 and 2026. The frequencies in the 3.6 GHz range will be made available gradually by 2022 at the latest. The use of all frequencies is limited until the end of 2040. In addition, the 700 MHz frequencies (EUR 337 million) from the auction in the financial year 2015 are still reported as construction in progress as they are not yet in fully operational state.

4.3. Property, plant and equipment

(in EUR million)	Land and buildings	Plant and machinery	Furniture, office equipment, tools and other items	PP&E in progress	Property, plant and equipment
Cost					
As of 1 January 2018	**722**	**8,809**	**260**	**146**	**9,938**
Additions	5	607	33	51	697
Disposals	(99)	(313)	(25)	–	(438)
Reclassifications	5	69	12	(86)	(1)
Other	6	8	–	–	14
As of 31 December 2018	**639**	**9,180**	**280**	**112**	**10,210**
Adjustment due to initial application of IFRS 16	**(97)**	**(361)**	**(38)**	**–**	**(496)**
As of 1 January 2019	**542**	**8,819**	**242**	**112**	**9,715**
Additions	5	764	19	19	807
Disposals	(177)	(515)	(17)	–	(709)
Reclassifications	1	57	1	(58)	1
Other	(1)	79	–	–	78
As of 31 December 2019	**370**	**9,204**	**245**	**73**	**9,891**
Accumulated depreciation					
As of 1 January 2018	**(607)**	**(5,127)**	**(163)**	**–**	**(5,896)**
Additions	(52)	(865)	(41)	–	(959)
Disposals	99	313	25	–	438
Reclassifications	(0)	0	–	–	–
As of 31 December 2018	**(561)**	**(5,678)**	**(178)**	**–**	**(6,417)**
Adjustment due to initial application of IFRS 16	**91**	**318**	**11**	**–**	**420**
As of 1 January 2019	**(470)**	**(5,360)**	**(167)**	**–**	**(5,998)**
Additions	(31)	(790)	(31)	–	(851)
Disposals	177	513	17	–	707
Reclassifications	0	(0)	–	–	–
As of 31 December 2019	**(323)**	**(5,638)**	**(181)**	**–**	**(6,142)**
Net book value					
As of 31 December 2018	**78**	**3,502**	**101**	**112**	**3,793**
As of 1 January 2019 - restated due to first-time adoption of IFRS 16	**72**	**3,459**	**75**	**112**	**3,717**
As of 31 December 2019	**47**	**3,566**	**64**	**73**	**3,750**

The addition to property, plant and equipment of assets related to decommissioning and dismantling or retirement obligations amounted to EUR 80 million (2018: EUR 19 million), which is mainly due to the development of interest rates, higher cost estimates and increases in the volume structure.

Construction in progress resulted mainly from the expansion of the network.

4.4. Right-of-use assets

(in EUR million)	Land and buildings	Plant and machinery	Other	Right-of-use assets
Cost				
As of 31 December 2018	–	–	–	–
Adjustment due to initial application of IFRS 16	**994**	**1,748**	**147**	**2,889**
As of 1 January 2019	**994**	**1,748**	**147**	**2,889**
Additions	77	118	34	230
Disposals	(36)	(41)	(3)	(79)
Reclassifications	–	(1)	–	(1)
As of 31 December 2019	**1,035**	**1,825**	**179**	**3,039**
Accumulated depreciation				
As of 31 December 2018	–	–	–	–
As of 1 January 2019	–	–	–	–
Additions	(185)	(325)	(40)	(550)
Disposals	5	5	0	10
As of 31 December 2019	**(181)**	**(320)**	**(40)**	**(540)**
Net book value				
As of 31 December 2018	–	–	–	–
As of 1 January 2019 - restated due to first-time adoption of IFRS 16	**994**	**1,748**	**147**	**2,889**
As of 31 December 2019	**855**	**1,505**	**139**	**2,499**

As of 31 December 2019, the Telefónica Deutschland Group capitalised right-of-use assets for land and buildings mainly for roof areas, office and shop areas.

Plant and machinery mainly includes right-of–use assets for mobile towers and dark fibre leased lines.

Lease agreements may contain extension and termination options and have individual terms and conditions, as these are negotiated with the individual lessors, especially in the case of mobile towers and roof locations.

The adjustment due to the first-time application of IFRS 16 includes, in addition to the initial recognition of the right–of-use assets, the finance leases existing as of 31 December 2018 in the amount of EUR 76 million.

4.5. Trade and other receivables

As of 31 December (in EUR million)	2019 Non-current	2019 Current	2018 Non-current	2018 Current
Trade receivables	104	1,316	70	1,268
Receivables from related parties (Note 12 Related Parties)	–	37	–	40
Other receivables	–	77	–	62
Loss allowance	–	(65)	–	(68)
Trade and other receivables	**104**	**1,366**	**70**	**1,301**

Current trade receivables, which are measured at fair value through other comprehensive income (including O_2 My Handy receivables), have a carrying amount of EUR 568 million (2018: EUR 682 million) and the non-current receivables amount to EUR 104 million (2018: EUR 70 million).

Trade receivables, which are measured at amortised cost, have a gross carrying amount of EUR 748 million (2018: EUR 586 million).

No separate loss allowances have been recorded for the category of receivables measured at fair value through other comprehensive income, as the credit default risk of EUR 94 million (2018: EUR 75 million) is implicitly included in the fair value. The loss allowance of EUR 65 million (2018: EUR 68 million) relate mainly to loss allowance in the amount of EUR 59 million (2018: EUR 63 million) for receivables at amortised cost. In order to measure the expected credit loss, trade receivables and contract assets were grouped into homogeneous customer segments. The allowance rate is calculated for each segment based on days past due and actual credit losses incurred in prior years. The value also reflects current and forward-looking information and analysis of the expected economic situation during the term of the financial assets from the point of view of the Group. Observable forward-looking information may include disposable income, gross domestic product and inflation indices.

The following table provides information on exposure to credit risk and on expected credit losses for trade receivables (excluding O_2 My Handy) per days past due as of 31 December 2019.

As of 31 December 2019 (in EUR million)	Gross carrying amount	Loss allowance	Average expected default rate
This presentation follows the simplified approach:			
Not due	841	14	1.7%
Overdue for 1-30 days	33	2	6.6%
Overdue for 31-60 days	6	1	21.2%
Overdue for 61-90 days	5	2	36.3%
Overdue for 91-180 days	13	7	57.9%
Overdue for 181-360 days	16	11	69.8%
Overdue for more than 360 days	31	22	70.4%
Total	**945**	**60**	

As of 31 December 2018 (in EUR million)	Gross carrying amount	Loss allowance	Average expected default rate
This presentation follows the simplified approach:			
Not due	708	8	1.1%
Overdue for 1-30 days	117	2	1.8%
Overdue for 31-60 days	13	2	11.4%
Overdue for 61-90 days	6	2	35.6%
Overdue for 91-180 days	70	8	12.0%
Overdue for 181-360 days	20	12	62.6%
Overdue for more than 360 days	37	30	80.0%
Total	**972**	**64**	

The gross carrying amount of EUR 945 million (2018: EUR 972 million) is composed of all trade receivables less O_2 My Handy receivables amounting to EUR 568 million (2018: 441 million), for which an impairment adjustment of EUR 93 million (2018: EUR 74 million) has been recorded.

Compared to the previous year, there were no significant changes in trade receivables in the reporting year, which would lead to a material change in loss allowances for the financial year 2019. However, there was a change in presentation in 2018 due to the adoption of IFRS 9.

When calculating the expected credit losses, a collection rate of 24% is taken into account in 2019 (2018: 23%).

For trade receivables with a contractual volume of EUR 58 million (2018: EUR 78 million), which were transferred to collection agencies during financial year 2019 and have not yet been paid, collection measures are still ongoing.

The breakdown of trade receivables is as follows:

As of 31 December		**2019**		2018
(in EUR million)	**Non-current**	**Current**	Non-current	Current
Trade receivables billed	104	802	70	779
Trade receivables unbilled	–	514	–	488
Trade receivables	**104**	**1,316**	**70**	**1,268**

The following table shows the development of the allowances for the years ending as of 31 December 2019 and 2018.

				2019
	Trade receivables measured at amortised cost		**Trade receivables measured at fair value through other comprehensive income**	
(in EUR million)	**Non-current**	**Current**	**Non-current**	**Current**
1 January 2019	**–**	**(68)**	**(13)**	**(63)**
Addition	–	(28)	–	(48)
Release	–	–	–	–
Utilisation	–	32	–	29
Reclassifications	–	–	(9)	9
31 December 2019	**–**	**(65)**	**(21)**	**(73)**

				2018
	Trade receivables measured at amortised cost		Trade receivables measured at fair value through other comprehensive income	
(in EUR million)	Non-current	Current	Non-current	Current
1 January 2018 (IAS 9)	**–**	**(89)**	**(7)**	**(55)**
Addition	–	(28)	–	(47)
Release	–	–	–	–
Utilisation	–	49	–	33
Reclassifications	–	–	(5)	5
31 December 2018	**–**	**(68)**	**(13)**	**(63)**

In 2019 and 2018, the Telefónica Deutschland Group sold instalment receivables in order to optimise the working capital and to access an alternative source of funding. The nominal value of transactions concluded in 2019 amounts to EUR 682 million (2018: EUR 632 million), and the carrying amount is EUR 677 million (2018: EUR 625 million). The buyers of the receivables take over part of the risk of these receivables. The receivables sold were fully derecognised at the time of sale, with the exception of the continuing involvement of EUR 117 million (2018: EUR 70 million). A liability of the same amount was recognised in the amount of the maximum remaining loss risk.

The continuing involvement results from guarantees granted. The utilisation is expected to result in a loss of EUR 6 million (2018: EUR 5 million).

There were no material impairments of other receivables as of 31 December 2019 and 2018.

4.6. Other financial assets

As of 31 December (in EUR million)	2019 Non-current	2019 Current	2018 Non-current	2018 Current
Investments in start-ups	1	–	1	–
Interest rate swaps	3	2	5	2
Reimbursement rights from insurance contracts	75	–	70	–
Silent factoring deposit	29	10	12	8
Deposits	0	–	0	–
Loans	15	–	14	0
Net investment in the lease	9	5	–	–
Other financial assets	**133**	**17**	**101**	**9**

Current other financial assets primarily include the current portion of the security deposit for silent factoring.

This silent factoring deposit was pledged as collateral to cover the maximum risk to be borne by the Telefónica Deutschland Group and the guarantee of receivables management (servicing) over the term of the sold receivables. The Telefónica Deutschland Group receives fixed interest on the deposit. In the event of default of the underlying receivables, a part of this receivable shall be reimbursed. The deposit provides security for the bank's losses on the sale of receivables.

The interest rate swap is used as a hedging instrument for the bond issued in 2014 (for further information see Note 4.11 Interest-bearing debt).

The reimbursement rights in 2019 arose to cover pension and partial benefit obligations but do not represent plan assets except for a surplus of EUR 7 million (2018: EUR 8 million) in accordance with IAS 19. The recognised fair values are based on the values received from the insurance company, which are based on the insurance company's internal calculation models.

As of 31 December 2019, loans mainly include a loan from the sale of shares in Shortcut I GmbH & Co. KG.

For further information on the investments in start-up companies, see Note 9 Further information on financial assets and financial liabilities.

The net investment in the lease results from leasing receivables from finance leases for subleases for shops and locations with cell sites. For further information on net investment in the lease, see Note 19 Leases.

With regard to other financial assets, there were no indications of material impairment as at 31 December 2019.

4.7. Other non-financial assets and other non-financial liabilities

Other non-financial assets were comprised as follows as at 31 December 2019:

As of 31 December (in EUR million)	2019 Non-current	2019 Current	2018 Non-current	2018 Current
Prepayments	95	73	99	68
Prepayments to related parties	–	1	–	0
Capitalised costs of obtaining contracts	122	360	103	326
Contract asset	3	21	4	19
Other tax receivables	–	0	–	0
Other non-financial assets	**220**	**455**	**206**	**413**

The prepayments mainly relate to prepayments for incidental rental costs for antenna sites, service and IT support agreements.

For prepayments to affiliated companies, please refer to Note 12 Related Parties.

The capitalised costs of obtaining contracts include costs for commissions that can be directly allocated to contracts with customers.

These are amortised on a straight-line basis over the underlying amortisation period in Consolidated Income Statement in the financial year 2019, depreciation and amortisation totalling EUR 461 million (2018: EUR 437 million) was recognised in this connection.

Other non-financial liabilities were comprised as follows as at 31 December 2019:

The contract asset contains contracts for which Telefónica Deutschland Group fulfilled its performance obligations by transferring mobile hardware and performing mobile services or fixed line/DSL services before consideration was paid or became due.

For contract assets, a loss allowance of EUR 1 million (2018: EUR 1 million) is already recognised directly in the fair value. Contract assets exist primarily with private customers.

As of 31 December (in EUR million)	**2019** **Current**	2018 Current
Payroll taxes and social security	9	10
Current tax payables for indirect taxes	93	22
Other current taxes	1	7
Other non-financial liabilities	**103**	**39**

4.8. Inventories

As of 31 December (in EUR million)	**2019**	2018
Merchandise	166	264
Allowances	(2)	(3)
Inventories	**165**	**261**

Inventories comprise smartphones and accessories in particular.

The total amount of inventories recognised as an expense in financial year 2019 is EUR 1,312 million (2018: EUR 1,275 million).

Consistent with common industry practices, the suppliers of inventories retain the title until the items are paid for in full.

4.9. Cash and cash equivalents

Cash and cash equivalents mainly includes deposits in connection with cash pooling agreements with Telfisa Global B.V., Amsterdam, Netherlands (Telfisa Global B.V.), receivables from banks with an original term of up to three months and cash in hand.

As of 31 December

(in EUR million)	**2019**	2018
Cash at bank and in hand	14	14
Cash pooling	767	737
Cash and cash equivalents	**781**	**751**

Telefónica has entered into cash pooling and deposit agreements with Telfisa Global B.V., a subsidiary of Telefónica, S.A. Group, and deposits its cash surpluses there. Telefónica, S.A. is rated by international rating agencies with an investment grade rating. Therefore, no significant credit losses are expected.

4.10. Equity

Subscribed capital

As of 31 December 2019, Telefónica Deutschland Holding AG had share capital of EUR 2,975 million which is consistent with the prior year and is divided into 2,974,554,993 no par value registered shares, each accounting for a pro rata amount of share capital of EUR 1.00. Each no par value share grants one vote at the Annual General Meeting. The registered share capital is fully paid.

As of 31 December 2019, Telefónica Deutschland Holding AG did not hold any of its own shares.

In accordance with section 6 (2) of the articles of association, the shareholders do not have the right to securitise shares. Each no par value share grants one vote at the Annual General Meeting. The shares are freely transferable.

Authorised capital

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

Conditional capital

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

Additional paid-in capital

As a result of cash and non-cash capital increases in connection with the acquisition of the E-Plus Group, which were entered in the commercial register on 18 September and 7 October 2014, additional paid-in capital increased in 2014 by EUR 4,800 million (unchanged) as of 31 December 2019, in the amount of EUR 4,800 million.

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

Retained earnings

Legal reserve

Retained earnings contain a legal reserve in accordance with section 150 (2) of the German Stock Corporation Act (Aktiengesetz – AktG) of EUR 0.014 million (2018: EUR 0.014 million).

Dividend distribution in the financial year

On 21 May 2019, the Annual General Meeting of Telefónica Deutschland resolved to distribute a dividend of EUR 0.27 for each no par value share for financial year 2018, in total around EUR 803 million.

Proposed dividend for financial year 2019 to be paid in 2020

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

Dividend distribution in the previous year

On 17 May 2018, the Annual General Meeting of Telefónica Deutschland resolved to distribute a dividend of EUR 0.26 for each no par value share for financial year 2017, in total around EUR 773 million.

4.11. Interest-bearing debt

As of 31 December (in EUR million)	**2019** Non-current	**2019** Current	2018 Non-current	2018 Current
Bonds	1,098	16	1,099	16
Promissory notes and registered bonds	721	118	474	79
Loans	333	205	408	42
Finance leases (*)	–	–	22	8
Interest-bearing debt	**2,153**	**339**	**2,004**	**145**

(*) Finance lease in accordance with IAS 17. Please refer to Note 3, Accounting Policies, for details of the effects due to the initial application of IFRS 16.

For the maturity profile of the listed liabilities, see the disclosures in the Management Report, Risk Management and Financial Instruments. Long-term interest-bearing debt with a remaining term greater than five years remains in the amount of EUR 953 million (2018: EUR 931 million).

Bonds

In February 2014, Telefónica Deutschland Group placed a bond with a nominal value of EUR 500 million. The bond will mature on 10 February 2021. The senior unsecured seven-year bond was issued by O2 Telefónica Deutschland Finanzierungs GmbH, Munich, and is guaranteed by Telefónica Deutschland Holding AG. The coupon for the fixed interest bond is 2.375% and the issue price was at 99.624%. The issue spread was 100 basis points over the seven-year euro mid-swap rate, resulting in a yield of 2.434%. O2 Telefónica Deutschland Finanzierungs GmbH, Munich, has made the net proceeds of the bond issue available to Telefonica Germany GmbH & Co. OHG in the form of a loan.

Another bond of the Telefónica Deutschland Group was issued on 5 July 2018 with a nominal value of EUR 600 million. The fixed interest rate is 1.75% and the bond matures on 5 July 2025. The senior unsecured seven-year bond was also issued by O2 Telefónica Deutschland Finanzierungs GmbH, Munich, and is guaranteed by Telefónica Deutschland Holding AG. The bond is used to refinance the bond due in November, which has been meanwhile repaid, and it is for general business purposes. O2 Telefónica Deutschland Finanzierungs GmbH, Munich, has made the net proceeds of the bond issue available to Telefonica Germany GmbH & Co. OHG in the form of a loan.

The bond is recognised at amortised cost using the effective interest method.

Disclosures on hedge accounting

An interest rate swap in the amount of EUR 150 million was concluded on part of the nominal value of the aforementioned bond of February 2014, which is recognised as a fair value hedge. On the basis of this interest rate swap contract, the Telefónica Deutschland Group pays a variable interest rate based on the three-month Euribor on a nominal amount of EUR 150 million and receives a fixed interest rate of 1.268% on the same amount in return. The following table summarises the parameters of the transaction.

(in EUR million)		Nominal amount	Maturity	Hedging interest	Carrying amount	Non-current balance sheet item	Current balance sheet item	Cumulative change in the value of hedging instruments for determining effectiveness
As of 31 December 2019	**Interest rate swap**	**150**	**10/02/2021**	**3-month EURIBOR**	**5**	**Other financial assets**	**Other financial assets**	**3**
As of 31 December 2018	Interest rate swap	150	10/02/2021	3-month EURIBOR	6	Other financial assets	Other financial assets	5

The fair value of the swap, changes in its fair value and the amortisation of the fair value are recognised in Financial result.

