Telefónica Deutschland Holding AG

Reporting year 2022

Artists and network engineers translated the signal strengths of the company's powerful 5G network in major German cities into light pulses for an O_2 advertising campaign in late 2021 and captured them photographically.

Magazine

Investor Relations

Financial calendar and contact

2023

22 February
Financial year 2022 – Preliminary results

1 March
Annual Report 2022

10 May
Q1 2023 – Interim statement

17 May
Annual General Meeting

26 July
Q2 2023 – Preliminary results

10 August
Half-Year Report 2023

7 November
Q3 2023 – Interim statement

(Subject to change)

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Foreword by the Management Board

Dear Shareholders, Dear Sir or Madam,

We are currently witnessing a historic turning point with a variety of fundamental changes for politics, the economy and people: Digital transformation, the effects of climate change, new challenges in global economic policy and, last but not least, the new era as a result of the war in Ukraine are determining elements of this development.

As a pioneer and accelerator of digitalisation in Germany, the telecommunications industry is at the heart of these developments. Digitisation based on strong telecommunications networks is part of the people's basic supply in this country, just like electricity or heating.

With more than 44 million accesses, Telefónica Deutschland is the largest mobile communications provider in Germany by number of customers and is therefore decisive in shaping the connected future for society, the economy and politics. With our network expansion and our range of services, we are a key driver of digitalisation. No other mobile network handles as much mobile data as our O_2 network. In 2022, it was 3.5 billion gigabytes – an increase of almost 50 percent compared to the previous year. Yet our corporate activities are based on what drives us every day: We democratise access to a sustainable, digital world to create a better everyday life for everyone.

We enable people's digital participation with our networks and offerings. Digitalisation helps to get through these difficult times. This was true in the time of the COVID-19 pandemic and is true today in times of significantly rising costs of living and more difficult travel conditions. We keep people in dialogue with each other and give them easy and quick access to information.

In a difficult economic environment, our business has been extremely resilient in the 2022 financial year. We are growing. In private and business customers. In mobile as well as in the fixed business and in handset sales. And we are gaining market share from our competitors.

In mobile service revenues (MSR), the key indicator in our industry, we have increased our market share to more than 33 percent; making us the clear № 2 in the market.

Driven by our continued strong operational momentum, we are looking back financially on the most successful financial year in our company's history. Revenues increased by 5.9 percent to EUR 8.224 billion and adjusted OIBDA by 5.3 percent to EUR 2.539 billion in the reporting period. As in previous year, we were able to upgrade our outlook for the 2022 financial year during the year and delivered at the upper end.

The basis of our operational and financial success is our three-year "Investment for Growth" programme, which we successfully completed in the 2022 financial year. 2022 was the final year of the programme and here we have been able to build on the momentum of the previous two financial years, 2021 and 2020, delivering strong operational growth and sustainable financial performance.

In 2020, we had set ourselves ambitious targets with the programme – and we delivered. Cumulated revenue growth over the programme period exceeded 10 percent and the OIBDA margin adjusted for special effects was 30.9 percent in the final year. One of the targets we had set ourselves was cumulated revenue growth of at least 5 percent.

In the three years of the programme, we have invested well over one billion euros each year in improving our network and services. And these investments are paying off. In financial year 2022, we gained more new contract customers in mobile communications than any of our competitors, with more than 1.2 million.

All our commercial areas contributed to growth in 2022. Our core brand O_2 developed particularly impressively. The brand achieved top scores in customer satisfaction. The recommendation rate – also known as the Net Promoter Score – improved even further, and at the same time the monthly churn rate for O_2 postpaid customers was at a good 1.1 percent per month.

In April 2022, we celebrated the 20th anniversary of the O_2 brand in the German market. On this occasion, we also launched the innovative "O_2 Grow" tariff, which automatically increases the data volume for our customers every year – one of the most successful product launches in the history of our company.

We also recorded significant growth in the business customer segment last year. We acquired a number of large companies or significantly expanded our relationship with them. With companies such as the retailer Benetton and the Vorwerk subsidiary Nexaro, we have gained further leading large companies and organisations as customers and partners. In addition, we have

The Executive Board (f. l. t. r.): Alfons Lösing (Chief Partner and Wholesale Officer), Nicole Gerhardt (Chief Human Resources Officer), Markus Haas (Chief Executive Officer, Chairman of the Management Board Telefónica Deutschland Holding AG), Mallik Rao (Chief Technology and Information Officer), Valentina Daiber (Chief Officer for Legal and Corporate Affairs), Markus Rolle (Chief Financial Officer)

also convinced numerous customers of our business customer brand O_2 Business among medium-sized and smaller companies.

New offers such as 5G campus networks developed promisingly. Pioneer customers such as DataPort, the Hamburg-based IT service provider for the public sector, and the Technical University of Munich confirmed the enormous potential of this new technology in 2022.

The partner business again showed a solid development in financial year 2022 and made an important contribution to business dynamics. The quality of our second and partner brands convinces customers and external experts alike. The financial newspaper "Handelsblatt" voted ALDI TALK the most popular telecommunications brand of the year for the ninth time in a row. The partner brand won "connect" magazine's network test of the with a mark of "very good".

No other network operator in Germany is as established in the market with own secondary brands and partners as Telefónica Deutschland. ALDI TALK (Medion Mobile), Tchibo MOBIL, NettoKOM, AY YILDIZ and Ortel Mobile use the company's network services, as do service providers such as Freenet. A central partner continues to be 1&1, the provider obtains network services via a long-term national roaming contract. With Lebara, we implemented a new partner in our network at record speed in 2022.

The foundation for success is the expansion of our mobile network. Here, we made another big step forward in 2022. With an unchanged investment envelope, we rolled-out our 5G network significantly faster than planned. By the end of 2022, Telefónica Deutschland already provided more than 80 percent of the German population with the new super-fast mobile communications standard. We have thus significantly exceeded the original annual target of 50 percent.

As Telefónica Deutschland, we have fulfilled our coverage obligations – as far as is actually and legally possible – in 2022. With our network expansion, we are making a significant contribution to creating equal living conditions in urban and rural areas in the digital world as well. To this end, we are continuously expanding our network. With 4G, we cover more than 99 percent of households nationwide. In every federal state, more than 98 percent of the population has access to network speeds of 100 Mbps. Hence, we are on a par with competition.

In addition to closing grey and white spots in mobile coverage, we are continuing to invest in the digitalisation of our network and thus in the competitiveness of Germany as an economic location. For example, at the end of 2022, we announced that we will transfer our 5G core network into the cloud in future. The software-based 5G cloud core network enables us to upload updates to the network even faster and provide new networking solutions for private and business customers.

The expansion of our network is also receiving external recognition. The renowned "connect Netztest[1]" awarded the O_2 mobile network a "very good" rating for the third time in a row. With an increase of 20 points, the O_2 network has made the biggest leap forward in quality among all German network operators. In the process, we were already able to achieve a partial victory for 5G: According to "connect", the O_2 network has the largest share of "real" 5G nationwide.

As a company, we can continue to invest even in volatile times because we pursue a conservative financial policy at Telefónica Deutschland and rely on a strong balance sheet with low debt and a comfortable liquidity position. Our low leverage gives us sufficient financial flexibility in times of volatile market conditions and increased uncertainty.

Fitch Ratings has affirmed our "BBB" investment grade rating with a stable outlook in 2022. This is not only an important confirmation from the perspective of the capital markets, but also a recognition of the successful implementation of our "Investment for Growth" programme.

At the same time, we remain committed to attractive shareholder remuneration. In light of the good operational, financial and strategic development, we intend to propose a dividend of EUR 0,18 per share for the 2022 financial year to the Annual General Meeting in May 2023.

We consciously focus on sustainability even in volatile times. Accordingly, we are pursuing the ambitious goals of our Responsible Business Plan 2025, the steering tool for our sustainability commitment, without compromise. We reaffirm our goals in the focus areas of Environment & Climate, Products & Services, Employees & Society on the basis of responsible corporate governance.

We firmly believe that successful, profitable business and sustainability complement and drive each other. With this in mind, Telefónica Deutschland has also optimised its energy strategy for the financial year 2023 and beyond. In addition to concluding long-term supply contracts for green electricity, this includes a three-year energy-saving programme.

This includes, among other things, the natural cooling of network elements and the use of artificial intelligence to put parts of the network components at our sites into standby mode at night and in rural areas. We do this without compromising on network performance for our customers. With the programme, we aim to achieve 20 percent gross savings of electricity consumption from financial year 2026 compared to 2021.

For us, assuming social responsibility is part of good corporate governance. Therefore, we are committed in numerous places emphasising on access to digital infrastructure and its sovereign use. A special project in 2022 was our Ukraine aid. In August, we provided Ukraine with a comprehensive package of modern network technology. With this, we want to support the reconstruction of the destroyed telecommunications infrastructure in the country. In total, we have donated around 3,500 network components to Ukraine with a total value of several million euros.

We look back on a successful 2022, in which we successfully accomplished our economic and social goals. This is primarily the result of the extraordinary commitment of the entire Telefónica Deutschland team. Our approximately 7,253 employees have achieved extraordinary things in 2022. At this point, a big thank you goes to the entire team.

As a company, we have made digital inclusion one of our guiding principles. This involves the launch of basic digital training for our employees. We use technologies such as artificial intelligence for employee development, staffing, job rotation and skills management. Digitalisation is the cornerstone and prerequisite for the future success of our company.

In a difficult economic environment, we have successfully implemented our "Investment for Growth" programme. We will continue to build on the achievements. We have set ourselves ambitious targets for financial year 2023, which we want to achieve in the interest of all our stakeholders. We would like to thank our customers, employees, business partners and you, our shareholders, for the trust you have placed in us.