The hedged nominal value of the financial liabilities amounts to EUR 150 million. This means that 14% of the company's bond portfolio was switched from fixed interest to variable interest. No significant ineffectiveness was recorded in financial year 2019.

The adjustment of the carrying amount of the bonds is determined by discounting the contractual future cash flows at currently applicable interest rates with comparable conditions and residual terms. The following table summarises the carrying amount, the adjustments to the carrying amount and the changes in the value of the bond.

(in EUR million)		Carrying amount	Non-current balance sheet item	Current balance sheet item	Cumulative change in the value of hedged items for determining effectiveness	Accumulated amount of the adjustments of the underlying transaction (hedged item)
As of 31 December 2019	**Bond**	**513**	**Interest-bearing debt**	**Interest-bearing debt**	**(3)**	**(3)**
As of 31 December 2018	Bond	514	Interest-bearing debt	Interest-bearing debt	(5)	(5)

All factors that market participants would normally consider are included in the measurement of the fair value of the interest rate swaps, including the credit risks of the contract parties. The fair value of the interest swaps results from discounting the expected future payments over the remaining term of the contract using current market interest rates and yield curves.

For further information on hedge accounting, please refer to the comments in the Combined Management Report, Risk Management and Financial Instruments.

Promissory notes/registered bonds

On 13 March 2015, the Telefónica Deutschland Group completed an initial placement of promissory notes and registered bonds with a volume of EUR 300 million.

The promissory notes placed with a volume of EUR 172 million have unsecured tranches with terms of five, eight and ten years, with both fixed and floating interest rates. The average interest rate of the tranches with a fixed interest rate is 1.38% p.a. The interest on the floating tranches is based on Euribor money market conditions plus an agreed margin.

The registered bonds placed have terms of 12, 15 and 17 years and a fixed interest rate. The tranches amount to EUR 3 million, EUR 33 million and EUR 92 million, respectively, and bear interest at 2.000%, 2.250% and 2.375%.

All tranches were issued at par.

The Telefonica Deutschland Group also placed promissory note loans in various tranches and a registered bond with a total volume of EUR 250 million via Telefónica Germany GmbH & Co. OHG in February 2018. The promissory note loans placed have tranches with terms of 1 year with fixed interest rates as well as terms of 5 and 7 years with variable and fixed interest rates and a 10-year tranche with a fixed interest rate. The respective interest rates of the fixed tranches with 1, 5, 7 and 10 year terms are 0.03%, 1.051%, 1.468% and 1.962% p.a. The registered bond has a term of 15 years and a fixed interest rate of 2.506% p.a. The interest on the floating tranches is based on Euribor money market conditions plus an agreed margin. All tranches were issued at par.

On 25 April 2019, the Telefónica Deutschland Group placed promissory notes in various tranches with a total volume of EUR 360 million via Telefónica Germany GmbH & Co. OHG. These promissory notes have tranches with terms of five and seven years with floating and fixed interest rates, respectively, and a 10-year fixed-interest tranche. The respective interest rates of the fixed tranches with five, seven and ten year terms are 0.893%, 1.293% and 1.786% p.a. The interest on the floating tranches is based on Euribor money market conditions plus an agreed margin. All tranches were issued at par.

Loans

The Group signed a EUR 750 million revolving credit facility (RCF) on 22 March 2016. This syndicated credit facility was terminated on 18 December 2019 and replaced by a new revolving syndicated credit facility in the same amount with a term until 17 December 2024 and two extension options until the end of 2026. The RCF bears a variable interest rate at Euribor money market conditions plus an agreed margin. The margin is also linked to the development of an ESG sustainability rating for Telefónica Germany GmbH & Co. OHG. As of 31 December 2019, the credit facility had not been used.

On 13 June 2016, the Group signed a financing agreement with the European Investment Bank (EIB) to the value of EUR 450 million. As of 31 December 2019, this loan had been utilised in the form of two fixed-interest tranches totalling EUR 408 million. The funds provided by the EIB are due by December 2024 and May 2025 and will be repaid in equal instalments starting in December 2019 and May 2020 respectively.

On 18 December 2019, a further financing agreement was signed with the European Investment Bank (EIB) in the amount of EUR 300 million. This loan has not been drawn as of 31 December 2019. The EIB loan will also have a maturity of eight years drawdown and will be repaid in equal instalments. For both agreements, the benchmark interest rate of the fixed-interest tranches is determined according to the principles defined by the bodies of the EIB for loans of the same type. The Telefónica Deutschland Group concluded a bilateral revolving credit facility with Telfisa Global B.V. in the amount of EUR 500 million via Telefonica Germany GmbH & Co OHG on 31 July 2017. The facility serves general business purposes. The credit facility was not extended when the contract expired on 31 July 2019. In return, the overdraft facility of Telefonica Germany GmbH & Co OHG was increased to EUR 454 million under the cash pool agreement with Telfisa Global B.V. As of 31 December 2019, this facility had not been utilised. In addition, the Telefónica Deutschland Group had drawn on a short-term bank loan of EUR 130 million as of 31 December 2019.

On 31 July 2019, the Telefonica Deutschland Group concluded a bilateral revolving credit facility in the amount of EUR 700 million with Telfin Ireland DAC., a financing company belonging to Telefónica S.A. Group, with effect from 12 September 2019, to finance the purchase price from the spectrum auction. However, due to new payment terms, this facility was no longer required and was terminated with effect from 4 December 2019. This line was not utilised in the reporting year.

Finance leases – previous year's disclosures in accordance with IAS 17

As of 31 December 2018, the obligations from leases mainly resulted from agreements for network elements concluded as part of sale and leaseback transactions and classified as finance leases according to their characteristics as well as from agreements for the leasing of IT equipment.

The breakdown of minimum lease payment obligations is as follows:

As of 31 December (in EUR million)	Future minimum lease payment obligations	Unamortised interest expense	2018 Present value of future minimum lease payment obligations
Due within one year	8	0	8
Due between 1 and 5 years	23	0	22
Due in more than 5 years	–	–	–
Total	**31**	**1**	**30**

Reconciliation of debt movements to cash flow from financing activities

As of 31 December (in EUR million)	2018	Adjustment due to first-time application of IFRS 16	As of 1 January 2019	**Cash flow from financing activities ****	**Additions/ disposals**	**Fair value changes**	**Other move-ments**	**2019**
Bonds	1,115	–	1,115	–	–	(2)	1	1,114
Promissory notes and registered bonds*	554	–	554	285	–	–	–	839
Loans	450	–	450	88	–	–	–	538
Finance leases	30	(30)	–	–	–	–	–	–
Interest-bearing debt	**2,149**	**(30)**	**2,118**	**373**	**–**	**(2)**	**2**	**2,492**
Lease liabilities	**–**	**2,810**	**2,810**	**(484)**	**159**	**–**	**4**	**2,489**
Payables – Spectrum	**–**	**–**	**–**	**(87)**	**1,356**	**–**	**4**	**1,272**

* For significant movements, please refer to Note 4.11 Interest-bearing debt.

** The related interest paid from interest-bearing debt and for lease liabilities is reported under Cash flow from operating activities and not included in this reconciliation.

As of 31 December (in EUR million)	2017	**Cash flow from financing activities ****	**Additions/ disposals**	**Fair value changes**	**Other move-ments**	2018
Bonds*	1,117	(4)	–	(3)	6	1,115
Promissory notes and registered bonds	303	250)	–	–	–	554
Loans	450	(0)	–	–	–	450
Finance leases	33	(22)	19	–	–	30
Contribution and compensation obligations	2	(0)	–	–	(2)	0
Interest-bearing debt	**1,905**	**224**	**19**	**(3)**	**4**	**2,149**

* For significant movements, please refer to Note 4.11 Interest-bearing debt (bonds).

** The related interest paid from Interest-bearing debt is reported under Cash flow from operating activities and not included in the reconciliation.

4.12. Lease liabilities

As of 31 December (in EUR million)	2019 Non-current	2019 Current	2018 Non-current	2018 Current
Lease liabilities to third parties	1,689	426	–	–
Lease liabilities to related parties (Note 12 Related Parties)	338	36	–	–
Lease liabilities	**2,027**	**462**	**–**	**–**

Following mandatory first-time application of IFRS 16 on 1 January 2019, lease liabilities totalling EUR 2,779 million were recognised. The previously recognised finance lease liabilities in the amount of EUR 30 million have also been included in lease liabilities since 1 January 2019.

Please refer to Note 3 Accounting Policies, for more details about the application of the new accounting standard.

The maturity analysis of lease liabilities according to IFRS 7 based on cash flows is as follows:

As of 31 December (in EUR million)	2019 Future minimum lease payment obligations	2019 Unamortised interest expense	2019 Present value of future minimum lease payment obligations
Due within one year	469	8	462
Due between 1 and 5 years	1,248	22	1,226
Due in more than 5 years	811	11	801
Total	**2,529**	**41**	**2,489**

4.13. Trade and other payables and deferred income

As of 31 December (in EUR million)	2019 Non-current	2019 Current	2018 Non-current	2018 Current
Trade payables to third parties	–	966	–	1,102
Accruals	12	705	17	697
Payables to related parties (Note 12 Related Parties)	–	517	–	362
Trade payables	**12**	**2,188**	**17**	**2,160**
Other non-trade payables	0	213	1	158
Other payables to related parties (Note 12 Related Parties)	3	47	1	45
Miscellaneous payables	–	45	–	56
Other payables	**3**	**305**	**1**	**260**
Trade and other payables	**15**	**2,493**	**19**	**2,419**
Deferred income	**213**	**497**	**176**	**535**

Accruals relate mainly to outstanding invoices for goods and services and for non-current assets.

The other, non-trade payables mainly comprise liabilities from silent factoring and liabilities to personnel.

Miscellaneous payables mainly comprise debtors with credit balances.

For the maturity profile of the listed liabilities, see the disclosures in the Combined Management Report, Risk Management and Financial Instruments.

Deferred income primarily contains contract liabilities from customer payments already made on prepaid credit and other advance payments received for future services. Deferred income also includes the contract liabilities relating to payments received before the contractual services have been fully performed. For further information, see Note 5.1 Revenues.

Deferred income includes the financing advantage resulting from the interest-free deferral and payment by instalments agreed upon with the representatives of the Federal Republic of Germany for the auction fees to be paid instead of one-time payments for the 2019 frequency auction. In return, the Telefónica Deutschland Group committed itself to the construction of 333 additional mobile sites in white spots by the end of 2021; in addition, 99% of households nationwide are to be supplied with LTE by the end of 2020 and in each federal state by the end of 2021. This government grant is reported as EUR 69 million, corresponding to the financial benefit granted.

It also includes customer payments from MS Mobile Service GmbH (Drillisch) received in connection with the Mobile Bitstream Access Mobile Virtual Network Operator (MBA MVNO) contract.

Contract liabilities are broken down by maturity according to their expected utilisation. Contract liabilities arising from advance payments received for prepaid credits are classified exclusively as current.

4.14. Payables - Spectrum

As of 31 December		**2019**		2018
(in EUR million)	**Non-current**	**Current**	Non-current	Current
Payables - Spectrum	**1,186**	**86**	–	–

In financial year 2019, payment obligations in the amount of EUR 1,425 million were incurred in connection with the acquisition of 5G mobile frequency licences. On the basis of the Agreement for the Implementation of the Mobile Communications Summit 2018 concluded with the representatives of the Federal Republic of Germany, it was agreed that the payment obligations from the 2019 frequency auction are deferred until the respective commencement of the frequency allocation periods and paid in annual instalments until 2030, beginning in 2019, instead of one-time payments.

After discounting and consideration of the instalment of EUR 87 million already paid in 2019, the carrying amount of the payables as of 31 December 2019 amounts to EUR 1,272 million. Postponing the payment commencement dates and payment in instalments provided the framework for additional investments in network expansion, which the Group has undertaken to assume.

Non-current payables with a remaining term of more than five years amount to EUR 818 million.

4.15. Provisions

As of 31 December		**2019**		2018
(in EUR million)	**Non-current**	**Current**	Non-current	Current
Net defined benefit liability	218	–	157	–
Restructuring	7	20	23	67
Asset retirement obligations	346	75	310	111
Other provisions	54	9	36	10
Provisions	**624**	**104**	**526**	**188**

Pension obligations

The Telefónica Deutschland Group has defined benefit plans. These primarily include defined benefit rights against an external provident fund (Gruppen-Unterstützungskasse), which is managed in accordance with its articles of association, and direct commitments.

The overriding investment policy and strategy for the defined benefit plans are based on the goal of generating returns from the plan assets as well as from the reimbursement rights deriving from insurance policies which, together with the contributions, are sufficient to meet the pension obligations.

The plan assets are invested in reinsurance policies that are taken out directly by the Telefónica Deutschland Group or indirectly by the provident fund. The reimbursement rights from insurance policies result from those reinsurance policies, which were not pledged to the employees.

The requirements for the financing of pension obligations arise from the financing strategy of the provident fund and are anchored in its guidelines. The guidelines define that the expected defined benefit obligation will be settled by the provident fund. They are fully financed by the Telefónica Deutschland Group. The Telefónica Deutschland Group provides the provident fund with the necessary financial resources.

However, under its articles of association, the fund must cease or reduce its payments if the company does not make, or no longer makes, the necessary financial resources available to the fund. In this case, the employees can assert their legal right to post-employment benefits against the Telefónica Deutschland Group.

The amount of the committed benefits for the defined benefit pension plans essentially depends on the basic salary of the individual employee during the period of employment. The benefits paid include old age pensions, payments for the inability to work and benefits in the event of death to surviving dependants.

In order to minimise the biometric risks of the committed benefits (such as an early benefits claim through invalidity or death of the beneficiary), the pension or promised retirement capital is covered to the full extent (congruent) or in part by reinsurance policies. In addition, the pledging of the reinsurance policies to the pension beneficiary acts as security for the claims of the beneficiary in the event of the insolvency of the sponsoring company.

This defined benefit plan is subject to actuarial and financial risks such as life expectancy and interest rate risk as well as inflation risk. In addition, all reinsurance policies are essentially concluded with an insurance company.

In financial year 2019, the employer's contribution to the statutory pension insurance amounts to EUR 38 million (2018: EUR 40 million).

Telefónica Deutschland Group concludes additional defined contribution plans. The contribution recorded for the defined contribution plan amounts to EUR 2 million (2018: EUR 2 million).

The following table contains the key data for the defined benefit plans:

As of 31 December (in EUR million)	2019	2018
Present value of defined benefit obligation from funded plans	(141)	(114)
Present value of defined benefit obligation from unfunded plans	(162)	(125)
Present value of the defined benefit obligation	**(304)**	**(239)**
Fair value of plan assets	93	90
thereof: surplus	7	8
Net defined benefit liability	**(218)**	**(157)**
Reimbursement rights from insurance contracts	**68**	**62**

The development of the present value of the defined benefit obligations in 2019 and 2018 was as follows:

As of 31 December (in EUR million)	2019	2018
Present value of the defined benefit obligation as of 1 January	**(239)**	**(235)**
Current service costs (personnel expenses)	(11)	(9)
Interest expense (financial result)	(5)	(4)
Remeasurement of the present value of the defined benefit obligation	(53)	6
thereof: adjustments for demographic assumptions	*–*	*(4)*
thereof: actuarial gains/(losses) arising from changes in financial assumptions	*(61)*	*11*
thereof: experience-based adjustments	*8*	*(1)*
Benefits paid	4	3
Other	–	(0)
Present value of the defined benefit obligation as of 31 December	**(304)**	**(239)**

The development of the present value of plan assets in 2019 and 2018 was as follows:

(in EUR million)	2019	2018
Fair value of plan assets as of 1 January	**90**	**84**
Return on plan assets excluding amounts included in interest income/(expense)	2	1
Interest income (financial result)	2	1
Employer contributions	3	3
Benefits paid	(2)	(2)
Other	(1)	2
Fair value of plan assets as of 31 December	**93**	**90**

The fair value of the reimbursement rights from insurance contracts developed in 2019 and 2018 as follows:

As of 31 December

(in EUR million)	2019	2018
Fair value of reimbursement rights from insurance contracts as of 1 January	**62**	**57**
Return on reimbursement rights excluding amounts included in interest income/(expense)	–	0
Interest income (financial result)	(1)	1
Employer contributions	7	6
Benefits paid	(1)	(1)
Other	1	(2)
Fair Value of reimbursement rights from insurance contracts as of 31 December	**68**	**62**

The amounts recognised under 'Other' in 2018 for plan assets and for reimbursement rights are a result of the ban on setoffs of reimbursement rights that have not been pledged against plan assets.

In 2019, as in the previous year, there was no asset ceiling. This year there is a surplus cover of EUR 7 million (2018: EUR 8 million), which is reported under other financial assets.

The main actuarial assumptions on which the determination of the present value of the defined benefit obligation as of the reporting date is based are provided in the following table (factors represent averages).

As of 31 December	2019	2018
Discount rate	0.92%	1.95%
Nominal rate of pension payment increase	1.00% / 1.75%	1%; 1.75%
Fluctuation rate	6.3%	6.4%

The mortality tables on which the actuarial calculation of the DBO as of the balance sheet dates is based for 2018 and 2019 are the Heubeck 2018G mortality tables.

As of 31 December

(in years)	2019	2018
Life expectancy at age 65 for a retiree currently	22	22
Life expectancy of a currently aged 40 deferred member at age 65	25	25

An increase or decrease in the main actuarial assumptions would have had the following effects on the present value of the defined benefit obligations as of 31 December 2019:

(in EUR million)	Increase in parameters	Decrease in parameters
Discount rate (+0.25%/-0.25%)	(17)	18
Pension change (+0.50%/-0.50%)	21	(6)
Turnover rate (+1.00%/-1.00%)	(0)	0
Life expectancy (+1 year)	19	–

Increases and reductions in the discount rate and increases to pension payments do not have the same impact on the determination of the DBO due to the interest rate effects. If several assumptions are changed at the same time, the overall effect will not necessarily correspond to the sum of the individual effects due to the changes in the assumptions. In addition, the sensitivity of a change in the DBO only reflects each specific order of magnitude in the change of assumptions (for example 0.25%). If the assumptions change by a different order of magnitude, the effect on the DBO does not necessarily have to be linear.

The following table contains information regarding the analysis of the due date of expected payments:

1 January to 31 December

(in EUR million)	**2019**	2018
Benefits expected to be paid within year 1	3	3
Benefits expected to be paid within year 2	3	3
Benefits expected to be paid within year 3	4	3
Benefits expected to be paid within year 4	4	4
Benefits expected to be paid within year 5	4	4
Benefits expected to be paid within 6 to 10 years	31	29

The average expected term of the defined benefit obligations is 22.1 years in financial year 2019 (2018: 21.8 years).

The best estimate of the contributions to be paid into the plans in the financial year ending 31 December 2019 is EUR 10.4 million (2018: EUR 9 million).

Other provisions

(in EUR million)	Restructuring	Asset retirement obligations	Others	Total
As of 31 December 2018	**90**	**421**	**46**	**556**
Adjustment due to initial application of IFRS 16	(25)	–	–	(25)
As of 1 January 2019	**64**	**421**	**46**	**531**
Additions	8	79	3	90
Utilisation	(35)	(51)	(11)	(97)
Release	(11)	–	(3)	(14)
Reclassifications	–	(28)	28	–
Interest effect	–	–	–	–
As of 31 December 2019	**26**	**421**	**63**	**510**
thereof: non-current	*6*	*346*	*54*	*406*
thereof: current	*20*	*75*	*9*	*104*

The provision for restructuring mainly comprises measures resulting from the old restructuring program (integration of E-Plus) and new restructuring programs in the personnel area. The amount of EUR 26 million as of 31 December 2019 (2018: EUR 90 million) is mainly spread over severance payments and the termination of contracts with commercial agents.

As in the previous year, these additions are recognised in other expenses and personnel expenses (for further information see Note 5.3 Personnel expenses and 5.4 Other expenses).

The provisions for asset retirement obligations include the calculated costs for the dismantling and removal of assets (e.g. mobile equipment such as operating facilities and technology), largely based on the agreements with service providers.

5. Selected Explanatory Notes to the Consolidated Income Statement

5.1. Revenues

1 January to 31 December

(in EUR million)	2019	2018
Rendering of services	6,042	6,034
Other revenues	1,357	1,286
Revenues	**7,399**	**7,320**

Revenues from the rendering of services include mobile service revenues as well as revenues from fixed line/DSL business. The other revenues include handset revenues and miscellaneous other revenues.

The breakdown of revenues according to mobile business and fixed line/DSL business is shown in the following table:

None of the Telefónica Deutschland Group's customers accounts for more than 10% of total revenues.

1 January to 31 December

(in EUR million)	2019	2018
Mobile business	6,647	6,539
Mobile service revenues	5,301	5,267
Handset revenues	1,346	1,272
Fixed line/DSL business revenues	741	767
Other revenues	11	13
Revenues	**7,399**	**7,320**

Mobile service revenues

The mobile service revenues are largely based on basic fees and the fees levied for voice (including incoming and outgoing calls), messaging (including SMS and MMS) and mobile data services as well as service contracts. Alongside roaming revenues, mobile service revenues include access and interconnection fees that are paid for by other service providers for calls and SMS messages delivered via our network. In addition, one-time connection charges are included insofar as these have been allocated to mobile communications services.

Handset revenues

Handset revenues include the income from the sale of mobile phones as part of the "O_2 My Handy" model, and revenue from cash sales. Also included are revenues from the sale of mobile devices to distributors and partners and from the sale of accessories.

With the "O_2 My Handy" model, the customer can choose whether to pay the entire price of the mobile phone up front or to make an initial payment to start with and pay the remaining purchase price in six, 12, 24, 36 or 48 monthly instalments.

Fixed line/DSL business revenues

Fixed line/DSL business revenues comprise mainly revenues from DSL services for private customers, DSL activation fees for private customers, revenues from DSL mobile devices and non-recurring items (e.g. fees for change of address, number transfers, etc.), revenues from the sale of DSL products, services and mobile devices to other service providers, who re-bundle these and sell them on to end customers, and data traffic revenues from carriers in connection with the sale and trade of minutes between carriers to connect their customer calls via the networks of other operators. DSL revenues also include fixed line revenues.

Other revenues

Other revenues relate to new business, such as advertising and financial services, e.g. the mobile service offering "O_2 More Local", O_2 Banking and new innovative products from the IoT ADA business field.

Contract assets and Contract liabilities from customer contracts

(in EUR million)	31 December 2019	31 December 2018
Contract asset	24	23
Contract liabilities	486	522

(in EUR million)	2019	2018
Amounts recognised in contract liabilities at the beginning of the period that resulted in revenue in the reporting period.	495	445

The Telefónica Deutschland Group receives payments from customers on the basis of a billing schedule which is part of the individual contracts. The contract asset refers to the entitlement to consideration for the performance of the contractual services to be rendered. The contract asset contains contracts for which Telefónica Deutschland Group satisfied its performance obligations by transferring mobile devices and performing mobile services or fixed line/DSL services before consideration was paid or became due. Amounts already reported as receivables are not taken into account in the recognition of the contract asset. Receivables are recognised when the right to receive the consideration becomes unconditional, as the payment due date is dependent only on the course of time.

The contract liability relates to payments received prematurely, i.e. before the contractual services have been fully performed. Contract liabilities are recognised as revenue as soon as (or when) the Telefónica Deutschland Group provides the contractual services. The changes in the contract assets or contract liabilities mainly result from the (not yet effected) satisfaction of the respective performance obligations.

Future revenues from (partially) unsatisfied performance obligations

As of 31 December

(in EUR million)	2019		2018	
	Of which expected to be fulfilled in ≤ 12 months	**Of which expected to be fulfilled in > 12 months**	Of which expected to be fulfilled in ≤ 12 months	Of which expected to be fulfilled in > 12 months
Total amount of performance obligations contracted but not yet (fully) satisfied as of 31 December	**1,047**	**266**	1,120	269

Within the scope of the disclosures according to IFRS 15.120, the practical expedient in accordance with IFRS 15.121 was applied. In this context, performance obligations resulting from contracts with a maximum contract term of one year and performance obligations for which revenues were realised corresponding to the invoicing were not taken into account. Accordingly, the portion of the transaction price allocated to these partially unsatisfied performance obligations is not included in the disclosure.

5.2. Other income

1 January to 31 December

(in EUR million)	2019	2018
Own work capitalised	105	108
Gain on disposal of assets	2	0
Others	77	68
Other income	**183**	**177**

The position Others mainly includes penalties and claims for damages.

5.3. Personnel expenses

In financial year 2019 amounted to EUR 592 million (2018: EUR 610 million). Thereof, EUR 499 million (2018: EUR 518 million) related to wages and salaries, social security EUR 80 million (2018: EUR 80 million) and EUR 13 million (2018: EUR 11 million) to pensions. Personnel expenses from share-based payments are presented in Note 13 Share-based payments; personnel expenses relating to pension plans are presented in Note 4.15 Provisions.

In addition, restructuring expenses of EUR 5 million (2018: EUR 19 million) were recognised in personnel expenses. For further information, see Note 4.15 Provisions.

5.4. Other expenses

1 January to 31 December

(in EUR million)	2019	2018
Other third-party services	1,921	2,190
Other operating expenses	81	103
Allowance for current assets	8	7
Advertising	239	253
Other expenses	**2,249**	**2,552**

Other third-party services include commissions, among other things.

Other expenses include restructuring expenses of EUR 17 million as of 31 December 2019 (2018: EUR 66 million) (for further information see Note 4.15 Provisions).

5.5. Depreciation and amortisation

1 January to 31 December

(in EUR million)	2019	2018
Amortisation of intangible assets	1,014	1,029
Depreciation of property, plant and equipment	851	959
Depreciation of right-of-use assets	550	–
Depreciation and amortisation	**2,416**	**1,987**

5.6. Financial result

1 January to 31 December (in EUR million)	2019	2018
Interest income from financial assets	3	2
Interest expenses from lease liabilities	(11)	–
Interest expenses from financial liabilities	(44)	(42)
Interest component from measurement of provisions and other liabilities	(3)	(3)
Other exchange (losses)/gains	0	(0)
Financial result	**(55)**	**(42)**

Interest income from financial assets mainly arises from late received payments.

As of 31 December 2018, interest expenses from finance leases were reported in the item interest expenses from financial liabilities in accordance with IAS 17.

Interest expenses from financial liabilities mainly comprise interest on the bonds issued in February 2014 and July 2018, on the financing agreement with the European Investment Bank (EIB) signed on 13 June 2016 and on the promissory notes and registered bonds issued in March 2015, February 2018 and April 2019.

Current and deferred taxes

1 January to 31 December (in EUR million)	2019	2018
Current tax expense	0	0
Deferred tax income/(expense)	(33)	3
Income tax	**(33)**	**3**

5.7. Income tax

Consolidated income tax group

As of 31 December 2019, the consolidated income tax group of the Telefónica Deutschland Group comprised 17 (2018: 17) companies.

The movements in deferred tax assets are as follows:

1 January to 31 December (in EUR million)	2019	2018
As of 1 January	**27**	**162**
Deferred tax income/(expense)	(33)	3
Amount of deferred taxes recognised directly in equity as shown in the Consolidated Statement of Comprehensive Income	17	(2)
Adjustment due to first-time adoption of IFRS 16 (2019) / IFRS 15 (2018)	(8)	(134)
Recognised in equity as part of the acquisition of companies	(3)	–
As of 31 December	**–**	**27**

Tax loss carried forward and temporary differences

The tax losses carried forward for which no deferred tax assets are recognised as of 31 December 2019 amount to EUR 14,712 million for corporate tax and EUR 14,280 million for trade tax (2018: EUR 14,693 million and EUR 14,284 million).

For companies or the consolidated income tax group that generated a negative result in the previous year or in the current period, a deferred tax asset was capitalised after netting with deferred tax liabilities in the amount of EUR 314 million (2018: EUR 204 million), as the future realisation of this tax asset is expected on the basis of tax profit planning. The total deferred tax assets and liabilities amount to EUR 0 million (2018: EUR 27 million).

The capitalisation of tax losses carried forward is based on more conservative estimates of future income than those which would have been anticipated for other non-accounting-related purposes.

The breakdown of deferred tax assets and deferred tax liabilities from temporary differences and tax losses carried forward is as follows:

As of 31 December (in EUR million)	**2019** Deferred tax assets	**2019** Deferred tax liabilities	2018 Deferred tax assets	2018 Deferred tax liabilities
Goodwill and other intangible assets	297	(428)	600	(534)
Tangible assets	–	(157)	–	(200)
Right-of-use assets	–	(800)	–	–
Trade and other receivables	3	(186)	1	(172)
Other current financial assets	16	(2)	3	(0)
Financial liabilities, trade and other payables	5	(5)	14	(5)
Provisions including pension provisions	157	(11)	111	(1)
Other current financial liabilities	152	(5)	12	(6)
Other non-current financial liabilities	649	–	–	–
Tax losses carried forward	314	–	204	–
Deferred tax assets/(liabilities) gross	**1,593**	**(1,593)**	**945**	**(918)**
Netting	(1,279)	1,279	(741)	741
Deferred tax assets/(liabilities) after netting according to Consolidated Statement of Financial Position	**314**	**314**	**204**	**177**
Total deferred tax assets/(liabilities)	–	–	27	–

The deferred tax assets classified as non-current in the consolidated balance sheet of EUR 1,593 million (2018: EUR 945 million) are non-current deferred tax assets of EUR 1,441 million (2018: EUR 945 million), and EUR 152 million (2018: EUR 0 million) are current deferred tax assets in connection with the recognition of current lease liabilities under IFRS 16, reported under other current financial liabilities.

Of the deferred tax liabilities of EUR 1,593 million (2018: EUR 918 million) classified as non-current in the consolidated balance sheet, EUR 1,478 million (2018: EUR 814 million) are non-current deferred tax liabilities and EUR 115 million (2018: EUR 104 million) are current deferred tax liabilities in connection with the capitalisation of short-term amortisable costs of obtaining a contract in accordance with IFRS 15.

The item right-of-use assets contains deferred tax liabilities on right-of-use assets in accordance with IFRS 16, while lease liabilities are included in other current or non-current financial liabilities, depending on their maturities. Latencies that do not relate to IFRS 16 are of minor significance in these three items.

Reconciliation of earnings before tax to income tax expense recognised

1 January to 31 December (in EUR million)	2019	2018
Profit/(loss) before tax	**(179)**	**(233)**
Tax expense at prevailing statutory rate (32%)	57	74
Non-deductible expenses	(12)	(12)
Change in unrecognised temporary differences and tax losses carried forward	(78)	(60)
Other	(0)	–
Income tax	**(33)**	**3**
Current tax income/(expense)	0	0
Deferred tax income/(expense)	(33)	**3**
Income tax	**(33)**	3

6. Business Combinations

One company was acquired from the Telefónica Deutschland Group in the financial year 2019. Due to the merger of the acquired company with a subsidiary of the Telefónica Deutschland Group that took place in the financial year, there was no effect on the group of consolidated companies as at 31 December 2019. The merger became effective upon entry in the commercial register on 18 November 2019. The business combination was of minor significance for the consolidated financial statements of the Telefónica Deutschland Group.

7. Disposal Groups

Disposal group in 2018: Sale of Shares in Shortcut I GmbH & Co. KG

By contract dated 14 September 2018, E-Plus Service GmbH sold all shares in Shortcut I GmbH & Co. KG. The sale of all shares in Shortcut I GmbH & Co. KG was completed formally and legally effective on 8 October 2018. Given the loss of control associated with the transaction, the company was deconsolidated from this date onwards. The carrying amount of the net assets sold and their impact on the consolidated financial statements were of minor significance.

8. Earnings per share

Basic earnings per share are calculated by dividing the profit for the year after tax attributable to the ordinary shareholders of the parent company by the weighted average number of ordinary shares outstanding during the reporting period.

Diluted earnings per share are calculated by adjusting the profit after tax attributable to the ordinary shareholders of the parent company and the weighted average number of ordinary shares outstanding in the reporting period for the effects of any dilutive effects inherent in converting potential ordinary shares.

Both basic as well as diluted earnings per share attributable to the ordinary shareholders of the parent company are calculated based on the following data in accordance with IAS 33.

1 January to 31 December

(in EUR million)	**2019**	2018
Total profit/(loss) attributable to equity holders of the parent for basic = diluted earnings	(212)	(230)
Weighted average number of ordinary shares issued (in million units)	2,975	2,975
Earnings per share in EUR (basic = diluted)	**(0.07)**	**(0.08)**

In addition, the share capital of Telefónica Deutschland Holding AG is conditionally increased (see Note 4.10 Equity). Shares from the conditional capital of a stock corporation are not part of the calculation of the earnings per share as they can be conditionally issued.

9. Further information on financial assets and financial liabilities

In the following tables, the fair values of all financial assets and financial liabilities of the Telefónica Deutschland Group are disclosed in accordance with the measurement categories as determined by IFRS 9 with regard to the requirements of IFRS 13.

As of 31 December 2019, the carrying amount of current financial assets and financial liabilities represents an appropriate approximation of fair value.

In addition, the tables show the categorisation of the financial assets and financial liabilities in accordance with the importance of the input factors that were used for their respective measurement. The review is performed successively from level to level. The first stage is given priority and the subsequent stages are only used for evaluation if the requirements for the input factors of the first stage could not be fulfilled. For this purpose, three levels or measurement hierarchies are defined:

- **Level 1:** Input factors at this level are quoted (unadjusted) prices for identical assets or liabilities in active markets accessible to the entity at the measurement date.
- **Level 2:** Second level input factors are market prices other than those quoted at level one that are observable either directly or indirectly for the asset or liability.
- **Level 3:** Input factors that are not observable for the asset or liability.

As of 31 December 2019
Financial assets

(in EUR million)	Hedging relationships (no measurement category according to the meaning of IFRS 9)	Financial assets measured at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Financial assets measured at amortised cost	Not in the scope of IFRS 7	Total carrying amount	Measurement hierarchy: Level 1 (Quoted prices)	Level 2 (Significant other observable input parameters)	Level 3 (Significant unobservable input parameters)	Total fair value
Non-current trade and other receivables (Note 4.5)	–	–	104	–	–	104	–	104	–	104
Other non-current financial assets (Note 4.6)	3	1	–	45	84	133	–	57	1	58
thereof: derivatives	*3*	–	–	–	–	*3*	–	*3*	–	*3*
thereof: investments in start-ups	–	*1*	–	–	–	*1*	–	–	*1*	*1*
thereof net investment in the lease	–	–	–	–	*9*	*9*	–	*9*	–	*9*
thereof: other	–	–	–	*45*	*75*	*120*	–	*45*	–	*45*
Current trade and other receivables (Note 4.5)	–	–	568	796	1	1,366	–	568	–	n.a.
Other current financial assets (Note 4.6)	2	–	–	10	5	17	–	–	–	n.a.
thereof: derivatives	*2*	–	–	–	–	*2*	–	*2*	–	*n.a.*
thereof net investment in the lease	–	–	–	–	*5*	*5*	–	–	–	*n.a.*
thereof: other	–	–	–	*10*	–	*10*	–	–	–	*n.a.*
Cash and cash equivalents (Note 4.9)	–	–	–	781	–	781	–	–	–	n.a.
Total	**5**	**1**	**672**	**1,632**	**91**	**2,401**	**–**	**729**	**1**	**162**

As of 31 December 2018
Financial assets*

(in EUR million)	Hedging relationships (no measurement category according to the meaning of IFRS 9)	Financial assets measured at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Financial assets measured at amortised cost	Not in the scope of IFRS 7	Total carrying amount	Measurement hierarchy: Level 1 (Quoted prices)	Level 2 (Significant other observable input parameters)	Level 3 (Significant unobservable input parameters)	Total fair value
Non-current trade and other receivables (Note 4.5)	–	–	70	–	–	70	–	70	–	70
Other non-current financial assets (Note 4.6)	5	1	–	26	70	101	–	31	1	31
thereof: derivatives	*5*	–	–	–	–	*5*	–	*5*	–	*5*
thereof: investments in start-ups	–	*1*	–	–	–	*1*	–	–	*1*	*1*
thereof: other	–	–	–	*26*	*70*	*96*	–	*26*	–	*26*
Current trade and other receivables (Note 4.5)	–	–	682	618	1	1,301	–	682	–	n.a.
Other current financial assets (Note 4.6)	2	–	–	8	–	9	–	–	–	n.a.
thereof: derivatives	*2*	–	–	–	–	*2*	–	*2*	–	*n.a.*
thereof: other	–	–	–	*8*	–	*8*	–	–	–	*n.a.*
Cash and cash equivalents (Note 4.9)	–	–	–	751	–	751	–	–	–	n.a.
Total	**6**	**1**	**752**	**1,402**	**72**	**2,233**	**–**	**782**	**1**	**101**

* The prior year's presentation was amended to improve ease of reading.

As at 31 December 2019, EUR 3 million (2018: EUR 5 million) of other non-current financial assets and EUR 2 million (2018: EUR 2 million) of current financial assets are included in a hedge accounting relationship. These relate to the swap that the Group entered into in connection with a bond issuance (for further information, see Note 4.6 Other financial assets).

The fair value of other non-current financial assets is determined by discounting future cash flows at current market interest rates.