Sincerely yours,
The Management Board

[1] Source: Connect-Mobilfunk-Netztest, issue 1/2023: "very good" (894 points); overall, the following was awarded: once "outstanding" (952), twice "very good" (915 and 894 points).

Vision & Strategy

A child learns in a school chat, grandparents find their way to the museum via a navigation app, a mechatronics technician maintains a machine thanks to a tablet, and a refugee aid worker uses his mobile phone to coordinate accommodation at Berlin's main railway station – digital communication is an essential part of people's life in Germany, in good times and difficult moments, in everyday life and in special situations. A number of things can no longer be done without it. The past year 2022 has shown the importance. Be it a pandemic, war, energy shortages or the Football World Cup – all of this has increased people's need for information and to be close to each other by phone, chat or video. As a result, the data volume in Telefónica Deutschland's mobile network alone increased again by around 50% in 2022 compared to the previous year. No other network transported as much data as O_2's in the past year.

Telecommunications in the focus of politics and the public

Telecommunications services have become system-relevant for society and critical to the success of the German economy. As never before, telecommunications providers are in the focus of political and public attention as the foundation of rapid digitalisation. Especially in the multiple crisis situations of Corona, climate change, war in Europe, disrupted supply chains and record inflation, the demands of users and politicians for secure and stable networks are high. In this context, the telecommunications industry offers solutions for central questions of our time – through smart data analysis to combat pandemics, save on emissions through digital innovations or through affordable access to telecommunications services for everyone in times of high inflation. Telefónica Deutschland's ambition is to give as many people as possible access to a sustainable digital future, creating a better everyday life for all.

With over 44 million mobile accesses, 43 million of which in human hands, the company connects more people with mobile communications than any other provider[2] in this country. Every second German citizen uses the O_2 mobile network. Smart cooperations for fixed services have made the provider the gigabit champion with the largest geographic and technological coverage with gigabit speeds. As an integrated telecommunications provider, the company offers private and business customers a wide range of mobile and fixed network services as well as value-added services.

The associated outstanding importance of these digital infrastructures in this country goes hand in hand with a special responsibility for sustainability and digital inclusion. The company has been dealing with environmental, climate and social issues in a structured manner since 2005 and has launched numerous initiatives. Hereby, the company is making its contribution to a sustainable economy and society.

2022 – another successful year for Telefónica Deutschland

For Telefónica Deutschland 2022 was another record year in its business performance. Revenues of EUR 8.224 billion and OIBDA of EUR 2.539 billion mark all-time highs since the company was founded. Growth rates of 5.9% in revenue, 4.6% in mobile service revenue and 5.3% in OIBDA adjusted for exceptional effects are best values among the active network operators[3] in Germany. The basis for this success is the strategy programme "Investment for Growth" launched in 2020. The higher investment level in accelerated network expansion as well as in the further development of IT structures, already peaked in 2021. The company has advanced to be on par with its competitors in terms of network quality. At the end of 2022, the network operator received the rating "very good[4]" in Germany's most renowned mobile network test for the third time in a row. According to the testers, the company had the largest coverage with "real" 5G. In other independent network tests, Telefónica Deutschland was also able to achieve improved ratings despite stricter test criteria and further closed the gap to the other network operators. One example: For the first time, Telefónica Deutschland was one of only two German mobile networks to receive an 'outstanding' rating in the Smartphone Magazin's Mobile Network Test 2022.

While the 4G network reaches 99% of households, the expansion focus since 2022 has been the roll-out of the most advanced mobile communication standard 5G. The company is expanding the technology faster than any network standard beforehand. In the course of 2022, the original roll-out target was significantly exceeded. At the end of 2022, population coverage was already more than 80%. We are now targeting around 90% by the end of 2023 and nationwide pop coverage with 5G by the end of 2025 at the latest.

Business customers as a growth area

Private and business customers benefit from the technical possibilities of the 5G network through even higher speeds, more capacities, and a significantly enhanced network experience. This can already be experienced at particularly frequented locations such as football stadiums or other major events. With 5G, data-intensive digital applications that depend on fast response times, such as mobile gaming, virtual reality and, in the future, Web3.0 with applications such as the Metaverse, will unfold the full spectrum of their possibilities. 5G offers particular potential for Industry 4.0. As the basis for connected factories, intelligent energy networks, connected driving or smart cities, 5G will transform many industries. In the course of 2022, Telefónica Deutschland has, among other things, set up numerous 5G campus networks for companies from a wide range of industries. Examples include the Helios clinics in Leipzig in the health care environment, DataPort as a provider of administrative IT in Hamburg, and the research facility for materials handling, material flow and logistics at the Technical University of Munich.

The business customer segment thus addressed is a central pillar of the company's growth strategy. New customer wins such as the industrial robotics solution for Nexaro (Vorwerk) or services for the fashion group Benetton are proof of Telefónica Deutschland's increased attractiveness in this market. The network operator can offer its industrial customers a wide range of cloud services, IoT and cyber security through a closely integrated cooperation with the international Telefónica Tech. The company expects significant growth rates in these areas in the future.

[2] VATM market study from October 2022, presentation p.25/26, for 1.7 million M2M cards for O_2 Telefónica.
[3] Business results publications of the network operators Q1 to Q3 2022.
[4] Source: Connect-Mobilfunk-Netztest, issue 1/2023: "very good" (894 points); overall, the following was awarded: once "outstanding" (952), twice "very good" (915 and 894 points).

Strong core brand O_2 and strong partners

The company is historically strong with its core brand O_2 and a broad portfolio of secondary and partner brands such as AY YILDIZ, Ortel Mobile, ALDI TALK (Medion Mobile), Tchibo Mobil and many others in the private customer business. A new addition to the partner network is the virtual network operator Lebara, which has switched its customer base from the Telekom network. A central partner continues to be 1&1, the provider obtains network services via a long-term national roaming contract.

In 2022, Telefónica Deutschland recorded growth in its postpaid business of over 1.2 million accesses – the strongest growth of all network operators[5] in Germany. This growth was mainly driven by the O_2 brand, which celebrated its 20th anniversary in the German market in 2022 and set a new benchmark for mobile offers in German mobile with the tariff innovation "O_2 Grow". Apart from special factors related with new legal regulations, the O_2 brand again achieved low churn rates among its own postpaid customers, most recently 1.1% per month, as well as new highs in the recommendation rate (Net Promoter Score).

In addition, bundling of mobile and fixed network products as well as other additional services in households offers growth opportunities by increasing the number of devices and services used per household. Corresponding marketing campaigns for the O_2 brand played a greater role in 2022.

"Investment for Growth" strategy programme successfully completed

At the end of 2022, Telefónica Deutschland has met or exceeded the medium-term targets of the completed strategy programme in terms of revenue, OIBDA and investments. The targets set at the end of 2019 were achieved despite the pandemic, which has now lasted three years, and the economic effects of the war in Ukraine. The target of cumulated revenue growth of at least 5% in the three-year period is met with a target achievement of more than 10%. With an investment ratio of 14.7% in 2022, Telefónica Deutschland has exceeded its medium-term network roll-out targets within the investment envelope.

This development emphasizes Telefónica Deutschland is an investment opportunity that is resilient even in macroeconomic crises and shows above-average growth. The company operates profitably in Europe's most attractive telecommunications market. It benefits from the global expertise of the Telefónica S.A. Group, one of the world's largest telecommunications groups with more than 360 million customers. Based on a large customer base and strong partnerships, Telefónica Deutschland achieves sustainable revenue and earnings growth. Telefónica Deutschland has guaranteed an annual minimum dividend of EUR 0.18 per share until the financial year 2023, thus providing consistently strong shareholder remuneration.

Looking ahead

Telefónica Deutschland intends to continue its current growth course in the future. For the financial year 2023, the company targets low single-digit percentage year-on-year growth for revenues and OIBDA adjusted for exceptional effects. Growth is expected to come from both the consumer and business segments. In mobile and fixed, the company wants to gain market share and tap into new growth areas in the telecom environment, for example with the Internet of Things, and outside the traditional telecommunications products, for example with insurance services.

The basis remains a steadily growing network performance, which continues to convince the company's customers and partners in terms of quality and price in the long term. The company will again invest more than one billion euros in network quality and in the renewal of its IT infrastructure in 2023. An important factor influencing long-term network performance is the company's access to extensive frequency spectrum. In 2023, the Federal Network Agency will decide on a framework for the continued use of core frequencies of current network coverage. These will expire at the end of 2025. In fixed, the trend towards gigabit accesses and the roll-out of fibre to the home will continue. Telefónica Deutschland holds a 10% stake in the infrastructure expansion company "Unsere Grüne Glasfaser (Our Green Fibre)" in this field and purchases fibre products from national and regional providers.

[5] Business results publications of network operators Q1 to Q3 2022.

Environment, Social, Governance (ESG) as a success factor

Telefónica Deutschland pursues a corporate focus on the environment, social issues and good corporate governance. The framework is set by strict legal and internal criteria. By implementing these criteria, Telefónica Deutschland is taking a leading role in the industry. This is repeatedly confirmed by good ratings in this field. The international Telefónica Group was included in the important CDP-A list for the ninth time in a row. With an ESG Risk Score of 12.7 in a recent evaluation by the provider Systainalytics, Telefónica Deutschland achieved the best result in the category telecommunications services in Germany and worldwide it achieved third place out of 223 companies in its industry. The Bloomberg Gender-Equality Index also confirms the company's strong rating, including an improvement versus the previous year. The rating of the provider Ecovadis delivers a "Gold" result.

The company sees this commitment as part of its corporate responsibility and as a central success factor for long-term successful entrepreneurial action. The company documents its activities in these fields comprehensively and in accordance with clear objectives via the annual Corporate Responsibility Report and a long-term Responsible Business Plan.