In addition, EUR 1 million (2018: EUR 1 million) of other non-current financial assets are classified as financial assets measured at fair value through profit or loss. These relate primarily to investments in start-ups. These assets were measured according to Level 3. The measurement at fair value is based on existing business plans with numerous unpredictable premises.

Trade receivables were partly classified as financial assets measured at fair value through other comprehensive income. These are receivables that can be sold as part of factoring transactions.

All other financial assets as of 31 December 2019 were categorised as financial assets measured at amortised cost.

As of 31 December 2019

(in EUR million)	**Financial liabilities measured at amortised cost**	**Not in the scope of IFRS 7 (**)**	**Total carrying amount**	**Measurement hierarchy** Level 1 (Quoted prices)	**Level 2 (Significant other observable input parameters)**	**Level 3 (Significant unobservable input parameters)**	**Total fair value**
Non-current interest-bearing debt (Note 4.11)	2,153	–	2,153	1,142	1,095	–	2,237
Non-current trade and other payables (Note 4.13)	12	3	15	–	12	–	12
Non-current payables - Spectrum (Note 4.14)	1,186	–	1,186	–	1,202	–	1,202
Current interest-bearing debt (Note 4.11)	339	–	339	–	–	–	n.a.
Current trade and other payables (Note 4.13)	2,451	42	2,493	–	–	–	n.a.
Current payables - Spectrum (Note 4.14)	86	–	86	–	–	–	n.a.
Total	**6,227**	**45**	**6,272**	**1,142**	**2,310**	**–**	**3,452**

As of 31 December 2018
Financial liabilities (*)

(in EUR million)	Financial liabilities measured at amortised cost	Not in the scope of IFRS 7 (**)	Total carrying amount	Measurement hierarchy Level 1 (Quoted prices)	Level 2 (Significant other observable input parameters)	Level 3 (Significant unobservable input parameters)	Total fair value
Non-current interest-bearing debt (Note 4.11)	1,981	–	1,981	1,130	884	–	2,014
Finance leases	22	–	22	–	22	–	22
Non-current trade and other payables (Note 4.13)	17	1	18	–	17	–	17
Current interest-bearing debt (Note 4.11)	137	–	137	–	–	–	n.a.
Finance leases	8	–	8	–	–	–	n.a.
Current trade and other payables (Note 4.13)	2,376	43	2,419	–	–	–	n.a.
Total	**4,542**	**44**	**4,586**	**1,130**	**924**	**–**	**2,054**

(*) The presentation of the previous year was amended to improve ease of reading.

(**) These instruments are not included in the calculation of fair value.

As at 31 December 2019, EUR 152 million (2018: EUR 155 million) of non-current interest-bearing liabilities are included in a hedge accounting relationship. These relate to a portion of the bond, which is accounted for with an interest rate swap as a fair value hedge (for further information see Note 4.11 Interest-bearing debt).

The fair value of the bonds (non-current and current interest-bearing debt) is determined based on primary market values (unadjusted quoted prices in active markets, level 1). The fair value of the other non-current interest-bearing debt is determined by discounting the future cash flows using current market interest rates.
In addition to bonds, non-current and current interest-bearing liabilities as of 31 December 2019 include promissory note loans and registered bonds with a total nominal value of EUR 835 million (2018: EUR 550 million), a loan from the European Investment Bank (EIB) of EUR 408 million (2018: EUR 450 million) and short-term drawings on credit lines of EUR 130 million (2018: EUR 0 million).

The non-current and current trade and other payables are categorised as financial liabilities at amortised cost.

Please see the respective notes for further information.

The following table shows the net gains and losses per measurement category in accordance with IFRS 9:

		Amortised cost	**At fair value through profit or loss**		**At fair value through other comprehensive income**
1 January to 31 December 2019 (in EUR million)	**Financial assets**	**Financial liabilities**	**Financial assets**	**Financial liabilities**	**Financial assets**
Net result from disposals	–	–	–	–	–
Result from valuations	0	(0)	0	–	–
Impairment/reversal of impairment losses	(28)	–	–	–	(48)
Effective interest income	2	–	–	–	–
Effective interest expense	–	(43)	–	–	–
Fee income/expenditure	–	–	–	–	–
Total	**(26)**	**(43)**	**0**	**–**	**(48)**

		Amortised cost	At fair value through profit or loss		At fair value through other comprehensive income
1 January to 31 December 2018 (in EUR million)	Financial assets	Financial liabilities	Financial assets	Financial liabilities	Financial assets
Net result from disposals	–	–	16	–	–
Result from valuations	1	(1)	–	–	–
Impairment/reversal of impairment losses	(31)	–	–	–	(46)
Effective interest income	2	–	–	–	–
Effective interest expense	–	(42)	–	–	–
Fee income/expenditure	–	–	–	–	–
Total	**(29)**	**(42)**	**16**	**–**	**(46)**

Offsetting

Financial assets and financial liabilities are offset, and the net amount is reported in the Consolidated Statement of Financial Position, when the Group currently has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The following table presents the amounts of financial assets and financial liabilities that are offset as at 31 December 2019.

	As of 31 December 2019	
(in EUR million)	**Trade receivables**	**Trade payables**
Gross amounts	1,468	2,249
Amounts set off in the Consolidated Statement of Financial Position in accordance with IAS 32.42	(49)	(49)
Net amounts presented in the Statement of Financial Position	**1,420**	**2,200**

Offsetting is mainly applied for roaming fees and for receivables and payables in the sales business.

10. Group companies of the Telefónica Deutschland Group

In accordance with sections 285 and 313 of the German Commercial Code (HGB), the following table lists the companies making up the Telefónica Deutschland Group as of 31 December 2019.

For detailed information, please refer to the list of shareholdings published with the Annual Financial Statements of Telefónica Deutschland Holding AG in the German Federal Gazette.

As of 31 December 2019

Company name, registered office	Country	Consolidation	Share in %
Parent company			
Telefónica Deutschland Holding AG, Munich, Germany	Germany	n/a	n/a
Subsidiaries			
Telefónica Germany Management GmbH, Munich[2]	Germany	Full financial year	100%
Telefónica Germany GmbH & Co. OHG, Munich[1]	Germany	Full financial year	100%
Telefónica Germany 1. Beteiligungsgesellschaft mbH, Munich[2]	Germany	Full financial year	100%
TGCS Rostock GmbH, Munich[2]	Germany	Full financial year	100%
Telefónica Germany Next GmbH, Munich[2]	Germany	Full financial year	100%
Minodes GmbH, Berlin[2]	Germany	Full financial year	100%
Telefónica Germany Retail GmbH, Dusseldorf[2]	Germany	Full financial year	100%
Wayra Deutschland GmbH, Munich[2]	Germany	Full financial year	100%
O2 Telefónica Deutschland Finanzierungs GmbH, Munich	Germany	Full financial year	100%
TGCS Bremen GmbH, Munich[2]	Germany	Full financial year	100%
TGCS Hamburg GmbH, Munich[2]	Germany	Full financial year	100%
TGCS Nürnberg GmbH, Munich[2]	Germany	Full financial year	100%
E-Plus Service GmbH, Dusseldorf[2]	Germany	Full financial year	100%
TGCS Essen & Potsdam GmbH, Potsdam[2]	Germany	Full financial year	100%
TGCS Berlin GmbH, Dusseldorf[2]	Germany	Full financial year	100%
AY YILDIZ Communications GmbH, Dusseldorf[2]	Germany	Full financial year	100%
Ortel Mobile GmbH, Dusseldorf[2]	Germany	Full financial year	100%
TFS Potsdam GmbH, Potsdam[2]	Germany	Full financial year	100%
Joint operations			
TCHIBO Mobilfunk Beteiligungs-GmbH, Hamburg	Germany	Full financial year	50%
TCHIBO Mobilfunk GmbH & Co. KG, Hamburg	Germany	Full financial year	50%
Other investments[3]			
MNP GbR, Dusseldorf[4]	Germany	Full financial year	33%

[1]This entity uses the exemption provisions pursuant to section 264b HGB.

[2]These entities use the exemption provisions pursuant to section 264 (3) HGB.

[3]Other investments are not included in the consolidation.

[4]The company reported total equity of EUR 194 thousand as of 31 December 2018. Net income amounted to EUR +41 thousand for financial year 2018.

11. Joint operations

Telefónica Germany GmbH & Co. OHG jointly controls TCHIBO Mobilfunk Beteiligungs-GmbH, Hamburg, and TCHIBO Mobilfunk GmbH & Co. KG, Hamburg, together with TCHIBO GmbH, Hamburg.

The business objective of TCHIBO Mobilfunk Beteiligungs GmbH is the holding of interests in other companies. The business objective of TCHIBO Mobilfunk GmbH & Co. KG, with TCHIBO Mobilfunk Beteiligungs GmbH as its personally liable shareholder, is the marketing and sale of mobile communications services to be rendered by third parties and the marketing and sale of mobile devices.

As part of the joint operation in TCHIBO Mobilfunk GmbH & Co. KG, Telefónica Germany GmbH & Co. OHG reimburses the company for sales and marketing services provided by the latter, on the one hand, and supplies the company with mobile communications devices, on the other.

12. Related Parties

Related parties within the meaning of IAS 24 are defined as natural persons and companies that can be influenced by the Telefónica Deutschland Group, that can exercise a material influence over the Telefónica Deutschland Group, or that are materially influenced by another related party of the Telefónica Deutschland Group.

Transactions with related parties include transactions between the Telefónica Deutschland Group and the Telefónica, S.A. Group.

Telefónica Deutschland Holding AG is the parent company of 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.

Note 10. Group companies of the Telefónica Deutschland Group provides an overview of the companies making up the Telefónica Deutschland Group. In 2018 and 2019, the following were related parties from the perspective of the Telefónica Deutschland Group:

- Telefónica, S.A. and its subsidiaries as well as significant shareholdings of the Telefónica, S.A. Group (see Note 12.1. Transactions with the Telefónica, S.A. Group).
- Members of the Management Board and Supervisory Board of the Telefónica, S.A. Group and members of the Management Board and Supervisory Board of the Telefónica Deutschland Group (see Note 12.2 Transactions with Management Board and Supervisory Board).

The extent of the transactions conducted with the Telefónica, S.A. Group and other related parties can be seen in the overviews below.

Intercompany charges are based on cost-plus or similar allocation methods.

12.1. Transactions with the Telefónica, S.A. Group

Assets with and liabilities to the Telefónica, S.A. Group

The Telefónica Deutschland Group reports the following assets with and liabilities to the companies belonging to the Telefónica, S.A. Group:

As of 31 December

(in EUR million)	**2019**	2018
Assets with the Telefónica, S.A. Group	**1,178**	**778**
that are recognised in the following items in the Consolidated Statement of Financial Position:		
Right-of-use assets	373	–
Trade and other receivables	38	40
Cash and cash equivalents (cash pooling)	767	737
Liabilities to the Telefónica, S.A. Group	**940**	**408**
that are recognised in the following items in the Consolidated Statement of Financial Position:		
Lease liabilities	374	–
Trade and other payables	567	408

Right-of-use assets

The right-of-use assets essentially comprise the leased space for active equipment on the towers leased from Telxius Towers Germany GmbH.

Trade and other receivables

These receivables result from transactions in goods and services such as roaming and commissions for insurance services, as well as licence agreements between Telefónica Deutschland Group and the Telefónica, S.A. Group. As of the reporting dates of 31 December, the line item contains receivables from Telefónica, S.A. of EUR 4 million in 2019 (2018: EUR 4 million).

Cash and cash equivalents (cash pooling)

The assets with respect to the Telefónica, S.A. Group as a result of cash pooling relate to the cash pooling agreement with Telfisa Global B.V.

Lease liabilities

The lease liabilities essentially comprise the space for active equipment on the towers leased from Telxius Towers Germany GmbH.

Trade and other payables

This item primarily relates to liabilities sold by the suppliers of Telefónica Germany GmbH & Co. OHG to Telefónica Factoring España, S.A., in which Telefónica, S.A. has an interest. In addition, the item includes licence agreements and social security benefits for the entire Telefónica, S.A. Group.

As of the reporting dates of 31 December, the line item contains payables to Telefónica, S.A. of EUR 7 million in 2019 (2018: EUR 7 million).

Revenues, other income, expenses, depreciation, amortisation and interest expenses relating to Telefónica, S.A. Group

1 January to 31 December	Revenues, other income and interest income		Expenses, depreciation of right-of-use assets, interest expenses	
(in EUR million)	**2019**	2018	**2019**	2018
Telefónica, S.A. Group	35	39	(148)	(148)

Revenues and other income are mainly generated from goods and services such as roaming and mobile phone insurance.

The expenses include group fees totalling EUR 34 million in 2019 (2018: EUR 37 million) as well as expenses from the purchase of goods, services, rent and other expenses from transactions with the Telefónica, S.A. Group such as IT services.

12.2. Transactions with Management Board and Supervisory Board

a) Management Board

In financial year 2019, key management personnel included the following members of the Management Board:

— Markus Haas (CEO)

— Markus Rolle (CFO)

— Cayetano Carbajo Martín (until 14 October 2019)

— Valentina Daiber

— Guido Eidmann (until 31 October 2019)

— Nicole Gerhardt

— Alfons Lösing

— Wolfgang Metze

— Mallik Rao (since 15 October 2019)

The remuneration system of Telefónica Deutschland Group for the members of the Management Board and the Supervisory Board is described in further detail in the Combined Management Report, Remuneration Report.

In the financial years to which the Consolidated Financial Statements relate, the members of the Management Board have not carried out any transactions with the Telefónica Deutschland Group other than as part of the normal trading and business activities of the Telefónica Deutschland Group.

In accordance with section 314 (1) no. 6a HGB, the total remuneration granted to the Management Board of Telefónica Deutschland Holding AG for the financial year ended 31 December 2019 amounted to EUR 6,628 thousand. In the reporting year, the total remuneration includes share-based compensation on the free transfer of shares with a fair value of EUR 707 thousand at the grant date for 132,620 shares.

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

The total remuneration granted to the Management Board in accordance with section 314 (1) no. 6a HGB in 2018 amounted to EUR 6,163 thousand. The total remuneration for the financial year 2018 includes share-based compensation on the free transfer of shares with a fair value of EUR 559 thousand at the grant date for 105,556 shares.

Salaries and other benefits according to IAS 24.17 that were granted to active Management Board members are composed as follows:

1 January to 31 December

(in EUR thousand)	2019	2018
Total remuneration	**8,381**	**6,883**
thereof:		
Short-term employee benefits	5,921	5,604
Other long-term employee benefits	1,279	679
Share-based payments	528	131
Service cost	653	469

The following changes took place regarding the conditional rights to the free transfer of shares (bonus shares) for Telefónica, S.A.'s share options for the Management Board members (for further information see the Management Report, Remuneration system for Board Members):

(In units)	2019	2018
Share options as of 1 January	**105,556**	**60,345**
Forfeited share options	(541)	(60,345)
Newly issued share options	132,620	105,556
Share options as of 31 December	**237,635**	**105,556**

The defined benefit liability for members of the Management Board amounted to EUR 3,355 thousand in financial year 2019 (2018: EUR 2,980 thousand).

As of 31 December 2019, the net defined benefit liability for members of the former management and their surviving dependants amounted to EUR 17,587 thousand (2018: EUR 16,195 thousand).

For further details of the pension obligations of the Telefónica Deutschland Group, please refer to Note 4.15 Provisions.

In financial year 2019, the total remuneration expense for the members of the former management and their surviving dependants amounted to EUR 485 thousand (2018: EUR 468 thousand).

b) Supervisory Board

Name	Member of the Supervisory Board	Remuneration (in EUR) 2019
Laura Abasolo García de Baquedano	Since 12 May 2015	2,000
Christoph Braun	Since 01 July 2016	40,000
Sally Anne Ashford	Since 18 September 2014	20,000
Martin Butz	Since 17 May 2018	20,000
Pablo de Carvajal Gonzalez	Since 25 July 2018	2,000
Patricia Cobian González	Since 18 September 2012	2,000
Peter Erskine	Since 19 May 2016	20,000
María García-Legaz Ponce	Since 07 June 2018	2,000
Cansever Heil*	Since 03 April 2019	14,959
Christoph Heil*	From 3 June 2013 to 17 May 2018; since 3 April 2019	14,959
Sandra Hofmann**	From 17 May 2018 to 18 February 2019	2,685
Michael Hoffmann	Since 05 October 2012	70,000
Julio Linares López	Since 16 October 2017	20,000
Thomas Pfeil	Since 03 June 2013	20,000
Joachim Rieger***	Since 31 October 2014	24,500
Dr Jan-Erik Walter	Since 03 June 2013	20,000
Claudia Weber	Since 03 June 2013	20,000

* Christoph Heil and Cansever Heil were appointed by the court as employee representatives on the Supervisory Board with effect from 3 April 2019 and confirmed in their offices by the delegates' meeting on 26 September 2019.

** Sandra Hofmann resigned from her office with effect from the end of the Supervisory Board meeting on 18 February 2019.

*** In addition to the remuneration pursuant to section 20 of the articles of association of Telefónica Deutschland Holding AG, Joachim Rieger received for his work as a member of the Supervisory Board of the Subsidiary TGCS Essen & Potsdam GmbH an annual remuneration of EUR 4,500, which is already included in the table.

The members of the Supervisory Board received remuneration for their work on the Supervisory Board of Telefónica Deutschland Holding AG and its subsidiaries amounting to EUR 315 thousand in 2019 (2018: EUR 353 thousand).

Members of the Supervisory Board who are also employees of the Telefónica Deutschland Group also receive remuneration from their employment relationship, including entitlements from share-based payment agreements, subject to compliance with the requirements for participation in each individual case, and acquire entitlements as part of pension schemes. This remuneration comprises the following for the period of appointment to the Supervisory Board:

1 January to 31 December

(in EUR thousand)	**2019**	2018
Total remuneration	**656**	**755**
thereof:		
Short-term employee benefits	603	730
Share-based payments	31	7
Service cost	22	18

As of 31 December 2019, the Telefónica Deutschland Group has not granted the members of its Supervisory Board any securities or loans, and has not assumed any guarantees on their behalf.

13. Share-based payments

As of 31 December 2019, the Telefónica Deutschland Group had concluded various agreements regarding share-based payments. Share-based payment transactions are accounted for as equity-settled share-based payment transactions. The financial effects of the share-based remuneration systems are, however, of minor importance for the Telefónica Deutschland Group:

- In financial year 2019, personnel expenses resulting from share-based payment transactions amounting to EUR 2 million (2018: EUR 1 million) were recognised in this connection.
- As of 31 December 2019, liabilities resulting from share-based payment transactions to the Telefónica S.A. Group amounting to EUR 4 million (2018: EUR 4 million) are recognised.