One special topic in 2022 was the support provided in the course of the war in Ukraine. As the first network provider to do so, the company donated around 3,500 network elements to the Ukrainian telecommunications industry to stabilise their network infrastructure. More than 100,000 SIM cards as well as several thousand mobile WLAN routers went to aid organisations as emergency aid for refugees. In addition, the company temporarily abolished roaming charges for phone calls to and from Ukraine. Also, call centre employees have arranged more than 1,300 accommodations in Germany for refugees from Ukraine.

Sustainability has been an integral part of Telefónica Deutschland's DNA since 2005 and is a key success factor for the business model. The company wants to make its contribution for enabling Germany and Europe to play a leading role in the digitalisation of economy and society. This also includes taking responsibility and keeping an eye on the impact on the individual, society and the environment in all business activities. The focal points of the Responsible Business Plan 2025 are Environment & Climate, Products & Services and Employees & Society. They are based on the principles for responsible corporate governance that Telefónica Deutschland implements in all business processes.

In view of the energy shortage and energy costs, special attention has been paid to the topic of energy saving since 2022. To this end, the company has launched a three-year energy-saving programme. This includes the natural cooling of network elements, conversion to single RAN technology in the network and the use of artificial intelligence to put parts of the network components at the sites into standby mode at night and in rural areas when the load is low. With the programme, the company aims to achieve gross savings in electricity consumption of 20% annually from 2026 onwards compared to 2021; in 2021, electricity consumption was around 730 gigawatt hours.

Committed to responsible, sustainable digitalisation

The topics of corporate responsibility and sustainability are of great importance to Telefónica Deutschland. Public awareness is also growing, especially among investors – driven by increasing regulation and the public debate around climate change. Rapid digitisation serves climate protection. A study by the ITC industry association Bitkom[6] concludes that accelerated and targeted digitisation can reduce CO_2 emissions in Germany by up to 152 megatonnes by 2030. This corresponds to around one fifth of today's CO_2 emissions and 41% of the savings needed in Germany to achieve the climate target. In efficient production, in managing the energy transition, in an effective circular economy, in questions of sustainable mobility concepts and many other aspects, digitalisation makes a significant contribution on the basis of strong network infrastructures. As a network operator and solution provider for the economy and society, Telefónica Deutschland builds and operates the foundation on which these opportunities for CO_2 reduction are based with its network infrastructure. The company has already made great progress in this field and continues to set itself ambitious goals. (see focus box "Environment, Social, Governance (ESG) as a success factor").

Today, the O_2 mobile network is already powered 100% by green electricity[7]. By 2025 at the latest, Telefónica Deutschland aims to neutralize all of its own business operations (Scope 1 and 2) in terms of CO_2 emissions and to ensure net zero emissions along the entire supply chain (Scope 3) by 2040. The company is leveraging energy efficiencies in the network through the use of 5G, which consumes up to 90% less power per byte compared to predecessor technologies. A new feature is demand-oriented control of the active network components, which switch to energy-saving standby mode when data demand is low. In order to further increase the quality of green power, long-term power purchase agreements, among other things, will secure the demand for green power. To this end, a first agreement was concluded in 2022 for the direct purchase of wind power from a wind farm under construction in the North Sea.

The company is committed to its climate and environmental protection targets. At the same time, social responsibility and digital inclusion are at the core of the company's business activities.

The consistent further development of the business model and business processes is crucial for the responsible design of a sustainable digital world. The company is constantly renewing its IT systems in order to offer customers and employees the best possible and seamless interaction and to become more efficient overall. In an increasingly connected and fast-paced world, the resulting tangible benefits for customers are of increasing importance.

Making employees fit for the digital future

At the same time, it is important to empower employees for the digital future. Digitalisation also confronts many employees with challenges. Telefónica Deutschland is committed to further developing the skills of its workforce for these changes in their professional lives through qualification initiatives. More than 3,500 employees took part in the "Digital Basics" training programme, which was offered for the first time in mid-2021 to impart knowledge of key digital skills. Intensive training on topics such as artificial intelligence, data analysis, metaverse, cyber security and others also had several thousand participants. In addition to training, the company promotes professional mobility and at the same time relies on a high degree of flexibility in the organisation of working hours and work location in order to meet the desire for a work-life balance. Modernised workspaces at the company's premises also increase the attractiveness and effectiveness of office work in the post-Corona era.

A qualified and at the same time motivated workforce sets the basis for gaining satisfied, loyal customers and creating a better everyday life for everyone. In this way, the company contributes to faster digitalisation of economy and society, which is the basis for sustainable prosperity in Germany.

[6] Digitisation and sustainability (bitkom.org)
[7] Green electricity consists of direct purchases and electricity purchases certified with guarantees of certified electricity purchases. Since 2020, the calculation has included not only the Telefónica Deutschland Group, the calculation also includes green electricity from grid network and IT infrastructure used jointly with other companies.

Highlights of the financial year 2022

G 01

Mobile Accesses (Postpaid/Prepaid)
(in EUR million)

G 02

Revenues
(in EUR million)

G 03

OIBDA
(in EUR million)

Adjusted for exeptional effects

G 04

OIBDA-Margin
(in %)

Adjusted for exeptional effects

Telefónica Deutschland continued its growth path of recent years in the financial year 2022 and achieved sustained good operational and financial performance. In the final year of the "Investment for Growth" programme, the company continued to expand its market share in a dynamic yet still rational market environment. The continued momentum of the core business is based on the high O_2 brand appeal, including strong customer demand for the innovative O_2 Grow tariff launched on the 20^{th} anniversary of the O_2 brand in Germany; network quality on par with competition and the company's ESG leadership[8].

As a result of the focused execution of the "Investment for Growth" programme, Telefónica Deutschland made excellent progress in network modernisation and the roll-out of the 5G network. 5G population coverage reached more than 80% by the end of the year. This means that the target set for 2022 was significantly exceeded, due to efficiencies in network roll-out within an unchanged investment envelope.

The renowned network test of the connect magazine[9] awarded the O_2 mobile network a "very good" rating for the third time in a row. With a plus of 20 points, Telefónica Deutschland recorded the greatest quality leap forward among German network operators and achieved a partial victory in the 5G category with the largest share of "real" 5G nationwide. In the Smartphone magazine mobile network test 2022, the O_2 network was one of only two German mobile networks to receive the rating "outstanding".

[8] Telefónica Deutschland Group manages its ESG performance through regular analyses, from which it derives actions for improvement in the areas of environmental and climate protection, social commitment and corporate governance. It also makes use of sustainability ratings. In the ratings by Sustainalytics, Morgan Stanley Capital International (MSCI) and ISS ESG, on which Telefónica Deutschland Group is concentrating, ESG performance was successfully maintained in the reporting year, with good to very good ratings being achieved once again.

[9] Source: Connect-Mobilfunk-Netztest, issue 1/2023: "very good" (894 points); overall, the following was awarded: once "outstanding" (952), twice "very good" (915 and 894 points).

These successes were reflected in trading momentum. Telefónica Deutschland recorded +1,228 thousand postpaid net additions as well as +83 thousand M2M net additions in the past financial year on the back of positive development of the retail consumer business in combination with a robust partner business. The development in the prepaid market, on the other hand, was characterised by a combination of a revenue-neutral technical adjustment of the customer base[10] (–2,535 thousand disconnections) and an ongoing prepaid-to-postpaid migration trend. As a result, Telefónica Deutschland recorded –2,698 thousand prepaid disconnections in 2022.

As part of the Responsible Business Plan 2025, Telefónica Deutschland continued to push ahead with its ESG strategy in the past year. By 2025 at the latest, Telefónica Deutschland aims to neutralise its own business operations (Scope 1 and 2) and to ensure net-zero-emissions along the entire supply chain (Scope 3) by 2040. At the same time, social responsibility and digital inclusion are part of the corporate identity.

Operating performance

The total number of mobile accesses of Telefónica Deutschland decreased by –3.0% in 2022 and amounted to 44.3 million at the end of the year. This development was mainly due to the before mentioned predominantly technical decline of mobile prepaid accesses[11] ex M2M to 16.3 million, –14.2% year-on-year. In contrast, postpaid ex M2M was again a strong growth driver. The number of mobile postpaid accesses increased by +4.9% year-on-year. As of 31 December 2022, 26.3 million accesses were recorded, which corresponded to 59.4% of the total mobile subscriber base and represented a growth of +4.5 percentage points year-on-year. The number of M2M accesses was 1.7 million as of 31 December 2022, an increase of +5.1% year-on-year.

Churn rates in postpaid remained on a low level due to sustained network quality improvements and a multiple award-winning customer experience in the O_2 network. As expected, however, churn rates were slightly above previous year due to the introduction of the European Electronic Communications Code (EECC). As a result, the implied annualised churn rate for the O_2 brand was 13.1%, compared to 11.1% in 2021, while monthly postpaid churn was up 0.1 percentage points year-on-year at 1.3%. Churn in the O_2 brand also increased slightly year-on-year by 0.2 percentage points to 1.1%, remaining on a very low level.

Total mobile ARPU was +1.5% year-on-year at EUR 10.1 in 2022. O_2 postpaid ARPU decreased by –0.7% in 2022, mainly as a result of the accelerated reduction in mobile termination rates (MTR), while the demand for high-value tariffs remained strong. On an MTR-adjusted basis, O_2 postpaid ARPU was slightly up by +0.1% year-on-year, reflecting trends in international roaming.

Fixed broadband recorded a total of +32 thousand net additions in the financial year 2022, compared to +1 thousand in 2021. This increase was largely driven by good demand for cable and fibre tariffs within the technology-agnostic O_2 my Home portfolio. Accordingly, the fixed broadband customer base totalled 2.3 million at year-end 2022, up +1.4% year-on-year. In addition, Telefónica Deutschland saw continued demand for fixed-mobile substitution (FMS) products in its O_2 my Home offerings.