14. Information Regarding Employees

The following table presents the breakdown of the Telefónica Deutschland Group's average headcount grouped with respect to their status under employment law:

Average headcount	**2019**	2018
Office staff	8,202	8,650
thereof from joint operations	12	12
Temporary staff	388	340
Total	**8,590**	**8,990**

15. Financial Instruments and Risk Management

As of the reporting date, Telefónica Deutschland Group faces a variety of risks from financial instruments. In this regard, please refer to the statements regarding risk management and financial instruments in the Combined Management Report.

16. 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.

As of 31 December 2019, the equity ratio was 38.1% and 54.9% as of 31 December 2018. The OIBDA amounts to EUR 2,292 million in 2019 (2018: EUR 1,797 million). The change in the equity ratio and OIBDA is mainly due to the first-time application of IFRS 16.

17. Contingent Assets and Liabilities

Indirect claims against the frequency allocation at 800 MHz, 1.8 GHz, 2.0 GHz and 2.6 GHz could result in the reassignment of the 800 MHz, 1.8 GHz, 2.0 GHz and 2.6 GHz frequencies purchased at the 2010 frequency auction. The above frequencies were (indirectly) contested, as there was pending litigation from several cable network operators, broadcasting companies and Airdata AG against the terms and conditions, on which the frequency allocation was based. This litigation was primarily aimed at the allocation conditions for 800 MHz, but also alternatively involved the rescission of the entire allocation decision (i.e. also affecting 1.8 GHz, 2.0 GHz and 2.6 GHz). The actions have now been dismissed in the court of last instance. This ends the legal disputes before the administrative courts. The possibility of additional legal proceedings due to as yet unasserted third-party claims against frequency allocations in 800 MHz in connection with the aforementioned legal action cannot be ruled out. If the appeals are successful, this could result in the reassignment of the frequencies for 800 MHz acquired at the 2010 frequency auction.

As one of the leading network operators in Germany, Telefónica Deutschland Group is exposed to the risk of claims concerning patent violations. In this context, patent owners could assert claims for licence payments and/or for the prohibition of the use of certain patent-violating technologies. This risk is mitigated by Telefónica Deutschland Group's exemption and compensation claims against its relevant suppliers. Besides compensation claims for legal costs, patent owners currently have potential licence claims that come under consideration on the basis of the provisional/court-assessed values in dispute. These claims are almost completely offset by the potentially mitigating exemption and compensation claims. The amount of the legal costs and licence claims is estimated in the low millions.

Telefónica Deutschland Group could be subject to claims or other proceedings arising in the ordinary course of business. The possible effects are of minor significance for the Group's net assets, financial position and results of operations.

18. Purchase and Other Contractual Obligations

The following expected maturities apply to purchase and other contractual obligations:

As of 31 December

(in EUR million)	**2019**	2018
Less than 1 year	1,272	1,584
1 to 5 years	1,381	758
Over 5 years	148	195
Purchase and other contractual obligations	**2,801**	**2,538**

The purchase and other contractual obligations also include short-term leases and leases of assets of low value.

The Telefónica Deutschland Group provides absolute guarantees to secure rental obligations primarily for antenna sites. These guarantees are granted by external financial counterparts.

The guarantees amounted to EUR 146 million as of 31 December 2019. (2018: EUR 96 million).

Telefónica Holding AG has submitted a financing commitment to the German Federal Network Agency in the context of the 5G auction procedure. As part of this agreement, Telefónica Holding AG undertakes to ensure, without restriction and on a permanent basis, that Telefónica Germany GmbH & Co. OHG has access to all funds required to fulfil a bid submitted for the acquisition of a frequency in the auction procedure. This letter of comfort already issued replaces the issuance of a new letter of comfort under the Agreement on the Implementation of the Mobile Communications Summit 2018, in which Telefonica Germany GmbH & Co OHG clarified that the letter of comfort issued in connection with the 2019 frequency auction also applies to secure any claims of the Federal Republic of Germany under this agreement.

For contractual obligations arising from further leases, please refer to Note 19 Leases.

19. Leases

General information

Since 1 January 2019, obligations from operating leases have been recognised in accordance with the requirements of the new IFRS 16 accounting standard. For the reconciliation of lease obligations in accordance with IAS 17 as of 31 December 2018, please refer to Note 3 Accounting Policies.

In the financial year 2018, lease expenses in the amount of EUR 626 million mainly comprised rental expenses for network equipment (i.e., leased lines and base stations), antenna sites, shops and office buildings, and vehicles based on IAS 17. In the financial year 2018, income from subleases amounted to EUR 11 million.

Application of IFRS 16

The application of IFRS 16 resulted in the following presentation of leases in the Consolidated Income Statement:

1 January to 31 December

(in EUR million)	**2019**
Income from operating leases	10
Expenses relating to short-term leases	(24)
Expenses relating to leases of low-value assets	(7)
Depreciation of right-of-use assets	(550)
Interest expenses on lease liabilities	(11)

The total cash outflows for leases in the financial year 2019 amounted to EUR 525 million.

For additions to right-of-use assets in financial year 2019 and the carrying amount of the right-of-use assets as of 31 December 2019 by class of underlying assets, please refer to Note 4.4 Right-of-use assets.

The Telefónica Deutschland Group has various lease contracts that have not yet commenced as at 31 December 2019. The future possible cash out flows for those lease contracts are EUR 63 million.

Subleases

As lessor, the Telefónica Deutschland Group has entered into several sublease agreements for shops and cell sites with antenna towers. Where sublease is classified as a finance lease, the Group recognises Other financial assets at the value of the net investment in the lease.

Future cash inflows from minimum lease payments under finance leases are comprised as follows:

As of 31 December 2019

(in EUR million)	**Future minimum lease payments**	**Unearned finance income**	**Present value of the minimum lease payments**
Due within 1 year	5	0	5
Due between 1 and 5 years	8	0	8
Due in more than 5 years	1	0	1
Total net investment in lease	**15**	**0**	**15**

If the Group is the lessor with operating leases, it recognises the right-of-use assets in the Consolidated Statement of Financial Position. The lease payments received are recognised in the Consolidated Income Statement. Future income from operating leases is comprised as follows:

As of 31 December

(in EUR million)	**2019**	2018
Less than 1 year	4	10
1 to 5 years	6	15
Over 5 years	5	5
Future minimum lease payments receivables from operating leases (2018: Income from subleases)	**15**	**30**

20. Total Auditor's Fees

In the financial years 2019 and 2018, the services listed below provided by the Group's auditors, PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, are recognised in the Consolidated Income Statement.

Because the Telefónica Deutschland Group conducts all of its business in Germany, the entire amount is incurred in Germany.

1 January to 31 December

(in EUR million)	**2019**	2018
Types of fee:		
Audit services	2	2
Other certification services	0	0
Total fee	**2**	**2**

The auditor's fees include especially the fees for auditing the Consolidated Financial Statements of Telefónica Deutschland Holding AG and fees for auditing the annual financial statements of the subsidiaries. Other audit-related services were performed in financial years 2019 and 2018 only to a minor extent.

21. Subsequent Events

Loan

On 14 January 2020 Telefónica Germany GmbH & Co OHG and European Investment Bank (EIB) concluded a EUR 150 million a loan agreement.

Change in the Supervisory Board

On 3 February 2020, Laura Abasolo García de Baquedano informed the Management Board and the Supervisory Board of the company that she was resigning from her position as member and Chairperson of the Supervisory Board effective at the end of 31 March 2020.

The Telefónica Deutschland Group is currently in the process of appointing a successor.

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

22. Declaration of Compliance with the German Corporate Governance Code

The Management Board and the Supervisory Board last submitted a declaration of compliance in accordance with section 161 of the German Stock Corporation Act (AktG) on 30 September and 2 October 2019. The complete wording of the declaration of compliance is available on Telefónica Deutschland's website at **www.telefonica.de/ declaration-of-compliance-2019.**

Munich, 14 February 2020

Telefónica Deutschland Holding AG

The Management Board

Markus Haas

Markus Rolle

Valentina Daiber

Nicole Gerhardt

Alfons Lösing

Wolfgang Metze

Mallik Rao

FURTHER INFORMATION

Further Information
S. 133–162

TELEFÓNICA DEUTSCHLAND HOLDING AG DECLARATION OF THE STATUTORY REPRESENTATIVES

To the best of our knowledge, and in accordance with the applicable reporting principles, the Consolidated Financial Statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Combined Management Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the material opportunities and risks associated with the expected development of the Group.

Munich, 14 February 2020

Telefónica Deutschland Holding AG

The Management Board

Markus Haas

Markus Rolle

Valentina Daiber

Nicole Gerhardt

Alfons Lösing

Wolfgang Metze

Mallik Rao

INDEPENDENT AUDITOR'S REPORT

To Telefónica Deutschland Holding AG, Munich

Report on the Audit of the Consolidated Financial Statements and of the Group Management Report

Audit Opinions

We have audited the consolidated financial statements of Telefónica Deutschland Holding AG, Munich, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2019, the consolidated statement of profit and loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from January 1 to December 31, 2019, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of Telefónica Deutschland Holding AG, which is combined with the Company's management report, for the financial year from January 1 to December 31, 2019. In accordance with the German legal requirements, we have not audited the content of those parts of the group 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 consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § [Article] 315e Abs.[paragraph] 1 HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at December 31, 2019, and of its financial performance for the financial year from January 1 to December 31, 2019, and

— the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the group management report does not cover the content of those parts of the group management report listed in the "Other Information" section of our auditor's report.

Pursuant to § 322 Abs.3 Satz [sentence] 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and of the group 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 Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities 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 consolidated financial statements and on the group management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated 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 consolidated 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 matters of most significance in our audit were as follows:

❶ Appropriateness of revenue recognition
❷ Impact of the initial application of IFRS 16 on lease accounting

Our presentation of these key audit matters has been structured in each case as follows:

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

Hereinafter we present the key audit matters:

❶ Appropriateness of revenue recognition

① In the Company's consolidated financial statements, revenue of EUR 7.4 billion is reported in the consolidated statement of profit and loss. This comprises revenues from the provision of services (mobile service revenues and fixed-line/DSL business), revenues from the sale of handsets, and other revenues. This significant item in terms of amount is subject to particular risk in view of its complexity (e.g., principal versus agent considerations, accounting treatment of multiple-element arrangements, recognition of contract acquisition costs) as well as the number of systems necessary for the accurate recording and allocation of revenue, the constantly changing price and tariff models, and the use of multiple-element arrangements.

In addition, revenue recognition is based to a large extent on estimates and assumptions made by the executive directors. Against this background, the accounting treatment of revenue was of particular significance in the context of our audit.

② In the knowledge that the high degree of complexity and the estimates and assumptions to be made by the executive directors give rise to an increased risk of accounting misstatements, as part of our audit we initially assessed the systems used by the Company and the processes and controls established for the purpose of recording and allocating revenue. This also included an evaluation of the IT systems environment, from the transfer of data from the mediation systems, via the measurement and billing systems, down to entry in the general ledger. As part of this process, we assessed whether revenue had been recognized fully and accurately and verified whether it had been allocated to the correct periods or correctly deferred. In addition, we examined the accounting effects of the multiple-element arrangements and the reporting of business relationships with dealers and business partners. We assessed among other things the appropriateness of the procedure used to account for revenue, and assessed the estimates and judgments made by the executive directors with respect to revenue recognition and deferral. We also examined customer invoices and the associated contracts and receipts of payment on a test basis and verified that the receivables reported as at the reporting date for private and business customers were substantiated. We applied consistent audit procedures for the audit of the operating subsidiaries to ensure that we responded appropriately to the inherent audit risk in the audit area. In addition, we verified the consistency of the methods used to recognize revenue in the Group.

We were able to satisfy ourselves that the systems, processes and controls in place are appropriate and that the estimates and assumptions made by the executive directors are sufficiently documented and substantiated to ensure that revenue is appropriately accounted for.

③ The Company's disclosures on revenue are contained in section "5.1. Revenues" of the notes to the consolidated financial statements.

❷ Impact of the initial application of IFRS 16 on lease accounting

① In the Company's consolidated financial statements, right-of-use assets of EUR 2.5 billion and lease liabilities of EUR 2.5 billion are reported as of the balance sheet date. The right-of-use assets and lease liabilities each represent approximately 15% of total assets. The initial application of the new accounting standard on leases (IFRS 16) had a material impact on the carrying amounts in the opening balance sheet and subsequent measurement in the financial year. The Company transitioned to IFRS 16 using the modified retrospective approach. The comparative information for prior-year periods was not restated. Due to the large number of leases and the resulting transactions, the Company has put in place Group-wide processes and controls for the full and correct recognition of leases. Initial application also necessitated the implementation of a centralized IT system for the reporting of leases. The new accounting standard IFRS 16 requires the executive directors to make estimates and judgments in certain areas. This applies in particular to estimates regarding the exercise of options impacting the term of a lease or to determination of the incremental borrowing rate for the respective lease.

Against this background and due to the complexity of the new requirements of IFRS 16, lease accounting was of particular significance in the context of our audit.

② As part of our audit, we assessed, with the support of our internal (IT and process) specialists, among other things, the appropriateness and effectiveness of the processes and controls put in place by the Company for the purpose of recognizing leases. This also applied to implementation of the centralized IT system for the reporting of leases, and the necessary modifications to the existing transaction processing systems. In addition, as part of our audit we assessed, with the support of our internal (IT and process) specialists, the impact of the initial application of IFRS 16. Together we reviewed the implementation work and assessed the design of the processes set up to report the transactions in accordance with IFRS 16 and the IT tools developed to help implement the new requirements. We inspected the lease agreements on a test basis, verified the identification of performance obligations and assessed whether these were fully and accurately recorded in the centralized system newly implemented for the reporting of leases. In particular, we interviewed Company employees and inspected the appropriate evidence to assess the estimates regarding the exercise of options impacting the terms of a lease and the determination of the incremental borrowing rate to be applied.

We were able to satisfy ourselves that the systems and processes put in place and adapted to IFRS 16, and the controls, are appropriate. Furthermore, we were able to verify that the estimates and assumptions made by the executive directors were sufficiently documented and substantiated to ensure that leases were appropriately accounted for under the initial application of IFRS 16.

③ The Company's disclosures on lease accounting as well as the impact of the initial application of IFRS 16 are contained in section 4.4 of the notes to the consolidated financial statements.

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

- the statement on corporate governance pursuant to § 289f HGB and § 315d HGB included in section "Management Declarations" of the group management report
- the separate non-financial report pursuant to § 289b Abs. 3 HGB and § 315b Abs. 3 HGB

The other information comprises further the remaining parts of the annual report – excluding cross-references to external information – with the exception of the audited consolidated financial statements, the audited group management report and our auditor's report.

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

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

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of the Executive Directors and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report
The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group'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 unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated 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 group 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 group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated 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 consolidated financial statements and on the group 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 consolidated financial statements and this group 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 consolidated financial statements and of the group 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 control.
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group 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.
- 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 Group'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 consolidated financial statements and in the group 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 Group to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.
- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.

- Perform audit procedures on the prospective information presented by the executive directors in the group 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 consolidated 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 group auditor by the annual general meeting on May 21, 2019. We were engaged by the supervisory board on November 25, 2019. We have been the group 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).

We have provided the following services in addition to the audit of the annual financial statements to the audited entity and its controlled undertakings, which have not been disclosed in the annual financial statements or the management report:
We have audited the consolidated financial statements of the company and performed several financial statement audits of subsidiaries. We also provided other assurance services, primarily in connection with sustainability reporting, and other services in connection with regulatory requirements.

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

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

Munich, February 14, 2020

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

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

SUPERVISORY BOARD REPORT FOR THE 2019 FINANCIAL YEAR

Laura Abasolo García de Baquedano,

Chairperson of the Supervisory Board of Telefónica Deutschland Holding AG

Dear Shareholders,

2019 was another eventful year. In the interests of good corporate governance, the Supervisory Board hence collaborated well with the Management Board on the basis of trustful cooperation, advised it and fulfilled its controlling responsibilities in the reporting period with regard to all significant topics.

It thus consistently and responsibly performed its duties as set out by law, the Articles of Association and the by-laws.

Composition of the Supervisory Board

In the beginning of the financial year 2019, the Supervisory Board comprised the following members: Laura Abasolo García de Baquedano (Chairperson), Christoph Braun (Deputy Chairperson) and the Supervisory Board members Sally Anne Ashford, Martin Butz, Pablo de Carvajal González, Patricia Cobián González, Peter Erskine, María García-Legaz Ponce, Michael Hoffmann, Sandra Hofmann, Julio Linares López, Thomas Pfeil, Joachim Rieger, Dr. Jan-Erik Walter and Claudia Weber.

The Supervisory Board member Jürgen Thierfelder had resigned from his office with effect as of the end of 31 December 2018. With effect as of 18 February 2019, Sandra Hofmann left the Supervisory Board after having resigned from her office. Cansever Heil and Christoph Heil were appointed by court order effective as of 3 April 2019 as their respective successors and were confirmed in their offices by the employees´ delegates on 26 September 2019 and elected to the Supervisory Board.

Moreover, the Supervisory Board members María García-Legaz Ponce and Pablo de Carvajal González who had been appointed by court in 2018 were confirmed in office by the Annual General Meeting on 21 May 2019 and elected to the Company´s Supervisory Board until the end of the Annual General Meeting 2022.

As of 31 December 2019, the Supervisory Board members were: Laura Abasolo García de Baquedano (Chairperson), Christoph Braun (Deputy Chairperson) and the Supervisory Board members Sally Anne Ashford, Martin Butz, Pablo de Carvajal González, Patricia Cobián González, Peter Erskine, María García-Legaz Ponce, Cansever Heil, Christoph Heil, Michael Hoffmann, Julio Linares López, Thomas Pfeil, Joachim Rieger, Dr. Jan-Erik Walter and Claudia Weber.

In the Supervisory Board of Telefónica Deutschland Holding AG, the independent member Michael Hoffmann performs the function of financial expert with the expertise as requested by section 100 para. 5 German Stock Corporation Act (AktG).

On 3 February 2020, Laura Abasolo García de Baquedano resigned from her membership and position as Chairperson of the Supervisory Board with effect of 31 March 2020.

Composition of the Management Board

In the beginning of the business year 2019, the Management Board of Telefónica Deutschland Holding AG comprised eight members:
Markus Haas, CEO (Chairperson of the Management Board), Markus Rolle, CFO (Chief Financial Officer),
Cayetano Carbajo Martín (Chief Technology Officer),
Valentina Daiber (Chief Officer Legal & Corporate Affairs),
Guido Eidmann (Chief Information Officer),
Nicole Gerhardt (Chief Human Resources Officer
as well as Labour Director (Arbeitsdirektorin)),
Alfons Lösing (Chief Partner and Business Officer) and
Wolfgang Metze (Chief Consumer Officer).

With effect as of the end of 14 October 2019, Cayetano Carbajo Martín left the Management Board, on 15 October 2019 Mallik Rao (Yelamate Mallikarjuna Rao) succeeded him as Chief Technology Officer. On 1 November 2019, Mallik Rao also took on the business area of Guido Eidmann, who left the Management Board with effect as of 31 October 2019.