Fixed churn increased by 0.2 percentage points year-on-year to 1.2%. The slight increase is mainly due to the introduction of the European Electronic Communications Code (EECC).

Fixed ARPU increased by +3.3% year-on-year to EUR 25.0 in 2022, reflecting the growing demand for high-speed accesses.

Financial performance

Telefónica Deutschland's continued focus on profitable growth resulted in strong financial performance.

Revenues increased by +5.9% year-on-year to EUR 8,224 million[12] in the financial year 2022, which was in line with the financial outlook raised in the course of the 9M 2022 results. This performance benefited in particular from sustained growth in mobile services revenues[13] (MSR) of +4.6% year-on-year to EUR 5,742 million[14] and record handset revenues. The sustained commercial traction of the O_2 brand and a solid contribution from the partner business more than offset the expected negative impact of the reduction in mobile termination rates within mobile service revenues.

Handset revenues were driven by continued high demand for high-value handsets and their good availability at Telefónica Deutschland. Accordingly, handset revenues grew by +13.9% year-on-year to EUR 1,652 million in 2022. Customers increasingly opted for longer-term handset financing.

At EUR 806 million, fixed revenues remained at the previous year's level.

OIBDA[15] adjusted for exceptional effects grew by +5.3% year-on-year to EUR 2,539 million[16] in the reporting year and was thus in line with the expectations of the twice upgraded outlook. The adjusted OIBDA[17] margin was 30.9%, with the slight decrease of –0.1 percentage points compared to the previous year mainly due to the strong growth of largely margin-neutral handset business.

Capital expenditure (CapEx)[18] amounted to EUR 1,209 million in 2022, compared to EUR 1,284 million in the previous year. This corresponds to a CapEx/Sales ratio of 14.7%, compared to 16.5% in 2021. Telefónica Deutschland successfully completed its three-year network-oriented programme "Investment for Growth" in the financial year 2022. The company made very good progress in network modernisation as well as in 5G roll-out. Furthermore, Telefónica Deutschland is well on track to complete the transition of its core network to the technology of a European manufacturer. The O_2 5G network has already achieved more than 80% population coverage in Germany. This significantly exceeded the initial target for 2022, while Capex remained within the planned envelope due to roll-out efficiencies. The company continues to rapidly roll out 5G and plans to achieve around 90% coverage by the end of 2023 and nationwide coverage by 2025 at the latest.

[10] Introducing a stricter definition for active SIM cards.
[11] Introducing a stricter definition for active SIM cards.
[12] Financial year 2022 includes non-recurring special factors in the amount of EUR +26 million.
[13] Mobile service revenue includes base fees and fees paid by the company's customers for the usage of voice, SMS and mobile data services; it also includes access and interconnection fees as well as other charges levied on partners for the use of the company's network.
[14] Financial year 2022 includes non-recurring special factors in the amount of EUR +26 million.
[15] Adjusted for exceptional effects. Exceptional effects amounted to EUR –16 million in restructuring costs.
[16] Financial year 2022 includes non-recurring special factors in the amount of EUR +26 million.
[17] Adjusted for exceptional effects. Exceptional effects amounted to EUR –16 million in restructuring costs.
[18] CapEx includes additions to property, plant and equipment and other intangible assets while investments for spectrum licenses and additions from capitalised right-of-use assets are not included.

Our share

Telefónica Deutschland's Investor Relations department connects the company with the capital market. Especially in times of high volatility, there is substantial need of the capital market participants' for information. Therefore, our objective is to provide the public with relevant information regularly, quickly and effectively, as well as to inform them transparently about the strategic direction and the operational as well as the financial development of the company. This gives investors the opportunity to make realistic assumptions about the valuation of the company and to take investment decisions accordingly.

Economic situation and capital market environment

At the beginning of 2022, the global economy was robust. Although the spread of the Omicron variant of the COVID-19 virus led to new highs in new infections in many parts of the world, the economic impacts of the pandemic waves were less and less pronounced.

In contrast, the macroeconomic framework conditions increasingly deteriorated with the Russian war of aggression on Ukraine. Higher prices for energy and raw materials as well as the loss of food and fertiliser exports from Ukraine and Russia increased inflationary pressure. In most countries, the inflation rate was at a level last seen several decades ago. While inflation peaked earlier in the US, price pressures remained high for a longer period in the Eurozone.

In the US, growth momentum also declined, but in relative terms the US economy was less affected. In China, economic growth weakened considerably due to the long-term zero-tolerance Corona policy. The risks for a global recession continued to rise, political risks and a more restrictive monetary policy provided sustained headwinds for the global economy. The International Monetary Fund reduced its growth forecasts for the global economy again in October.

Despite these difficult conditions, the German economy held up relatively well over the course of 2022. According to calculations of the Federal Statistical Office, the German economy grew by 2.0% in 2022 compared to 2021, adjusted for price and calendar effects. The number of unemployed in Germany increased slightly from around 2.3 million at the end of 2021 to just under 2.5 million in December 2022. This corresponds to an unemployment rate of 5.4%.

The war in Ukraine, corona lockdowns in China, concerns about sustained high inflation rates and associated restrictive monetary policy, as well as increasing pessimism about the economy, led in part to high price losses on the stock markets last year. Rising interest rates reduced the attractiveness of shares, on the one hand because higher bond yields represented an alternative to shares, and on the other hand because the higher discount factor caused future profits to have a lower cash value. Shares with high expected growth rates reacted particularly sensitively to this.

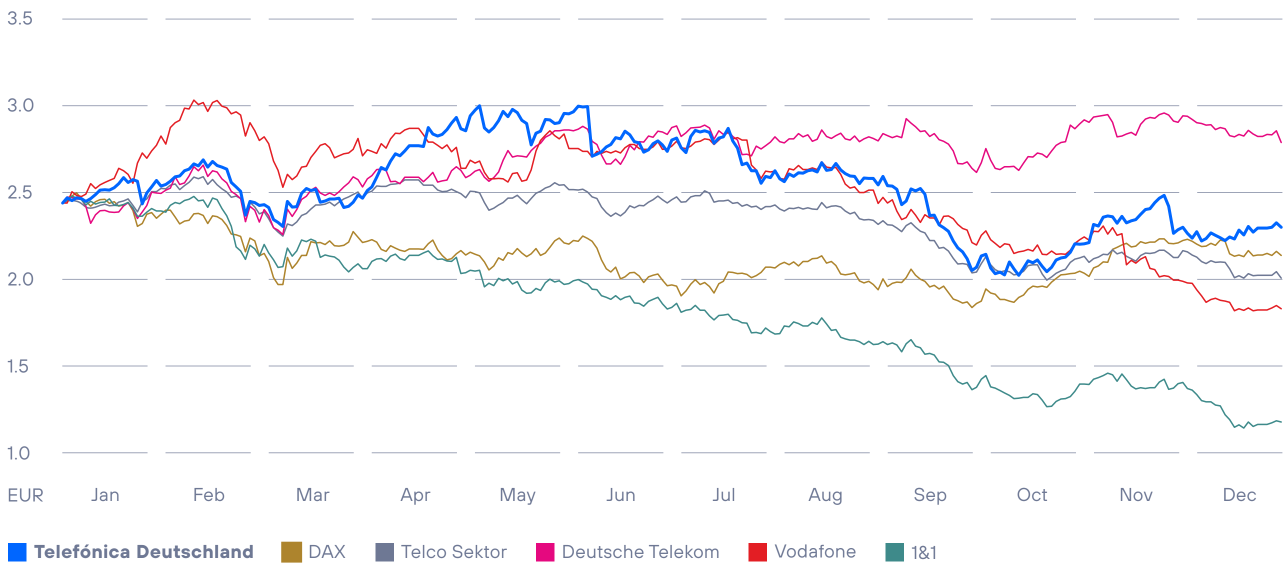
The leading German index DAX and the European STOXX 600 were in a continuous downward trend with several slight counter movements until the end of September last year, when the two indices recorded their respective lows for the year. The STOXX Europe 600 showed more stability than the DAX during this phase. In the subsequent upward movement, however, the DAX was able to compensate for the underperformance and closed slightly better with a minus of –12.3% than the STOXX Europe 600 with a minus of –12.9%. The indices reached their highs for the year directly at the beginning of January last year.

The European telecommunications sector was largely stable in the first eight months of the year, while the two leading indices DAX and STOXX Europe 600 recorded heavy losses. In the following month, the STOXX Europe 600 Telecommunications also came under pressure. The subsequent upward movement was weaker in the European telecommunications sector than in the DAX and the STOXX Europe 600. Accordingly, the STOXX Europe 600 Telecommunications closed with a minus of –17.7% below the DAX and the STOXX Europe 600.

The Telefónica Deutschland share avoided the negative market sentiment for large parts of the year. Following the strong operational and financial results of the first quarter of 2022, the share recorded its in-year high of EUR 3.02 in the course of the day on 7 June 2022. In the following summer months, however, the share recorded a slight downward trend. Even the upgrade of the OIBDA outlook for financial year 2022 on sustained commercial and financial performance at the end of July could not stop it. In September 2022, the share was dragged down by the negative sentiment in the telecommunications sector. In this wake, it recorded its low for the year of EUR 2.01 on 13 October 2022. In the following months, the Telefónica Deutschland share outperformed the market and closed the year with a minus of –5.7% and a closing price of EUR 2.30. Taking into account the dividend of EUR 0.18 per share distributed in May 2022, the annual return of the Telefónica Deutschland share was +1.7 %.

G 05

Share price performance 2022
(1 January to 31 December, rebased)



Shareholder remuneration at Telefónica Deutschland

With sustained strong operational and financial performance, Telefónica Deutschland remarkably continued the company's growth path in the financial year 2022. Following the strong LTE roll-out in 2020 and 2021, Telefónica Deutschland drove the rapid expansion of a high-performance 5G infrastructure in the final year of the "Investment for Growth" programme and made excellent progress in network modernisation within an unchanged investment envelope. The completion of the three-year "Investment for Growth" programme is bearing fruit and continues to drive Telefónica Deutschland towards profitable revenue and margin growth together with an attractive free cash flow profile.

In a competitive market environment, Telefónica Deutschland shareholders will continue to participate in this development. At the same time the company maintaina a conservative financial policy. The focus is on a strong balance sheet with low debt and sufficient financial flexibility. Telefónica Deutschland's leverage ratio (net financial debt / OIBDA) of 1.4x remains below the self-defined upper limit of 2.5x. This means that the company still has considerable scope to maintain its investment grade rating (BBB from Fitch or equivalent).

With regard to the dividend, Telefónica Deutschland maintains a high payout ratio in relation to Free Cash Flow adjusted for leases, exceptional effects and payments for spectrum (FCF aL). As announced in the strategy update in January 2021, the management of Telefónica Deutschland intends to propose a dividend of EUR 0.18 per share for the financial year 2022 to the Annual General Meeting in May 2023. Based on the share price at the end of 2022, this would correspond to a dividend yield of 7.8%. A dividend of EUR 0.18 per share will also be the lower limit for the financial year 2023.

Activities of the Investor Relations department of Telefónica Deutschland

The focus of our Investor Relations work is timely, open and transparent communication. Active and regular dialogue with our shareholders, analysts, potential investors and other national and international capital market participants is at the centre of our daily work. The objective here is to communicate Telefónica Deutschland's business model and strategy in a transparent and comprehensible manner. This approach was consistently continued in 2022. After the measures to contain the COVID-19 pandemic were eased, it was possible to hold more presence meetings again. Nevertheless, the way in which meetings are held has changed significantly and permanently since the COVID-19 pandemic. Some of the face-to-face meetings have been replaced by virtual conferences, roadshows and meetings. In the financial year 2022, the Management Board and the Investor Relations team held approximately 300 investor meetings (2021: 330).

The development of the Telefónica Deutschland share was monitored by 21 analysts. The brokers' share price targets as of year-end 2022 were in a relatively wide range between EUR 1.80 and EUR 3.50. At the end of 2022, the median price target of all analysts' estimates was EUR 2.63, which corresponds to a premium of +14.4% to the year-end price of EUR 2.30. Around 40% of the analysts recommend buying the Telefónica Deutschland share, just under 40% recommend holding it and only less than 25% recommend selling it.

Rating	**Number**
Buy/Outperform/Overweight	8
Hold/Neutral/Equal weight	8
Sell/Underperform/Underweight	5

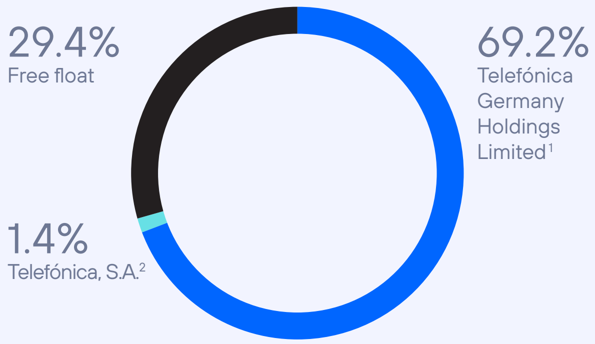
Telefónica Deutschland holds a conference call on the occasion of the publication of each of its financial year and quarterly results.

Here, investors and analysts have the opportunity to address their questions directly to the Management Board. Recordings of these conferences are subsequently available on the company's website for one year.

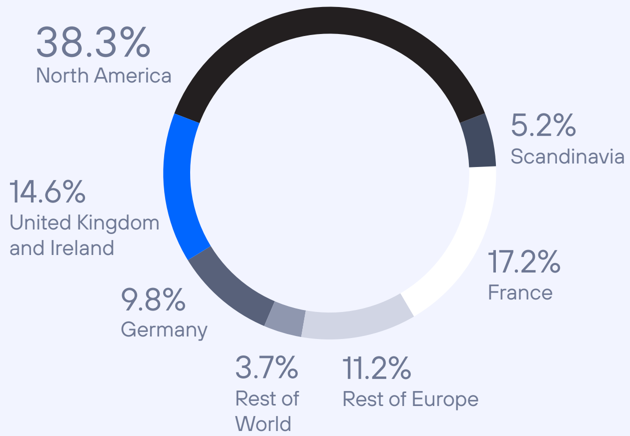
Further information on the company and the Telefónica Deutschland share can be obtained via the contact details provided on page 5.

G 06 / G 07

Shareholder structure of Telefónica Deutschland



Geographical distribution of the free float[3]



[1] Telefónica Germany Holdings Limited is an indirect 100%-owned subsidiary of Telefónica, S.A.; Status: According to shareholder register as of 31.12.2022
[2] Source: Telefónica, S.A. Annual Report 2022
[3] Source: S&P Global, December 2022

T 01

Telefónica Deutschland Bonds

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

Issuer Rating of Fitch: BBB, Outlook: stable

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which is the binding version.

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Annual Report

Telefónica Deutschland Holding AG
Reporting year 2022

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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. We also advise that absolute amounts smaller than EUR 500,000 are stated either as "0" or "(0)", depending on whether a plus or minus sign appears before it. A nil notification using "-" is indicated for items that do not have a value.

Combined Management Report

for Financial Year 2022

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Telefónica Deutschland Group at a Glance

T 01 - FINANCIAL OVERVIEW

1 January to 31 December (in EUR million)	2022	2021	% change
Revenues	**8,224**	**7,765**	**5.9**
Mobile service revenues	5,742	5,492	4.6
Operating income before depreciation and amortisation (OIBDA), adjusted for exceptional effects[1]	**2,539**	**2,411**	**5.3**
OIBDA margin, adjusted for exceptional effects[1]	*30.9%*	*31.0%*	*(0.2%-p.)*
Operating income before depreciation and amortisation (OIBDA)	**2,523**	**2,653**	**(4.9)**
OIBDA margin	*30.7%*	*34.2%*	*(3.5%-p.)*
CapEx	**(1,209)**	**(1,284)**	**(5.8)**
Investment ratio (CapEx/Sales ratio)	**14.7**	**16.5**	**(11.1)**
Free cash flow (FCF)	**1,093**	**1,502**	**(27.2)**
Mobile accesses (in thousands)[2]	44,307	45,694	(3.0)
Net adds in mobile prepaid business excl. M2M (in thousands)[2]	(2,698)	(310)	(>100)
Net adds in mobile postpaid business excl. M2M (in thousands)	1,228	1,526	(19.5)
Total mobile ARPU (in EUR)[2]	**10.1**	**10.0**	**1.5**

As of 31 December	2022	2021	% change
Net leverage ratio	**1.3x**	**1.3x**	**0.2**
Net financial debt	3,212	3,045	5.5

[1] Exceptional effects in the financial year 2022 included restructuring expenses of EUR 16 million. Exceptional effects in the financial year 2021 included the net gain on disposal of EUR 262 million from the second transaction step of the sale of major parts of the business operations of the rooftop sites, other income resulting from the release of provisions in connection with M&A of EUR 3 million and restructuring expenses of EUR 22 million.

[2] Due to a revenue-neutral technical adjustment of the prepaid customer base, owing to the introduction of a stricter definition for active SIM cards, the number of mobile accesses as of 31 December 2022 had reduced by 2,535 thousand accesses.

Basic Information on the Group

This report combines the Group Management Report of 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 Telefónica Deutschland Group or the Group) and associated companies, 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 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 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

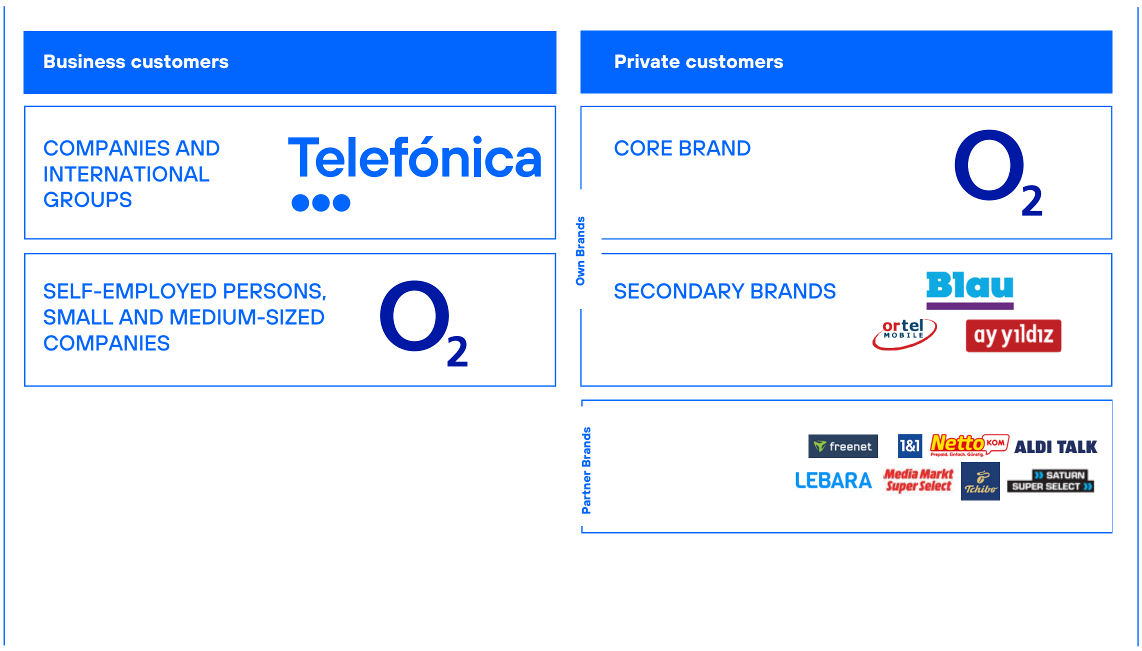
Telefónica Deutschland Group is one of the three leading integrated network operators in Germany. We offer mobile and fixed services for private and business customers as well as innovative digital products and services. In addition, our numerous wholesale partners purchase extensive mobile communications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

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. We address large international businesses with Telefónica brand products and services.