On 31 December 2019, the Management Board therefore comprised seven members:
Markus Haas, CEO (Chairperson of the Management Board),
Markus Rolle, CFO (Chief Financial Officer),
Valentina Daiber (Chief Officer Legal & Corporate Affairs),
Nicole Gerhardt (Chief Human Resources
Officer as well as Labour Director (Arbeitsdirektorin)),
Alfons Lösing (Chief Partner and Wholesale Officer),
Wolfgang Metze (Chief Consumer Officer) and
Mallik Rao (Chief Technology and Information Officer).

Cooperation between the Management Board and Supervisory Board

The Management Board and Supervisory Board cooperate in a trusting manner in all relevant matters within and outside of supervisory board meetings.

In the reporting period, the Supervisory Board monitored and supported the Management Board with advice. When its approval was required by law, Articles of Association or by-laws, the Supervisory Board approved after intensive consideration, analysis and discussion in the Supervisory Board. To this end, the Management Board involved the Supervisory Board in all material decisions in a timely manner, submitted oral and written reports to the Supervisory Board and provided additional information when required. When necessary, the Supervisory Board was also able to refer to the expertise of external consultants. In the reporting period, interested Supervisory Board members also took part in special sessions (so-called Deep Dive Sessions) on some topics outside of meetings – each time with the relevant member of the Management Board, for example in the areas of M&A, Finance and HR. Moreover, a strategy workshop took place in the reporting period once more. In addition, the Management Board also provides the Supervisory Board monthly with a written report, which covers in particular relevant financial key performance indicators (KPIs).

The chairperson of the Supervisory Board maintains a regular exchange of information with the Management Board, especially with the chairperson of the Management Board. Notably, there were weekly alignments meetings between the chairpersons of the Supervisory Board and the Management Board, mostly by telephone. Here they discussed in particular the current status and future development of the Company as well as the progress of current material projects, strategy, corporate policy, business development, risks & chances and their management as well as compliance & governance topics. The chairperson of the Supervisory Board informed the other members of the Supervisory Board of important issues discussed in that context.

Meetings of the Supervisory Board

In 2019, five regular meetings of the Supervisory Board took place, namely on 18 February (meeting on the financial statements for the 2018 financial year; "Bilanzsitzung"), 7 May, 22 July, 23 October and 16 December 2019.

Furthermore, there were seven internal meetings of the Supervisory Board at which Supervisory Board internal topics like the Supervisory Board´s efficiency survey as well as Management Board service agreements and succession planning were discussed.

Moreover, there were two extraordinary meetings on 15 March and 10 December 2019.

In 2020, there was one meeting so far, on 17 February 2020 (meeting on the financial statements for the financial year 2019, "Bilanzsitzung"). In the meeting of the financial statements ("Bilanzsitzung") – next to the financial topics – especially Corporate Governance topics and the preparation of the AGM were dealt with. In context of the meeting, the Management Board and the Supervisory Board thanked the Chairperson of the Supervisory Board, Laura Abasolo García de Baquedano, who leaves by end of 31 March 2020, for the outstanding and trustworthy collaboration.

Material issues dealt with by the Supervisory Board

The first meeting of the Supervisory Board in the 2019 financial year was the meeting on the financial statements of the financial year 2018 ("Bilanzsitzung"). It took place on 18 February 2019. The main focus of this meeting was on the review and approval of the corporation and group financial statements and the combined management report for the 2018 financial year, as well as on processing of the dependency report and the non-financial report. Moreover, there was further reporting by the Management to the Supervisory Board inter alia pursuant to section 90 German Stock Corporation Act (AktG).

Furthermore, the Audit plan for 2019 was presented.
In addition to these topics the Supervisory Board considered the agenda and resolution motions for the Annual General Meeting on 21 May 2019. Furthermore the business strategy, regulatory and corporate governance topics were discussed as well as the upcoming spectrum auction. In absence of the Management Board, the Supervisory Board then considered Management Board remuneration topics and resolved on the contract extension as well as the formal appointment of the chairperson of the Management Board, Markus Haas, until the end of 31 December 2022.

On 15 March 2019, the Supervisory Board addressed the Spectrum Auction and related topics in detail at an extraordinary meeting of the Supervisory Board. At this meeting, it also implemented a resolving committee of the Supervisory Board, the so-called Spectrum Committee, which for the duration of the auction supported the Management Board by providing advice.

The agenda of the Supervisory Board meeting on 7 May 2019 comprised in addition to the financial results for Q1 and the outlook also updates on the Spectrum Auction, HR; network topics and the upcoming Annual General Meeting. Moreover, operational topics like the agreement with Vodafone on cable wholesale access and relevant business developments in the corporate units were discussed. Additionally, the Supervisory Board discussed Management Board succession planning on that date.

This topic was also considered by Supervisory Board at its internal meetings on 16 and 29 May 2019. In view of the expiry of the CTO contract by the end of the year, the Supervisory Board resolved on 29 May 2019 to nominate Mallik Rao as successor of Cayetano Carbajo Martín and approved the respective contractual terms. Moreover an amendment to the Schedule of Responsibilities of the Management Board was approved which assigned the responsibility for the B2B business area directly to the chairperson of the Management Board.

On 16 July 2019, there was a strategy workshop together with the Management Board. There relevant strategic topics from all Management Board areas were discussed in an informal setting. Subsequently, there was an internal Supervisory Board meeting where Supervisory Board continued with its discussions on succession planning held in May.

Among other things, the meeting on 22 July 2019 addressed the half-yearly financial numbers, Audit & Risk Management, Public Affairs, Corporate Finance as well as Compliance topics. At this meeting, the Spectrum Committee was dissolved. At an internal meeting on the same day, the Supervisory Board focused on Corporate Governance topics including the German Corporate Governance Code as of 9 May 2019 as well as other statutory changes to Stock Corporation Law, pre-discussions of the Compliance Declaration as well as the upcoming annual efficiency survey of the Supervisory Board. Moreover, there were discussions on management board remuneration terms – also in view of potential contract extensions – and a new Long Term Incentive plan (LTI) was approved.

On 30 September 2019 there was an internal Supervisory Board meeting at which the Supervisory Board approved the extension of the management board member service agreements and the appointment of Markus Rolle, Valentina Daiber, Nicole Gerhardt, Alfons Lösing and Wolfgang Metze to the Board ("Organbestellung") until the end of 23 July 2023. Furthermore, on the same day the Supervisory Board resolved on the Compliance Declaration in accordance with section 161 Stock Corporation Act (AktG).

At the meeting on 23 October 2019 in particular the Q 3 results and the long term business plan were discussed. Additionally, there were updates on NT and B2B topics. On the same day, there was another internal meeting of the Supervisory Board at which the results of the efficiency survey of the Supervisory Board were presented. Furthermore, at this meeting the Supervisory Board considered the termination agreement with Guido Eidmann, who left the Management Board as of 31 October 2019. Mallik Rao was appointed as CTIO effective on 1 November 2019 in the same meeting. Moreover, in this context the size of the Management Board was determined as seven and the Schedule of Responsibilities was adapted accordingly.

At an extraordinary meeting in the evening of 10 December 2019, the Supervisory Board considered relevant financial topics such as dividend options and policy as well as the adjustment of the Financing Policy including the target leverage – in advance of the Investor Relations strategy update of the Management Board which took place the following day.

At the meeting on 16 December 2019, in particular, the budget for the financial year 2020 was approved. Moreover, there was an update on several Management Board departments, including the new CTIO department, as well as on the agenda of the Annual General Meeting scheduled for 20 May 2020. Following this meeting there was an internal Supervisory Board meeting at which the results of the Efficiency Survey of the Supervisory Board and the effectivity of the work of the board and its committees were discussed in detail. Furthermore, information on the statute to implement the second shareholder rights directive into national law (ARUG II) and the status of the German Corporate Governance Code in its version as of 9 May 2019 was provided.

Outside of the meetings the Supervisory Board passed resolutions to the extent required, especially by e-mail. Inter alia the resolution on the final agenda of the Annual General Meeting (including the introduction of a new Conditional Capital 2019/I), Management Board topics (i.a. the appointment of Mallik Rao to the board effective as of 15 October 2019 as well as the termination agreement with his predecessor Cayetano Carbajo Martín) as well as the Management Declaration – following respective preparation at meetings and committees (where applicable). The election of Patricia Cobían Conzález as member of the Audit Committee was effected by e-mail resolution, too.

Committees of the Supervisory Board

The Supervisory Board has installed the following permanent committees: an Audit Committee, a Remuneration Committee, a Nomination Committee and a Mediation Committee. The Supervisory Board regards the Audit Committee and the Remuneration Committee as Key Committees as they meet regularly.

The Audit Committee is inter alia responsible for preparing the decision of the Supervisory Board regarding the approval of the financial statements, discusses the quarterly and half-year reports with the Management Board, monitors the accounting processes and auditing, compliance and the effectivity of internal control systems (including risk management and internal audit systems) and the auditor's review of the financial statements. It furthermore is responsible for the coordination with and selection of the auditor. As of 31 December 2019, the audit committee consisted of the following members:

- Michael Hoffmann (Chairperson)
- Patricia Cobían González (since 1 May 2019)
- Martin Butz and
- Thomas Pfeil.

Laura Abasolo García de Baquedano resigned from her office as member of the Audit Committee with effect as of the end of 31 April 2019.

In 2019, the Audit Committee met four times, on 18 February, 7 May, 22 July and 23 October 2019. It dealt amongst others with the regular topics financial results, auditing, risk management and Integrity services / Compliance. Furthermore, it prepared the Supervisory Board meeting on the annual financial statements ("Bilanzsitzung") and the respective recommendations to the whole board.

Also outside of meetings, the chairperson of the Audit Committee was in close communication with the auditors and internal (especially Finance) departments as well as with Management Board and informed the other members of the Audit Committee of important issues derived from that communication.

As of 31 December 2019, the members of the Remuneration Committee were:

- Sally Anne Ashford (Chairperson)
- Laura Abasolo García de Baquedano
- Claudia Weber and
- Dr. Jan-Erik Walter

The Remuneration Committee is responsible for preparing topics and details relating to Management Board remuneration. In particular, its preparatory work significantly supports the decision making process of the full Supervisory Board. The Remuneration Committee met eight times in the reporting period. It dealt inter alia in detail with the terms of the management board service agreement extensions as well as with new legal developments regarding management board remuneration. The members of the Remuneration Committee also took part in several preparational meetings (so-called Deep Dive Sessions) outside of meetings of the Remuneration Committee. Moreover, the Remuneration Committee also passed resolutions by e-mail outside of meetings.

The Nomination Committee is responsible for proposing suitable candidates to the Supervisory Board for election proposals to the Annual General Meeting.

As of 31 December 2019, the Nomination Committee consisted of the members:

- Patricia Cobián González (Chairperson)
- Laura Abasolo García de Baquedano and
- Pablo de Carvajal González.

In the reported year, the Nomination Committee prepared the election proposal for the Annual General Meeting on 21 May 2019 for the election of the members appointed by court in the previous year, María García-Legaz Ponce and Pablo de Carvajal González.

As of 31 December 2019, the Mediation Committee with the responsibilities as defined in section 31 Co-Determination Act (MitbestG) consists of the following members:

- Laura Abasolo García de Baquedano
- Christoph Braun
- Julio Linares López and
- Christoph Heil (since 2 May 2019).

Sandra Hofmann belonged to the Mediation Committee until 18 February 2019.

There was no need for the Mediation Committee to convene in the reported year.

In order to ensure more flexibility in course of the spectrum auction held by BNetzA in 2019, the Supervisory Board implemented a new resolving committee, the so-called Spectrum Committee on 15 March 2019. The Spectrum Committee performed tasks of the Supervisory Board within the framework of the delegation by the Supervisory Board during the spectrum auction.

Members of the Spectrum Committee were:

- Laura Abasolo García de Baquedano (Chairperson)
- Pablo de Carvajal González (Deputy Chairperson)
- Martin Butz and
- Patricia Cobían González.

After the end of the spectrum auction, the committee was dissolved by resolution of the Supervisory Board on 22 July 2019.

Attendance at Meetings

All members of the Supervisory Board in office for the whole financial year 2019, attended more than half of the meetings in the reporting periods. Insofar as members could not attend meetings of the Supervisory Board or relevant committee meetings in isolated cases, they were excused. They could participate in the passing of resolutions by written vote and used this option in general when they were not able to attend. The individual meeting attendance during the financial year 2019 was as follows:

Member of the Supervisory Board	Number of Meetings*	Attendance	Non-Attendance	Attendance Quota
Laura Abasolo García de Baquedano	26	25	1	96%
Christoph Braun	14	14	0	100%
Sally Anne Ashford	22	19	3	86%
Martin Butz	21	21	0	100%
Pablo de Carvajal González	17	12	5	71%
Patricia Cobián González	20	17	3	85%
Peter Erskine	14	11	3	79%
María García-Legaz Ponce	14	14	0	100%
Christoph Heil (since 3 April 2019)	12	11	1	92%
Cansever Heil (since 3 April 2019)	12	12	0	100%
Michael Hoffmann	18	15	3	83%
Sandra Hofmann (until 18 February 2019)	1	0	1	0%
Julio Linares López	14	12	2	86%
Thomas Pfeil	18	18	0	100%
Joachim Rieger	14	11	3	79%
Dr. Jan-Erik Walter	22	22	0	100%
Claudia Weber	22	21	1	96%
Total	**281**	**255**	**26**	**91%**

* This includes the number of supervisory board and respective committee meetings. The work of the supervisory board which took place outside of meetings, is not reflected herein.

The overview on the individual meeting attendance is also available on the Company´s website at **www.telefonica.de/investor-relations-en/company/supervisory-board/members-attendance-at-meetings.html**.

Corporate Governance

Good corporate governance is essential for corporate success and is therefore in the interest of the company's shareholders. Further details on the corporate governance of Telefónica Deutschland Holding AG can be found in the Management Declaration pursuant to section 289f in connection with 315d German Commercial Code (HGB) in the Annual Report and on the company's website at **www.telefonica.de/management-declaration-2019** and in the Corporate Governance Report on the company's website at **www.telefonica.de/corporate-governance-report-2019**.

On 30 September and 2 October 2019, the Management Board and the Supervisory Board approved a new Declaration of Compliance pursuant to section 161 German Stock Corporation Act (AktG). The Declaration of Compliance was published on the company's website at **www.telefonica.de/declaration-of-compliance-2019**. Previous versions of the Declaration of Compliance can be also found at the website.

Six of the 16 members of the Supervisory Board hold positions in the administrative, management and supervisory bodies of the majority shareholder or its affiliated companies. Both the Supervisory Board members and the Management Board members disclose potential conflicts of interest promptly to the Supervisory Board. In the reporting period, no conflicts of interest within the meaning of the German Corporate Governance Code arose.

As of 31 December 2019, the Supervisory Board comprised six female and ten male members (i.e. 37.5% female and 62.5% male members). Thus the Supervisory Board still fulfills the requirements of Art 96 para. 2 German Stock Corporation Act (AktG) which the Supervisory also adopted for itself (a gender diversity quota of at least 30 %) which has to be fulfilled separately by shareholder and employee representatives following a shareholder representative resolution. This quota was fulfilled and even exceeded with two female members on the employee representative side and four female members on the shareholder representative side.

The minimum gender diversity quota for the Management Board is 25%. It was met throughout the whole financial year 2019 (in the beginning of the financial year 2019 two of the 8 members were female, as of 31 December 2019 two of the 7 members were female).

Support of Members of the Supervisory Board

In the opinion of the Company, the members of the Supervisory Board are adequately supported when taking up their duties. In particular, an introduction to the activities of the Supervisory Board at Telefónica Deutschland takes place upon taking office. As part of this introduction, the Supervisory Board office and the legal advisors to the Supervisory Board explain the practical and legal principles and also highlight specific issues relating to stock corporation law. Any training and further development requirements of the Supervisory Board are regularly assessed during the course of its work. In the reporting year, general and legal training courses were held, in particular on corporate governance issues and new legal framework conditions. In addition, special meetings (so-called "deep dive sessions") were held for interested members of the Supervisory Board on specific topics in the areas of human resources and finance.

Review of the Financial Statements 2019

Pricewaterhouse Coopers GmbH Wirtschaftsprüfungsgesellschaft audited the annual financial statements and the consolidated financial statements as well as the combined management report of Telefónica Deutschland Holding AG and the Group as of 31 December 2019 and provided each with an unqualified audit opinion. The annual financial statement of Telefónica Deutschland Holding AG and the combined management report for Telefónica Deutschland Holding AG and the Telefónica Deutschland Group were prepared in accordance with German commercial law. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as they are applied in the European Union (EU) and the additional requirements which have to be applied in accordance with section 315e para 1 German Commercial Code (HGB). The auditor carried out the audit in accordance with section 317 German Commercial Code (HGB) considering German principles of proper auditing set by the Institute of Public Auditors in Germany (IDW).

The financial statement documentation of Telefónica Deutschland Holding AG and the Group, the separate non-financial declaration for Telefónica Deutschland Holding AG for the financial year 2019 as well as the respective auditor's reports and the Management Board's proposal for the distribution of profit were submitted to the Supervisory Board prior to the meeting on 17 February 2020 ("Bilanzsitzung"). The Audit Committee and the full Supervisory Board thoroughly reviewed the Annual Financial Statement ("Jahresabschluss"), the Group financial statements, the combined Management Report for Telefónica Deutschland Holding AG and the Group, the separate combined non-financial declaration, the respective auditor´s reports and the Management Board proposal for the distribution of profit and discussed the documents in detail together with the auditor on 17 February 2020. The auditor also reported on scope, material aspects and results of his audit. There was no report on material weaknesses of the internal control system and the risk management system. Management Board explained in this meeting the risk management system besides the annual financial statement of Telefónica Deutschland Holding AG and the Group, the combined management report and the separate non- financial declaration. The Supervisory Board approved the auditor's findings in the audit reports and had no objections after its own assessment.

At its meeting on 17 February 2020, the Supervisory Board approved the annual financial statements of Telefónica Deutschland Holding AG and the consolidated financial statements together with the combined management report for the 2019 financial year; the financial statement of Telefónica Deutschland Holding AG is thereby adopted.

Relations to affiliated companies

The report on relations to affiliated companies (dependency report) as prepared by the Management Board pursuant to section 312 of the German Stock Corporation Act was also audited by the auditor. With respect thereto, the auditor issued the following unqualified opinion (uneingeschränkter Bestätigungsvermerk):

“Based on our audit and assessment, which were carried out in accordance with professional standards, we confirm that

1. the factual statements made in the report are correct, and
2. the payments made by the company in connection with legal transactions detailed in the report were not unreasonably high.”