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 customer groups, for example ethnic groups in Germany. 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 full range of customer needs with tailored product offerings, sales, and marketing.

Mobile services

With a total of 44.3 million mobile accesses as of 31 December 2022, Telefónica Deutschland Group is a leading provider in this market. In 2022, at EUR 5,742 million, mobile services were the most important revenue stream for Telefónica Deutschland Group (69.8% of total volume). In this area, we offer private and business customers mobile and stationary voice and data services both on a contractual basis (postpaid) and in the prepaid segment.

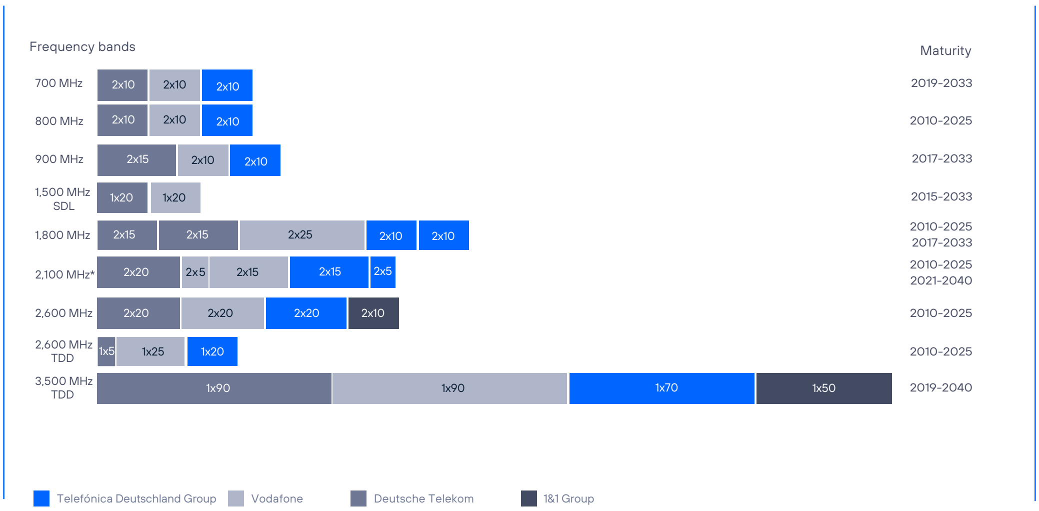
The basis for this is our mobile communications network. In 2022, we further expanded and improved our LTE network, while continuing to focus on the 5G roll-out and making progress in this area. The coverage requirements resulting from the 2019 frequency auction have been met as far as legally and actually possible. Our 5G network already covers more than 80% of the German population.[2]

Our investments in the network are also reflected in the results of the current mobile network test by trade magazine connect.[3] The O_2 network was once again rated "very good" because of the strength of its stable data connections, very good call quality and significantly improved network coverage.

Telefónica Deutschland Group will continue to drive forward the roll-out of 5G in 2023, with the aim of making 5G available to the entire population of Germany by the end of 2025.

Telefónica Deutschland Group secured nationwide spectrum totalling 90 MHz focusing on the high-performance mobile communications standard 5G in the mobile communications auction in 2019. The auctioned spectrum has a term from 2021 to 2040 and from 2026 to 2040 and includes frequencies that provide both coverage (low frequencies) and capacity (high frequencies).

G 02 — FREQUENCY BANDS FOR MOBILE NETWORK OPERATORS IN GERMANY 2021 – 2025[4, 5]



* Until 2025, additionally 19.2 MHz TDD; as of 1 January 2026: 1&1 Group: 2x10 MHz; Telefónica Deutschland Group: 2x10 MHz; Vodafone: 2x20 MHz; Deutsche Telekom: 2x20 MHz

[2] The selected population-based evaluation includes not only the household-based coverage calculation with a fixed location reference as reported to the German Federal Network Agency. It also includes commuter flows within the population, with the result that some of the population are counted both in their residences and in their workplaces (maximum population). In doing this, Telefónica Deutschland Group takes into account that the services are not only in demand at home but also when travelling. This value is the value for the end of 2022, which indicates the availability of mobile telecommunications services outside of buildings (outdoors).

[3] Source: Connect mobile communications network test, issue 1/2023: "very good" (894 points); in total, one "outstanding" rating and two "very good" ratings were awarded (915 and 894 points)

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

[5] The German Federal Network Agency formally allocated the spectrum to the company in the 2.1 GHz band with one block effective 1 January 2021, and will allocate another block effective 1 January 2026. Telefónica Deutschland Group surrendered 2x10 MHz in the 2.6 GHz band to 1&1 Group for the period from 1 March 2020 to 31 December 2025. These frequencies are allocated to 1&1 Group in this presentation.

Fixed-line business

We offer nationwide fixed-line services to complement our mobile services. Our fixed-line customer base amounted to around 2.3 million at the end of 2022.

We focus on partnerships in the fixed-line business. Our strategic partnership with Telekom Deutschland GmbH ("Telekom") grants us access to future-proof, next-generation fixed-line infrastructure and currently provides a total of around 34 million[6] households in Germany with high-speed VDSL internet access. Since November 2022, we have also been marketing fibre-to-the-home (FTTH) lines to our customers in addition to Telekom's existing VDSL and vectoring wholesale products.[7] We will also benefit from all future improvements made by Telekom in the fixed-line area.

The access agreements with Vodafone and Tele Columbus also enable us to offer our customers a broader range of fixed-line services throughout Germany. As part of the cooperation with Vodafone, we are able to supply up to 24 million[8] cable households in Germany with fixed-line products, largely with download speeds of up to 1 Gbit/s[9]. In addition, our cooperation with Tele Columbus has made it possible for us to serve another 2.4 million households.[10]

We also connect more households with advanced FTTH connectivity through a partnership with Unsere Grüne Glasfaser (UGG), which was established in 2020 as an independent wholesale company by Telefónica, S.A. Group / Telefónica Deutschland Group and Allianz Group, with Telefónica Deutschland Group holding a 10% stake. UGG installs fibre-optic connections in previously underserved rural areas. In Total, up to 2.2 million households will be connected with FTTH, augmenting Telefónica Deutschland Group's fixed-line coverage (>Management Report OPPORTUNITIES).[11]

This is complemented by the coverage O_2 provides through cooperations with regional providers, such as in Hamburg and Schleswig-Holstein with Wilhelm.tel. Since January 2022, we have been serving around 250 thousand households, that are connected to the Westenergie broadband VDSL network in Rhineland-Palatinate, North Rhine-Westphalia and Lower Saxony, via the network operator-independent platform vitroconnect, for example, through which we have access to the VDSL network of EWE TEL GmbH in Lower Saxony.[12]

By our different cooperations we are able to offer our customers a technology-agnostic solution based on a broadband mix of VDSL, cable, fibre and FMS (Fixed Mobile Substitution) marketed via the O_2 HomeSpot. The mobile-based WLAN router constitutes together with our fixed-line tarifs a fully-fledged fixed-line replacement solution. In marketing, this approach ensures that our broadband offer is perceived by customers as comprehensive.

Hardware business

We use many channels to distribute a wide variety of mobile devices to our customers. Via our O_2 My Handy programme, customers can buy any device in O_2's portfolio immediately or pay in flexible monthly instalments, either in combination with or indepently of a mobile communications contract. We also supply our 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 and Apple. We focus increasingly on the sale of 5G-enabled smartphones, however. We also cover the demand from our secondary brand customers with a wide range of smartphones.

Digital services

In order to make our offerings even more attractive for our customers and to increase our revenues outside our core business, we offer a variety of additional products and services. These include our products and services in connection with Internet of Things (IoT) as well as our digital additional services such as O_2 TV and O_2 Cloud.

Our market areas

We are strengthening the market position of our core brand O_2. We aim to gain further customers in the private and business customer segments and increase the sales revenue per customer and per household. 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 and fixed-line contracts. Our core brand in the mobile communications sector is consistently based on our "can do" attitude, which is at the heart of our current campaign.[13] In the fixed-line network, we market products via a technology mix of VDSL, cable, fibre, and 4G or 5G mobile. The O_2 my Home offering applies equally to DSL, cable, fibre, and FMS and as such is technology-agnostic. Customers who use more than an O_2 fixed-line or a mobile contract at the same time also benefit from monthly service and price advantages.

The Blau brand is our secondary brand defined for price-conscious private customers, clearly differentiated from O_2, offering this customer segment a mobile communications portfolio reduced to the essentials. We also address ethnic target groups with brands such as AY YILDIZ or Ortel Mobile.

[6] Source: Deutsche Telekom AG press release: "Broadband expansion: Faster broadband for another 386,000 homes" (2 August 2022)
[7] Source: Telefónica Deutschland Holding AG press release: "O_2 set to begin marketing fixed-line products to 10 million additional FTTH households" (16 November 2022)
[8] Source: Telefónica Deutschland Holding AG press release: "O_2 launches nationwide roll-out of cable connections" (26 January 2021)
[9] Source: Telefónica Deutschland Holding AG press release: "Gigabit speed for over 22 million cable households" (26 April 2022)
[10] The number of households that can be reached as part of the cooperations should not be considered cumulatively due to overlaps.
[11] Source: Telefónica Deutschland Holding AG press release: "O_2 relies on strong fibre-optic network coverage in Germany for its customers" (2 March 2021)
[12] Source: Telefónica Deutschland Holding AG press release: "O_2 markets fast fixed-net products via the network of Westenergie Breitband" (10 January 2022)
[13] Source: Telefónica Deutschland Holding AG press release: "O_2 and Serviceplan Bubble focus on the appeal of "can do"" (7 September 2022)

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.

Our largest partners from the reseller and service provider area include MEDIONmobile (ALDI TALK), 1&1 and freenet. The Telefónica Deutschland Group and the 1&1 Group consolidated their long-term partnership in 2021 by converting the Mobile Bitstream Access agreement with a Mobile Virtual Network Operator (MBA-MVNO agreement) into a National Roaming Agreement (NRA). The NRA has an initial contractual term of five years, retroactively starting 1 July 2020, and can be extended in a first step through mid-2029, and in a second step for a further five years. The NRA secures long-term revenue for Telefónica Deutschland Group.[14]

After we won the international mobile provider Lebara, an independent virtual network operator offering mobile voice and data services for "Global Citizens", as a new wholesale partner in 2021, the switch to the wholesale products of Telefónica Deutschland Group took place in 2022. New and existing Lebara customers are now using the mobile network of the Telefónica Deutschland Group, but are not included in the customer figures of the Telefónica Deutschland Group. The partnership with Lebara solidifies our positioning as one of the leading network operators and wholesale providers in the German market.

Business customers

The Telefónica Deutschland Group also offers mobile and fixed-line products to business customers. 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 is tailored towards customer needs. For example, with the O_2 Business Smart Network, the Group offers a digital networking solution based on SD-WAN (Software Defined Wide Area Network) technology for SMEs.[15]

We also offer services in the field of the Internet of Things (IoT), machine-to-machine communication (M2M) and managed connectivity, tapping into new business areas which are close to our core business. With IoT Connect, for example, we support business customers in the intelligent networking of their M2M and IoT applications and provide the appropriate connectivity.

Management System

The Management Board runs the business of 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.

In the Management Board, all operational and strategic decisions for successfully managing the Company in the individual business divisions are taken in weekly meetings. This includes, for example, 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 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
- Target-oriented leadership at all levels of the organisation
- Compliance with legal and regulatory requirements.

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 department and agrees it with the Supervisory Board. We develop long-term strategic goals for the positioning of the Company on the German market as well as a strategy plan, including in-depth financial planning for the next two to three years as part of this process. Detailed budget planning for the next financial year is then prepared on the basis

[14] Source: Telefónica Deutschland Holding AG press release: "Telefónica Deutschland establishes long-term partnership with 1&1 Drillisch" (15 February 2021)
[15] Source: Telefónica Deutschland Holding AG press release: "The digital networking solution for medium-sized businesses" (27 July 2021)

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 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 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 2022:

G 03 — PERFORMANCE INDICATORS

Most important and control-relevant key performance indicators	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. We reserve the right to consider the performance indicator adjusted for regulatory effects for better comparability with the previous year if these have a material influence on the development of the performance indicator in the reporting year.

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 assets. 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 exceptional 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 other non-operational transactions. We reserve the right to consider the performance indicator adjusted for the regulatory effects of the reporting year, insofar as these have a material 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 Telefónica Deutschland Group, the investment ratio (CapEx/sales ratio) essentially serves to secure the 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. The change in working capital affects free cash flow in the respective reporting period. Working capital management thus contributes to 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 leverage ratio defined within the framework of our financing policy and applicable since 1 January 2019 is 2.5x.

Budgeting and planning system defines specific targets

The integrated planning system is based on strategic and operating goals. With respect to the most important management performance indicators, the Management Board of Telefónica Deutschland sets internal objectives for the Group. To define a detailed plan for the next two to three years, 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

The German economy resilient despite difficult conditions[16]

Russia's war of aggression on Ukraine in the spring of 2022 and its implications have had an impact on the economic development in Germany. Energy prices have risen since the war began. The significant restriction of Russian natural gas supplies in the summer of 2022 has intensified the energy crisis and fuelled inflation, which was already on the rise in 2021. This was amplified by increasingly severe material and supply bottlenecks, massive increases in food prices, for example, as well as the shortage of skilled workers and the ongoing COVID-19 pandemic, although it eased over the course of the year. The German economy held up relatively well overall in 2022 despite the ongoing difficult environment, according to the Federal Statistical Office. For example, price-adjusted gross domestic product (GDP) grew by 1.8% in 2022, and by 1.9% in calendar-adjusted terms. Some service industries fared well on the pent-up demand following the lifting of nearly all COVID-19 safeguards, but high prices and material shortages held back industrial production and construction. On the demand side, consumer spending was the main growth driver of the German economy in 2022. According to calculations by the Federal Statistical Office, consumer prices rose steadily in 2022. Preliminary estimates put the inflation rate at an average of 7.9%. The main reasons given are price increases for energy products as a result of the war and the crisis situation, on the one hand, and supply bottlenecks and price increases at the upstream economic levels, on the other. This in turn leads to the inflation in the price of goods and services. Rising food and energy prices are particularly being felt by private households. In December, German consumers were forced to pay 24.4% more for energy than in the previous year. Food prices rose by 20.7% in one year. Inflation lost its momentum in Germany at the end of 2022. After a record level of 10.4% in October, the annual inflation rate was still at 10.0% in November. However, in December 2022, the one-time absorption of the monthly surcharge for gas and heat by the German government resulted in a price reduction and consumer prices fell by 0.8% from November to December 2022. Inflation in Germany came in at 8.6% in December 2022.

The price increases, a sense of insecurity and refugee migrations triggered by the Russian war against Ukraine also affected the labour market. However, according to the German Federal Employment Agency, these effects have been moderate and overall the labour market has been robust: unemployment and underemployment have fallen despite the war in Ukraine. On average during the year, the Federal Employment Agency reported a decrease in the number of unemployed workers by 195,000 compared to the previous year. This means that on average 2.418 million people were looking for work and the unemployment rate fell by 0.4 percentage points to 5.3%. According to estimates by the Deutsche Bundesbank, the labour market as a whole is experiencing tension between understaffed workforces, a large number of vacancies and long recruitment periods. on the one hand, and declining demand for labour in areas affected by high cost increases, on the other.

Overall, business and consumer sentiment is gloomy, but stabilising at the end of the year. The ifo Institute reports that the companies surveyed for the ifo Business Climate gave a better assessment of their current situation than in the previous months: the ifo Business Climate Index rose to 88.6 points in December 2022, up from 86.4 points in November. Prior to that, the sentiment indicator had fallen six times in a row. Consumer sentiment is also being influenced by high inflation and uncertainties surrounding the Ukraine war. The GfK reports that after economic and income expectations fell sharply in the first three quarters of 2022, consumer sentiment in Germany improved slightly at the end of 2022. Both economic and income expectations as well as propensity to buy improved, and consumer confidence continued its cautious recovery.

[16] Sources: Council of Economic Experts: Annual Report 2022/23 "Managing the energy crisis in solidarity, shaping a new reality" (9 November 2022); German Federal Ministry for Economic Affairs and Climate Action: Press release "Economic situation in Germany in November 2022" (14 November 2022); Federal Statistical Office (Destatis): Press release no. 472 (11 November 2022), Press release no. 493 (25 November 2022), Press release no. 499 (29 November 2022), Press release no. 003 (3 January 2023), Press release no. 022 (17 January 2023) and Press release no. 037 (30 January 2023); German Bundesbank: Publication "Monthly Report November 2022" (23 November 2022); Federal Employment Agency (Bundesanstalt für Arbeit): Press release no. 2 "Annual Review 2022" (3 January 2023); ifo Institute: Press release Business Climate Germany: "ifo Business Climate Remains Gloomy" (25 October 2022) and press release "ifo Business Climate Index Rises" (19 December 2022); GfK: Press release "No further crash in consumer sentiment for now" (18 November 2022) and "Consumer sentiment rises for the 3rd time in a row" (21 December 2022)

The German government's measures to cushion skyrocketing energy costs are apparently having an effect but according to the GfK, the all-clear cannot yet be given.

Technology trends bring growth potential for the telecommunications market[17]

The telecommunications industry, with its broadband transmission networks and ultra-fast internet access, plays a key role as an enabler of digitalisation. The roll-out of high-speed internet is gathering pace in Germany. According to a study by Deloitte, fibre-optic lines in particular are experiencing strong expansion momentum. New players are entering the market, and established network operators are increasing their activities at the same time. 5G technology also offers a high-performance, mobile-phone-based alternative to wired networks. Meanwhile, 5G is available in more and more areas of Germany. 5G offers a wide range of application possibilities in both the private and business sectors. It is regarded as a key technology for the digitalisation of industry because it promotes efficiency, transparency, automation and flexibility in logistics, according to the Digital Association Bitkom. The availability of 5G is important for 85% of manufacturing companies. In order to use the technology efficiently, 26% of the industrial companies surveyed by Bitkom are setting up or have already set up campus networks. The growing range of 5G-capable smartphones is also driving the adoption of the new mobile communications standard. VATM estimates that the number of cards used for 5G will reach 11.7 million by the end of 2022.

Increased data usage, both in mobile and fixed networks, shows that people are increasingly on the move while they are online: according to VATM data, the average monthly data consumption per mobile phone customer increased from 4.1 GB in 2021 to 5.6 GB in 2022. This corresponds to an increase of 39%. The average volume of data per fixed broadband connection per month is 274.4 GB, which is an increase of 19% compared to 2021.