The dependency report as prepared by the management board and audited by the auditor as well as the audit report on the dependency report were submitted to the Supervisory Board and discussed with in detail in the meeting on 17 February 2020 also with the auditor. Having reviewed the dependency report and the corresponding audit report the Supervisory Board agreed with results of the audit of the dependency report and as the result of its own assessment had no objections against the dependency report and the Management Board’s declaration contained therein.

The Supervisory Board reiterates its gratitude for the good cooperation towards the former member of the Supervisory Board Sandra Hofmann who left the Board in the business year 2019. The Supervisory Board also thanks the former Management Board members Cayetano Carbajo Martín and Guido Eidmann for their outstanding service in the previous years. Their commitment contributed considerably to the success of the company.

Munich, 17 February 2020

On behalf of the Supervisory Board

Laura Abasolo García de Baquedano
Chairperson of the Supervisory Board of
Telefónica Deutschland Holding AG

CORPORATE GOVERNANCE REPORT

The German Corporate Governance Code establishes a standard for transparent control and management of companies. In accordance with no. 3.10 of the German Corporate Governance Code in the version dated 7 February 2017 and in force during the reporting period (DGCK 2017), the Management Board and the Supervisory Board of Telefónica Deutschland Holding AG inform about Corporate Governance as follows. This Corporate Governance Report is also published together with the Management Declaration in accordance with sections 289f in connection with 315d of the German Commercial Code (HGB) on our website at **www.telefonica.de/corporate-governance-report-2019.**

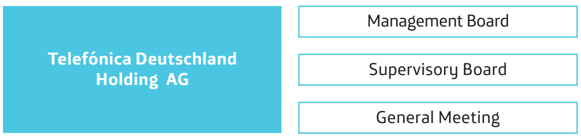
Declaration of Compliance

The Management Board and Supervisory Board of Telefónica Deutschland Holding AG feel committed to the principles of transparent corporate governance and regularly consider the principles of the German Corporate Governance Code. On 30 September and 2 October 2019 they last issued a declaration of compliance in accordance with section 161 German Stock Corporation Act (AktG). The full text of the compliance declaration may also be viewed on the Company's website at **www.telefonica.de/declaration-of-compliance-2019.**

The Company's Governing Bodies

As a German stock corporation, Telefónica Deutschland Holding AG has three governing bodies: the general shareholders' meeting, the Supervisory Board and the Management Board. Their duties and powers are essentially determined by the German Stock Corporation Act, the Articles of Association and the by-laws of both the Management Board and the Supervisory Board.

1 — A — Management and governing bodies



The German Stock Corporation Act (AktG) provides for a strict separation between management and controlling bodies on a personal level.

The managing body is the Management Board. It manages the Company in its own responsibility in the best interest of the Company with the objective of sustainable value creation. The Management Board is monitored and advised by the Supervisory Board. Management Board and Supervisory Board work together closely in the interest of the welfare of the Company. All transactions and decisions that are of fundamental or material importance to the Company are carried out in close coordination between the Management Board and the Supervisory Board.

The Management Board informs the Supervisory Board regularly, promptly and comprehensively on all material questions regarding the Company, especially on planning, business development, strategy, risk situation and risk management as well as on compliance. Furthermore, the Management Board provides the Supervisory Board with information in case deviations of plans or objectives may occur in course of conducting of business and of the reasons thereof.

Details regarding the composition and the operating principles of the Management Board, the Supervisory Board and the Supervisory Board's committees can be found in the management declaration (Erklärung zur Unternehmensführung) in accordance with sections 289f in connection with 315d of the German Commercial Code (HGB) on the Telefónica Deutschland website at **www.telefonica.de/management-declaration-2019**.

Taking into account the German Corporate Governance Code[11]), Supervisory Board established a Competence Profile that is described in detail below.

The Supervisory Board is to be composed in such a way that its members as a whole possess the knowledge, ability and expert experience required to properly advise and supervise the Management Board. Each member of the Supervisory Board should be prepared and in a position to invest sufficient time and input and have the necessary personal qualities, in particular integrity, motivation and personality to fulfil their office. All members of the Supervisory Board shall consider responsible and ethical behaviour of a reputable business person.

[11] Based on GCGC 2017 as the GCGC applicable to the financial year 2019, the reporting period. The composition criteria (concrete objectives) and the competence profile of the Supervisory Board meet the requirements of the GCGC 2020.

In addition, each member of the Supervisory Board should have specialist knowledge in at least one of the areas relevant for advising and supervising the Management Board. The different professional backgrounds, specialist knowledge as well as personal experience of the members should complement each other, so that the Supervisory Board can draw upon as wide a range as possible of experience and varieties of specialist knowledge, e.g. Finance, M&A, Marketing & Sales, Legal and Regulatory, HR, Network & Technology.

The Supervisory Board has specified concrete objectives regarding its composition[11] considering inter alia the specifics of the Company, its shareholders' structure and the Company's international activities, diversity and taking into account that half of the members of the Supervisory Board are elected by the employees pursuant to German Co-Determination law. In this context, the Supervisory Board has set the following objectives regarding its composition:

- The Supervisory Board has at least two independent members (within the meaning of no. 5.3.2 and 5.4.2 German Corporate Governance Code) and should not include any persons who hold an office (e.g. at a significant competitor) which may create a material and not only temporary conflict of interest.
- At least 30% of the members of the Supervisory Board should be female, at least 30% male.
- At least one third of the Supervisory Board members to be elected by the General Meeting should have international working experience, knowledge of the English language as well as an understanding of global economic contexts ("internationality").
- The standard term of office of supervisory members should end with the Annual General Meeting following the supervisory board reaching 75 years of age unless an individual member´s experience is of special value to the Company and the Supervisory Board has approved such exception.
- A standard limit of 15 years, i.e. three full terms of office, shall apply to members of the Supervisory Board. In the Company´s best interest and upon approval by Supervisory Board, deviation from the general maximum period is possible, especially in order to fulfill other composition criteria.

In addition to the legal requirements, the Supervisory Board - taking the recommendations of the German Corporate Governance Code 2017 into account with regard to the independence - determines the following criteria for independence.

Independent members are members who:

- are not directly or indirectly employed by Telefónica Deutschland or its major shareholder or any of companies affiliated with them and / or
- do not currently hold a board function (whether executive or non-executive) at Telefónica Deutschland´s major shareholder or any of the companies affiliated with them and/ or
- do not have a material shareholding. A material shareholding in this sense means 3% of the shares of the Company and / or
- are not closely related (in the meaning of art. 3 para. 1 no. 26 of the Market Abuse Regulation) to an executive or non-executive board member of Telefónica Deutschland or its major shareholder or any of the companies affiliated and / or
- have no material relationship (e.g. commercial agreement like sales, customer/supplier, consultancy or other agreement) with Telefónica Deutschland or its major shareholder or any of the companies affiliated or its governing bodies which could constitute a (not just temporary) conflict with the best interest of the Company and / or
- are not members of governing bodies of, or exercises advisory functions at, significant competitors of the Company.

In the Supervisory Board´s opinion, the number of at least two independent[12] members of the shareholder representatives was appropriate[13] in the reporting period.

One of the independent members shall act as the financial expert with the expertise required pursuant to sec. 100 para. 5 of the German Stock Corporation Act.

The independent members of the Supervisory Board of Telefónica Deutschland Holding AG in the financial year 2019 were Michael Hoffmann and Sally Anne Ashford. Both are independent of the Company Telefónica Deutschland and its Management Board as well as of the controlling shareholder[14]. In the financial year 2019, all further representatives of the shareholder representative side of the Supervisory Board of Telefónica Deutschland Holding AG (Laura Abasolo García de Baquedano, Pablo de Carvajal González, Patricia Cobían González, Peter Erskine, María García-Legaz Ponce and Julio Linares López) were also independent of Telefónica Deutschland and its Management Board in the financial year 2019.

[12] Based on GCGC 2017 as the GCGC applicable to financial year 2019, the reporting period.
[13] Moreover, In the Supervisory Board´s (shareholder side) opinion, the number of at least two members of the shareholder representatives independent of the controlling shareholder and a number of five members independent of Telefónica Deutschland and its Management Board is appropriate in future according to the stipulations of GCGC 2020.
[14] Thus the independence criteria of GCGC 2020 are met as well.

Michael Hoffmann also was the independent financial expert within the Supervisory Board.

Supervisory Board is convinced that these concrete targets also reflect the shareholder structure appropriately.

Supervisory Board considers these concrete targets and the competence profile as currently met.

The abovementioned competence profile and the composition criteria form the requirements of the diversity concept to be met by the Supervisory Board, see also **www.telefonica.de/management-declaration-2019.**

Relationship to Shareholders and the General Meeting

The shareholders are generally informed four times a year about the financial and earnings situation and business development.

The Company provides for further information on its website **www.telefonica.de/investor-relations**, especially the financial calendar. Furthermore, analyst conferences, roadshows and meetings take place, there was also a so-called Strategy Update on 11 December 2019.

The shareholders exercise their rights according to the law and the Articles of Association before and during the General Meeting, especially by exercising their voting rights (amongst others on profit distribution, discharge and the election of the auditor).

Risk Management

For the management and supervisory board of Telefónica Deutschland Holding AG, internal control and risk management are fundamental tools. The risk management department reports regularly to the Management Board and the audit committee on current risks, action plans and developments. The risk management process is designed to timely identify, evaluate and mitigate corporate risks through constant communication with the relevant stakeholders. The risk management system is reviewed by the external auditor and is continuously improved.

You may find further details in the Section “Report on Risks and Opportunities” within the Annual Financial Statements.

Compliance

Telefónica Deutschland Group is committed to comply with all laws, regulations, processes, rules and enactments applicable to its business activity. The Company has a compliance department that is concerned with the implementation and optimisation of the compliance organisation within the whole Company, the coordination of compliance activities and advises employees on their questions. The approach pursued is preventive, raising awareness and informing employees in order to preclude potential violations of rules. Employees and third parties have the possibility to report suspected breaches of law e.g. via an external whistleblower system, the Ombudsmann, in a protected manner.

The compliance program focuses on behaviours protecting fair competition, avoiding corruption and conflicts of interests as well as on ethically appropriate behaviour. These topics are covered by mandatory online trainings, as are the areas of data protection, anti-discrimination and information security. Each employee is required to complete certain mandatory training sessions in regular intervals based on his or her job responsibilities. Clear guidelines and policies were established for the most important compliance matters.

The existing Compliance Management System is continuously enhanced in order to adjust it to the changing legal and economic conditions of business operations. The Management Board and the Supervisory Board (especially the Audit Committee which is in charge of monitoring internal control systems and compliance) is informed regularly on compliance activities.

In this overall context, the Company has also a Capital Market Law department in the General Counsel area which ensures that the insider rules are complied with (including trainings and maintaining insider lists registering persons who act for the Company and have authorised access to insider information in accordance with the Market Abuse Regulation, MAR).

Management as well as Supervisory Board deal with the topic of compliance on a regular basis.

Transparency and Communication

Shareholders may access information on the Company on Telefónica Deutschland´s website. This includes press releases, corporate news and communications to the capital markets such as ad-hoc news. The Company’s Articles of Association are also published on the website.

Relevant Shareholdings of Management and Supervisory Board

Some members of the Management Board and the Supervisory Board hold shares of Telefónica Deutschland Holding AG. No member of the board holds options on shares of Telefónica Deutschland Holding AG.

As per 31 December 2019, the Management Board held approximately 0.0034% of the shares of Telefónica Deutschland Holding AG. These shareholdings were obtained through the stock market and are listed – if applicable – as managers´ transactions.

As per 31 December 2019, the Supervisory Board held approximately 0.0001% of the shares of Telefónica Deutschland Holding AG. These shareholdings were obtained through the stock market and are listed – if applicable – as managers´ transactions.

Managers´ Transactions

According to sec. 19 Market Abuse Regulation persons discharging managerial responsibilities, as well as persons closely related to them are obliged to disclose transactions in shares or debt instruments of Telefónica Deutschland or other derivatives or financial instruments linked thereto if the value of these transactions reaches EUR 5,000 per annum.

Respective declarations can be found on the Telefónica Deutschland website at **www.telefonica.de/managers-transactions**.

Accounting and Auditing

PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft with seat in Frankfurt am Main, branch Munich, has been elected as auditor and group auditor for the financial year 2019 by resolution of the Annual General Meeting on 21 May 2019.

MANAGEMENT DECLARATION IN ACCORDANCE WITH SECTIONS 289f IN CONNECTION WITH 315d OF THE GERMAN COMMERCIAL CODE (HGB)

1. Declaration of compliance in accordance with section 161 of the German Stock Corporation Act (AktG)

Pursuant to section 161 of the German Stock Corporation Act (AktG), the management board and the supervisory board of a listed stock corporation are required to declare annually that the Company has complied and is complying with the recommendations of the "Government Commission for the German Corporate Governance Code", as published in the official part of the Federal Gazette by the Federal Ministry of Justice, or, alternatively, are to declare which recommendations the Company has not followed or does not follow and why not. The declaration shall be published permanently on the Company's website.

On 30 September and 2 October 2019, the Management Board and Supervisory Board of Telefónica Deutschland Holding AG ("Company") issued a declaration of compliance pursuant to section 161 paragraph 1 German Stock Corporation Act (AktG). The present declaration of compliance refers to German Corporate Governance Code ("GCGC") as amended on 7 February 2017, published in the Federal Gazette on 24 April 2017.

Management Board and Supervisory Board of the Company declare pursuant to sec. 161 para. 1 of the German Stock Corporation Act that since the issuance of the last compliance declaration the Company has complied, and will in the future comply, with the recommendations of the GCGC with the following exceptions:

1. The recommendation in 4.2.3, 2nd paragraph, sentence 4 GCGC that both positive and negative developments shall be taken into account with respect to the structure of the variable remuneration components has not been and will not be followed. The Management Board and the Supervisory Board are of the opinion that the remuneration of the Management Board is nevertheless oriented towards a sustainable Company development. The remuneration consists of fixed as well as of short- and long-term variable components. The relevant parameters for the determination of the variable remuneration are overall oriented towards sustainable development and structured in a way that they, as a whole, do not provide incentives for business decisions which are opposed to the interests of the Company.

2. In 4.2.3, 2nd paragraph, sentence 7 the GCGC recommends that the variable remuneration components shall relate to rigorous and relevant comparison parameters. A partial deviation from such recommendation has been and will be made. The amount of the annual bonus depends to some extent also on parameters regarding Telefónica, S.A. In addition, a part of the long-term remuneration components is dependent on parameters regarding Telefónica, S.A. or may be dependent on such parameters. The Management Board and the Supervisory Board are of the opinion that no misdirected incentives are created thereby.

3. The GCGC recommends in 4.2.3, 2nd paragraph, sentence 6 that the amount of compensation shall be capped, both overall and for variable compensation components. This recommendation has been and will be partially deviated from as for several aspects of the variable compensation no caps have been determined. By doing so, the Supervisory Board shall be granted the necessary room for manoeuvre to ensure the balance between short-term and long-term variable remuneration elements at any time. Furthermore, some of the board member service agreements do not provide for the exact amount of the Company's pension expenses. The Company has assumed the corresponding pension commitments from the respective Management Board member's former employer and continues them unchanged.

4. The recommendation in 4.2.3, 2nd paragraph, sentence 8 GCGC that forbids a retroactive change of performance objectives or comparison parameters has not been and will not be followed. The service contracts partially allow a retroactive change of the criteria for the variable remuneration. From the Management Board's and the Supervisory Board's view, this is necessary because the Company is active in an extremely volatile and innovative market environment, and a change of corporate strategy in the interest of a sustainable Company development must also be possible within the calculation period for the variable remuneration components. Such changes of corporate strategy necessary with a view to reasonable Company interests shall not be hindered or delayed as a result of monetary interests of the members of the Management Board. Thus, in particular the Supervisory Board is of the opinion that flexibility is required as to performance objectives and comparison parameters.

5. The GCGC recommends in 4.2.3, 3rd paragraph that, for pension schemes, the Supervisory Board shall establish the level of provision aimed for in each case also considering the length of time for which the individual has been a Management Board member and take into account the resulting annual and long-term expense for the Company. This recommendation has been and will be partially deviated from. There are defined contribution commitments in place for some Management Board members of the Company which do not aim at a specific pension level. Therefore, with regard to this form of the pension commitments, the Supervisory Board does not refer to an aimed level of provision, since these pension commitments have been assumed from the Management Board member's former employer.

6. Notwithstanding the recommendation in 5.4.6, 1st paragraph, sentence 2 GCGC that the chair and membership in committees is also to be taken into account in the compensation of the Supervisory Board members, only the chair of the audit committee receives an additional compensation. The Company takes the view that this reasonably takes into account the current composition of the Supervisory Board.

This Compliance Declaration and previous declarations of compliance are available on the Company's website, for 2019 at **www.telefonica.de/declaration-of-compliance-2019.**

2. Relevant disclosures of management practices

Telefónica Deutschland Holding AG and its administrative bodies are committed to efficient, sustainable and transparent corporate management as well as to values that form the basis of common business principles described in the Company's code of ethics called "Our Business Principles". This code includes various fundamental principles and guidelines aimed to direct both management and employees in their daily work. It provides valuable help, particularly with respect to business situations in which legal and/or ethical conflicts of interest arise so that decisions can be taken with integrity and professionalism, both in the design and implementation of work processes and in the manner in which the Company interacts with customers, shareholders, employees, suppliers and other stakeholders.

The Company's business principles are available on the Company's web site at **www.telefonica.de/geschaeftsgrundsaetze.**

Compliance with the business principles is of eminent significance since the Company's reputation is built on and affected by decisions and actions taken by its administrative bodies and employees. It is therefore carefully monitored by means of close cooperation between the functions Compliance, Human Resources, Internal Audit, Corporate Responsibility and Legal.

The Company's compliance program includes the main areas of anti-corruption with clear guidelines and procedures, competition law and the avoidance of ethically inappropriate behavior. Employees and third parties have the possibility to report potential breaches of law - especially indications of corruption) in a protected manner e.g, within an external whistleblower system **(www.telefonica.de/ombudsmann).**

The Company's Data Protection Officer monitors compliance with data protection legislation. This is a top priority for the Company. The department "Compliance, Corporate Security & Data Protection" and Internal Audit as well as the department General Counsel report directly to the Management Board.

Further details regarding the compliance organisation of the Company are explained in the Corporate Governance Report which forms part of the Annual Report and is also published on the web site of the Company at **www.telefonica.de/corporate-governance-report-2019.**

3. Composition and working procedures of the Management Board, Supervisory Board and the Supervisory Board's Committees

In the beginning of the business year 2019, the Management Board of Telefónica Deutschland Holding AG comprised 8 members: Markus Haas, Chief Executive Officer ("CEO"), Markus Rolle, Chief Financial Officer ("CFO"), Cayetano Carbajo Martín (Chief Technology Officer), Guido Eidmann (Chief Information Officer), Valentina Daiber (Chief Officer Legal and Corporate Affairs), Nicole Gerhardt (Chief Human Resources Officer and Labour Director "Arbeitsdirektorin"), Alfons Lösing (Chief Partner and Business Officer) and Wolfgang Metze (Chief Consumer Officer).

Effective as of the end of 14 October 2019 Cayetano Carbajo Martín left the Management Board, on 15 October 2019 Mallik Rao (Yelamate Mallikarjuna Rao) succeeded him as Chief Technology Officer. With effect as of 1 November 2019, Mallik Rao also assumed responsibility for the business area of Guido Eidmann, who left Management Board as of 31 October 2019.

On 31 December 2019 the Management Board comprised 7 members: Markus Haas, CEO (Vorstandsvorsitzender), Markus Rolle, CFO (Finanzvorstand), Valentina Daiber (Chief Officer Legal and Corporate Affairs), Nicole Gerhardt (Chief Human Resources Officer and Labour Director "Arbeitsdirektorin"), Alfons Lösing (Chief Partner and Wholesale Officer), Wolfgang Metze (Chief Consumer Officer) and Mallik Rao (Chief Technology and Information Officer).

In accordance with its business principles, the Company has committed explicitly to diversity and equal opportunities in the Company. Supervisory Board and Management Board are convinced that diversity sustainably serves the Company´s best interest. The Diversity Concept for the Management Board consists of the following diversity criteria detailed pursuant to sect. 289f para 2 no 6 German Commercial Code (HGB).

Members of Management Board shall especially provide longstanding leadership from different areas relevant to the Company. At least one member shall have international work or educational experience and the Management Board as a body shall have longstanding experience in telecommunications, finance, sales and staff management.

The Supervisory Board determined in December 2017 in accordance with section 111 paragraph 5 German Stock Corporation Act (AktG) a gender diversity quota of at least 25% for the Management Board, to be met by 30 June 2022, which was fulfilled during the entire financial year 2019 (in the beginning of the business year 2019 two of eight members were female, as of 31 December 2019 two of seven members were female).

Also considering the abovementioned minimum gender quota and taking into account the age limit of 62 years for members of the Management Board as determined in the Management Board service agreements, the Company aims at competencies, skills and experience complementing each other in the best interest of the Company for the administration.

The Supervisory Board ensures together with the Management Board that there is long-term succession planning. In the reported year (e.g. in the Supervisory Board meetings in May 2019 and at a workshop on 16 July 2019), the Supervisory Board concentrated on requirements (skills and knowledge) to Management Board members with a view of a sustainable development in the best interest of the Company. In this context Supervisory Board also made use of external expertise, inter alia for benchmarks. Here they established the criteria (experience and skills) to be considered for each role.

Such targets shall be and were considered by Supervisory Board for appointment and succession planning of members of Management Board and have been met throughout the reporting period. The fulfilment may also be verified via the Curricula Vitae of the members of the Management Board published on the Company´s website at **www.telefonica.de/management-board.**

As part of the diversity strategy and in accordance with section 76 para. 4 of the German Stock Corporation Act (AktG), the Management Board has set targets for the female quota of the management level below the Management Board, reporting level 1 (Berichtsebene 1), voluntarily. The target of 30% to be met by 30 June 2022 shall be achieved via the Company´s diversity strategy. In the reporting period as of 31 December 2019 the share of female members of reporting level 1 could be increased to 22.4% (In the previous year: 21,3% as of 31 December 2018).

The Management Board in its own responsibility manages the Company's business with the objective of creating sustainable value in the Company's interest, taking into consideration the interests of its shareholders, employees and other stakeholders of the Company. The work of the Management Board is governed in particular by the by-laws of the Management Board and by the Company's Articles of Association. The Management Board develops the strategic direction of the Company, coordinating this regularly with the Supervisory Board, and also ensures its implementation.

Each Management Board member is responsible for managing the area of business allocated to it, but without prejudice to their joint responsibility for managing the Company as a whole. All matters of fundamental or material importance for the Company and/or its affiliates, in particular matters regarding organization, Company policy, investment and financial planning as well as all investments significantly exceeding the annual budget approved by the Supervisory Board have to be decided by the entire Management Board. Furthermore, every Management Board member can submit matters to the full Management Board for decision. Transactions and measures of particular significance are also subject to the prior approval by the Supervisory Board.

Management Board meetings are held regularly, generally once per week. Meetings may also be held by phone or video conference. Resolutions of the Management Board may also be passed outside of meetings, in particular by e-mail.

The Management Board reports regularly to the Supervisory Board on the Company's course of business, inter alia by providing the Supervisory Board with written reports each month covering key performance indicators for the Company's business. Moreover, the Management Board must report to the Supervisory Board any transactions of possible material significance to the Company's profitability or liquidity. Finally, the Management Board must report to the Supervisory Board any important events or affairs subject to section 90 para. 1 sentence 3 of the German Stock Corporation Act (AktG). The Management Board performs these measures as required by law.

The Supervisory Board comprises sixteen members, eight shareholder and eight employee representatives.

In the beginning of the financial year 2019, the Supervisory Board comprised the following members: Laura Abasolo García de Baquedano (Chairperson), Christoph Braun (Deputy Chairperson) and the Supervisory Board members Sally Anne Ashford, Martin Butz, Pablo de Carvajal González, Patricia Cobián González, Peter Erskine, María García-Legaz Ponce, Sandra Hofmann, Michael Hoffmann, Julio Linares López, Thomas Pfeil, Joachim Rieger, Dr. Jan-Erik Walter and Claudia Weber.

The Supervisory Board member Jürgen Thierfelder had resigned as of the end 31 December 2018. Sandra Hofmann left the Supervisory Board with effect as of 18 February 2019. As of 3 April 2019, Cansever Heil and Christoph Heil respectively were appointed by court as their successors and on 26 September 2019 confirmed by the employees´ delegates in their offices elected to the Supervisory Board. The Supervisory Board members María García-Legaz Ponce and Pablo de Carvajal González who had been appointed by court in 2018 were confirmed in office by the Annual General Meeting on 21 May 2019 and elected to the Company´s Supervisory Board until the end of the Annual General Meeting 2022.

As of 31 December 2019, the Supervisory Board members were: Laura Abasolo García de Baquedano (Chairperson), Christoph Braun (Deputy Chairperson) and the Supervisory Board members Sally Anne Ashford, Martin Butz, Pablo de Carvajal González, Patricia Cobián González, Peter Erskine, María García-Legaz Ponce, Cansever Heil, Christoph Heil, Michael Hoffmann, Julio Linares López, Thomas Pfeil, Joachim Rieger, Dr. Jan-Erik Walter and Claudia Weber.

As of 31 December 2019, the Supervisory Board consisted of six female and ten male members (i.e. 37.5% female and 62.5% male members). Therewith Supervisory Board continued to fulfill the requirements of section 96 para. 2 German Stock Corporation Act (AktG) as also determined by the Supervisory Board for itself (30% minimum gender diversity quota), such quota to be fulfilled separately by shareholder and employee representatives following a resolution by the shareholder representatives. This quota was fulfilled and even exceeded with two female members on the employee representative side and four female members on the shareholder representative side.

Supervisory Board is convinced that diversity is an important factor to enable its tasks in the best interest of the Company and has committed explicitly to diversity and equal opportunities in the Company in accordance with the Company´s business principles. Supervisory Board is convinced that diversity sustainably serves the Company´s best interest. The criteria of the diversity concept for the Supervisory Board required by sect. 289f para 2 no 6 German Commercial Code (HGB) consist of the competence profile and the composition criteria (concrete objectives) of the Supervisory Board. Supervisory Board is of the opinion that these criteria ensure the diversity serving the best interest of the Company. Details of the competence profile and the composition criteria (concrete criteria)[15] are described in the Corporate Governance Report, published on the Company´s internet site at **www.telefonica.de/corporate-governance-report-2019.**

In the Supervisory Board´s opinion, the number of at least two independent[16] members of the shareholder representatives was appropriate[17] in the reporting period.

[15] Based on GCGC 2017 as the GCGC applicable to the reporting period, the financial year 2019. The composition criteria (comcrete objectives) and the competence profile of the Supervisory board meet the requirements of GCGC 2020.

[16] Based on GCGC 2017 as the GCGC applicable to financial year 2019, the reporting period.

[17] Moreover, In the Supervisory Board´s (shareholder side) opinion, the number of at least two members of the shareholder representatives independent of the controlling shareholder and a number of five members independent of Telefónica Deutschland and its Management Board is appropriate in future according to the stipulations of GCGC 2020.

One of the independent members shall act as the financial expert with the expertise required pursuant to sec. 100 para. 5 of the German Stock Corporation Act.

The independent members of the Supervisory Board of Telefónica Deutschland Holding AG in the financial year 2019 were Michael Hoffmann and Sally Anne Ashford. Both are independent[18] of Telefónica Deutschland and its Management Board as well as of the controlling shareholder. In the financial year 2019, all further representatives of the shareholder representative side of the Supervisory Board of Telefónica Deutschland Holding AG (Laura Abasolo García de Baquedano, Pablo de Carvajal González, Patricia Cobían González, Peter Erskine, María García-Legaz Ponce and Julio Linares López) were also independent of the Telefónica Deutschland and its Management Board.

Michael Hoffmann was the independent financial expert within the Supervisory Board.

The Nomination Committee and the Supervisory Board as a whole consider competence profile and composition criteria (concrete objectives) when recommending candidates to the Annual General Meeting and thus implement the diversity concept of the Supervisory Board.

The requirements defined by the diversity concept were met in the reporting period as evidenced by the Curricula Vitae of the Supervisory Board members detailing professional and personal backgrounds including current mandates, published under **www.telefonica.de/supervisory-board**. The standard age limit established for members of the Supervisory Board is 75 years.

The Supervisory Board advises and monitors the Management Board in the management of the Company on an ongoing basis and must be consulted in all matters outside the ordinary course of business which are of material importance to the Company. The Supervisory Board appoints and dismisses the members of the Management Board and determines the remuneration of the Management Board. The Supervisory Board Chairperson coordinates the activities of the Supervisory Board and cooperation with the Management Board. The principles governing the work of the Supervisory Board and its cooperation with the Management Board are essentially described in the by-laws for the Supervisory Board and in the Company's Articles of Association.

The Supervisory Board holds at least two meetings in a calendar half-year. Meetings of the Supervisory Board may also be held by telephone or video conference, and resolutions of the Supervisory Board may also be passed outside of meetings, in particular by e-mail.

The Supervisory Board reviews the efficiency and effectiveness of its activities and of its committees at least once a year by conducting an extensive survey among all its members thus also in the financial year 2019.

Composition and work of the committees of the Supervisory Board

As of 31 December 2019 there were four committees of the Supervisory Board. The Supervisory Board may implement further committees if necessary. The Supervisory Board receives regular reports on the work of the committees.

The Audit Committee is inter alia responsible for preparing the decision of the Supervisory Board regarding the approval of the financial statements, discusses the quarterly and half-year reports with the Management Board, monitors the accounting processes and auditing, compliance and the effectiveness of internal control systems (including risk management and internal audit systems) and the auditor's review of the financial statements. It furthermore is responsible for the coordination with and selection of the auditor. As of 31 December 2019, the audit committee consisted of the following members:

- Michael Hoffmann (Chairperson)
- Patricia Cobían González (since 1 May 2019)
- Martin Butz and
- Thomas Pfeil.

Laura Abasolo García de Baquedano resigned from her office as member of the Audit Committee with effect as of the end of 31 April 2019.

As of 31 December 2019, the members of the Remuneration Committee were:

- Sally Anne Ashford (Chairperson)
- Laura Abasolo García de Baquedano
- Dr. Jan-Erik Walter and
- Claudia Weber.

The Nomination Committee is responsible for proposing suitable candidates to the Supervisory Board for election proposals to the Annual General Meeting.

[18] Thus the independence criteria of GCGC 2020 are met as well.

As of 31 December 2019, the Nomination Committee consisted of the members:

- Patricia Cobián González (Chairperson)
- Laura Abasolo García de Baquedano and
- Pablo de Carvajal González.

As of 31 December 2019, the Mediation Committee with the responsibilities as defined in section 31 Co-Determination Act (MitbestG) consists of the following members:

- Laura Abasolo García de Baquedano
- Christoph Braun
- Christoph Heil (since 2 May 2019) and
- Julio Linares López.

Sandra Hofmann belonged to the Mediation Committee until 18 February 2019.

In order to ensure more flexibility in course of the spectrum auction held by BNetzA, on 15 March 2019, the Supervisory Board implemented a new resolving committee, the so-called Spectrum Committee. The Spectrum Committee performed tasks of the Supervisory Board within the framework of the delegation by the Supervisory Board during the spectrum auction.

Members of the Spectrum Committee were:

- Laura Abasolo García de Baquedano (Chairperson)
- Pablo de Carvajal González (Deputy Chairperson)
- Martin Butz and
- Patricia Cobían González.

After the end of the spectrum auction, the committee was dissolved by resolution of the Supervisory Board on 22 July 2019.

More details on the composition and work of the Committees of the Supervisory Board are provided in the Supervisory Board Report.

7 February 2020

Management Board

11 February 2020

Supervisory Board

GLOSSARY

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

ADA	Advanced Data Analytics
AktG	Aktiengesetz (German Stock Corporation Act)
ARPU	Average Revenue per User
Art.	Article
Augmented Reality	Computer-aided augmentation of reality
Bitkom	German Federal Association for Information Technology, Telecommunications and New Media, Berlin
BMWi	German Federal Ministry for Economic Affairs and Energy
BNetzA	Bundesnetzagentur
BOLO	Contribution-based benefit regulations of the Essen Association
bp	Basis points
Broadband	Refers to telecommunication in which a wide band of frequencies is available to transmit information
Brexit	British Exit – the act of the United Kingdom leaving the European Union
CAP	Capping limit
CapEx	Capital Expenditure: investments in property, plant and equipment and intangible assets excluding investments in mobile frequency licenses, business combinations and finance leases
CapEx/Sales ratio	Investment ratio - reflects the percentage share of investments in revenues
Carrier	Telecommunication network operator authorised by the federal network agency
Churn	Loss of customers
Cloud services	Dynamic infrastructures, software and platform services, which are available online
CSI	Customer Satisfaction Index
DAX	German Stock Index
DBO	Defined Benefit Obligation
GCGC	German Corporate Governance Code
DRS	German Accounting Standard
DSL	Digital Subscriber Line: technology to transmit data in the local loop to private end-customers
EIB	European Investment Bank
EV	Essen Association
EU	European Union
Euribor	Euro Interbank Offered Rate
ExComm	Executive Committee
FCF	Free cash flow
FDD	Frequency division duplex
FMS	Fixed-Mobile Substitution: replacing fixed network services with mobile telephony services
FTE	Full-time equivalent
FTR	Fixed network termination rates
FttB	Fibre To The Building or Fibre To The Basement. In telecommunications FttB means that the fibre-optic cable is terminated in the user's house (basement).
FttH	Fibre to the Home. In telecommunications FttH means that the fibre-optic cable is terminated right in the user's home or apartment.
GB	Gigabyte
GDP	Gross domestic product
GfK	Gesellschaft für Konsumforschung (consumer research association)
GHz	Gigahertz

Handset	Mobile phone
HGB	Handelsgesetzbuch (German Commercial Code)
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IDW	Institute of Auditors in Germany e.V., Düsseldorf
IFRS	International Financial Reporting Standards
ICS	Internal control system
IoT	Internet of Things
ISIN	International Securities Identification Number
IT	Information Technology
Joint Venture	A joint agreement under which the parties having joint control have rights to the net assets of the agreement
KPI	Key Performance Indicator
KPN	Koninklijke KPN N.V., The Hague, Netherlands
LTE	Long-term evolution: further development of the UMTS/HSPA mobile communications standard
M2M	Machine-to-Machine communication: automatic exchange of information between machines
MBA	Mobile Bitstream Access
Mbit	Megabit
MHz	Megahertz
ms	Milliseconds
MSR	Mobile service revenue
MTR	Mobile network termination rates
MVNO	Mobile Virtual Network Operator: Virtual network operator
Net Adds	New customers for the period less those customers leaving are designated as net additional customers
NPS	Net Promoter Score
O2 (Europe) Limited	O2 (Europe) Limited, Slough, United Kingdom
O_2 My Handy	Monthly payment model for mobile phones and other devices
O_2 Free	The O_2 Free data plan allows customers to remain online with speeds of up to 1 Mbit/s even after they have used all of their high-speed data
OIBDA	Operating Income before Depreciation and Amortisation
OpCF	Operating Cash Flow
OTT	Over-the-top – IP-based and platform-independent services and application (WhatsApp, Facebook, etc.)
PIP	Performance and Investment Plan
Prepaid/Postpaid	In contrast to postpaid contracts, prepaid contracts purchase the credit balance in advance without a fixed contractual commitment
PSP	Performance Share Plan
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
Smart watch	A mobile device which consists of an electronic watch with additional computer functions, attached to a bracelet.
Smartphone	Mobile phone with extensive computer and internet functionalities
SME	Small- and medium-sized enterprises
SMS	Short Message Service
SoHo	Small office/Home office
SOX	Sarbanes-Oxley-Act: US federal law to improve the reliability of reporting
Tablet	A wireless, portable personal computer with a touch screen
TDD	Time division duplex operation
Telefónica Deutschland	Telefónica Deutschland Holding AG, Munich, Germany
Telefónica, S.A.	Telefónica S.A., Madrid, Spain

Telefónica Deutschland Group	The companies included in the Consolidated Financial Statements of Telefónica Deutschland
TKG	Telekommunikationsgesetz (Telecommunications Act)
Translation risk	The risk arising from the translation of accounting items at a later reporting date
TSR	Total shareholder return (return on shares)
ULL	Unbundled Local Loop: bridges the distance between the local exchange and the termination point on the customer's premises or in their home, so it is also known as the "last mile"
UMTS	Universal Mobile Telecommunications Service: international mobile communications standard of the third generation which unites mobile multimedia and telematics service under the frequency spectrum of 2GHz.
VATM	Association of Telecommunications and Value-Added Service Providers, Berlin
VDSL	Very High Data Rate Digital Subscriber Line (see DSL)
Vectoring	Vectoring is a noise-cancelling technology that removes the electro-magnetic interference between lines, enabling higher bit rates.
Virtual Reality	Computer-generated representation of a world (in real time)
VZBV	Federation of German Consumer Organisations, Berlin
Wearables	Wearable computers or wearables are miniature electronic devices that are worn under, with, or on top of clothing
Wholesale	Selling services to third parties who sell them to their own end customers either directly or after further processing

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The Annual Report is available online at
www.telefonica.de/annualreport

Concept and Design
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