In addition to these general trends, Bitkom has named the metaverse as the tech trend of 2022. Recognition of the term has increased this year and now stands at 27%. Virtual reality (VR) and augmented reality (AR) are key technologies of the Metaverse. Around one fifth of the German population aged 16 and over uses VR glasses. A large proportion of users use the glasses for computers and video games (79%). Augmented reality in the consumer sector primarily finds use on smartphones or tablets. The areas of application are computer and video games (64%) and photo and video filters in social media (63%). Education and learning projects using augmented reality have also increased by 8 percentage points to 39%.

The Internet of Things (IoT) and the smart connection of items play an important role not only in the transformation of companies and infrastructures: They have now become part of consumers' everyday lives. In the hardware sector, the largest increase in use was seen in smartwatches, which were used by 25% of consumers in 2022, according to a study by Deloitte. Smart home technologies are also gaining in popularity. Smart home technologies are becoming an increasingly important focus because of factors such as work-life balance due to flexible working in the home office, demographic changes and also the desire to live independently at home in old age. Voice assistants are also starting to become commonplace. Almost half of all internet users surveyed by Bitkom use digital voice assistants, for example, to request information or to control devices. 96% said they used their smartphone for this purpose.

The television market in Germany is also in a state of upheaval. The consumption of films, series and video clips via the internet has become an integral part of everyday media use and is gaining in popularity, according to the Digital Association Bitkom: 87% of all internet users aged 16 and over stream videos via the internet. 61% stream feature films via video-on-demand portals such as Netflix, Amazon Prime and Disney+. Laptops (84%), smartphones (79%) and smart TVs (78%) are preferred for streaming videos. A survey by Deloitte indicates that even in 2022, more subscriptions to video services were taken out than cancelled. Digitalisation is also supporting the climate neutrality goals of the German economy. The climate effects of lower CO_2 emissions through the use of digital technologies are already visible in 77% of companies. Cloud computing offers sustainable solutions for a large proportion, as running servers in large data centres is often more efficient. For half of them, the IoT offers potential for climate protection and for a third, it is the application of artificial intelligence (e.g. in predictive maintenance). Sustainability is also still important in the consumer sector. The GfK Sustainability Index continues to remain stable despite inflation and crises. Consumers continue to make sustainable purchases and are willing to pay a higher price to do so. At the

[17] Sources: VATM: "Telecommunications Market Study 2022" (26 October 2022); Deloitte: "Broadband Consumer Survey 2022" (29 June 2022) and "Digital Consumer Trends Survey 2022: Results for the German market" (14 October 2022); VATM: "Telecommunications Market Study 2022" (26 October 2022); Digital Association Bitkom: Study "Future of Consumer Technology 2022" (25 August 2022), Guide "Data adds value to smart homes" (2022), Press release "One-fourth of German industry uses 5G campus networks" (15 November 2022), Press release "5G is important for 85 percent of industrial companies" (2 August 2022), Press release "9 out of 10 companies use digital technologies to implement their climate targets" (27 July 2022); GfK: Press release: "Continuing to grow: How the telecoms market will escape the crisis" (12 October 2022), Press release "Sustainability index remains stable in November 2022" (10 November 2022)

same time, shopping behaviour has changed – more people are buying sustainably, but do so less frequently.

Telefónica Deutschland Group continues to gain service revenue market share in the German mobile network operator market[18]

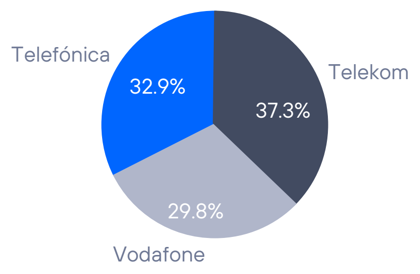
The German mobile telecommunications market currently consists essentially of three network operators and several service providers and mobile virtual network operators (MVNOs). At the 5G frequency auction, which ended in June 2019, the provider 1&1 acquired frequencies and plans to establish itself as the fourth wireless services network operator in the future and build its own mobile network. The 1&1 Group launched its 5G network in its first regions at the end of 2022. The Telefónica Deutschland Group and the 1&1 Group consolidated their long-term partnership in 2021 by converting the current MBA-MVNO agreement into a National Roaming Agreement (NRA).

The amended version of the Telecommunications Act (TKG) (effective 1 December 2021) gave end consumers far-reaching rights and benefits. In addition, the obligatory "Online cancellation button" was introduced on 1 July 2022. For service providers in the telecommunications market, these new regulations presented challenges in implementing new requirements as well as expected temporarily increased customer churn rates in the mobile and fixed network business.

Despite the difficult macroeconomic and regulatory market environment, the mobile market continued to perform well in terms of both SIM cards and revenue.

According to VATM data, the number of SIM cards on the market at the end of 2022, including M2M or IoT cards, was 169.3 million (end of 2021: 161.3 million). The strong SIM card growth is due to M2M and IoT cards: According to VATM, at the end of 2022, around 56.5 million SIM cards were in use for M2M and IoT applications, compared to 45.6 million at the end of 2021. These M2M or IoT cards accounted for a third of all SIM cards on the market by the end of 2022. Mobile service revenue in the German mobile phone market grew by 2.0% year-on-year in the nine-month period from January to September 2022. Telefónica Deutschland Group increased its market share in mobile network operator service revenue in the nine months from January to September from 32.6% in 2021 to 32.9% in 2022, making it the number two player in the German market.

G 04 - MARKET SHARE IN THE MOBILE COMMUNICATIONS MARKET BASED ON SERVICE REVENUE OF THE NETWORK OPERATORS (IN %) Q1 TO Q3 2022



Growth in German fixed-line broadband market continues[19]

The growth in fixed-line broadband connections continued in 2022, although customer growth slowed due to the introduction of the new Telecommunications Act (TKG) in what is expected to be a temporary effect. VATM estimates that the number of connections at the end of 2022 increased by around 2% year-on-year to approx. 37.7 million. DSL continues to be the dominant technology, with a share of approx. 67% of fixed-line broadband connections. With 9.2 million active broadband connections at the end of 2022, cable now accounts for a share of around 24% of the total market. "Real" fibre optic connections (FTTH/FTTB) continue to gain importance: According to VATM 2022, they have increased by more than 30% compared to the previous year and now account for almost 9% of active broadband connections. The Telefónica Deutschland Group relies on partnerships in its fixed line business. The Group reaches around 34 million households with VDSL through Telekom's infrastructure and, since November 2022, more than 4.5 million households have been reached with optical fibre (FTTH). The Telefónica Deutschland Group provides its customers with internet via broadband cable through its cooperations with Vodafone and Tele Columbus. Through these partnerships, Telefónica Deutschland Group reaches more than 26 million households with fixed-line cable connections.[20] The Telefónica Deutschland Group connects more households with advanced FTTH connectivity through a partnership with Unsere Grüne Glasfaser (UGG), which was established in 2020

[18] Sources: VATM: "Telecommunications Market Study 2022" (26 October 2022); Company data and own calculations: Deutsche Telekom AG Investor Relations: Publication of Q1 2022 quarterly results presentation (13 May 2022), Publication of Q2 2022 quarterly results presentation (11 August 2022), Publication of Q3 2022 results "Excel Back Up" and Restatement (10 November 2022); Vodafone Investor Relations Vodafone Group: July-September 2022 / 1 HY 22/23 Results "Excel Spreadsheet and Analyst Presentation" (16 November 2022); 1&1 AG: Interim reports Q1 2022 (12 May 2022), Q2 2022 (4 August 2022) and Q3 2022 (10 November 2022), press release "1&1 5G zu Hause: 1&1 ersetzt Festnetzanschlüsse durch 5G-Mobilfunk" (1&1 5G at home: 1&1 replaces fixed-network connections with 5G mobile communications) (28 December 2022); Kompass telecommunications web article "TKG Novelle 2021 stellt Telekommunikationsunternehmen vor Herausforderungen" (Amended Telecommunications Act ("TKG") 2021 presents challenges for telecoms companies) (18 August 2022); Lebara press releases on the switch to the Telefónica network dated 5 November 2021 and 3 May 2022

[19] Sources: VATM: "Telecommunications Market Study 2022" (26 October 2022); Deutsche Telekom AG press release: "Broadband expansion: 306,000 households now have faster internet access with Telekom" (18 November 2022); Telefónica Deutschland Holding AG press release: "O_2 set to begin marketing fixed-line products to 10 million additional FTTH households" (16 November 2022)

[20] The number of households that can be reached as part of the cooperations should not be considered cumulatively due to overlaps.

as an independent wholesale company by Telefónica, S.A. Group / Telefónica Deutschland Group and Allianz Group, with Telefónica Deutschland Group holding a 10% stake. Overall, the trend towards higher-speed connections continues in Germany. Estimates by VATM indicate that it will already be more than 58% of customers with a broadband connection who will be using maximum receive data rates of more than 50 Mbit/s by the end of 2022, compared to 56% at the end of 2021.

Regulatory Influences on Telefónica Deutschland Group

As a provider of telecommunications services and an operator of telecommunications networks, 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 Telefónica Deutschland Group in the year under review are discussed below.

Frequencies

<u>BNetzA continues to provide mobile radio frequencies with points of orientation and a position paper</u>

Following the "Principles and scenarios for the provision of the 800 MHz, 1.8 GHz and 2.6 GHz spectrum" (scenarios paper), which was submitted for consultation in June 2021, the BNetzA developed points of orientation on the basis of the opinions put forward and submitted them for consultation by 21 March 2022. In conjunction with this, an initial demand survey was conducted to examine signs of a possible spectrum scarcity. The points of orientation essentially spoke only of an extension and/or an auction as the most probable provision mechanisms. The Telefónica Deutschland Group gave its opinion on the points of orientation by the prescribed deadline. After evaluating the comments submitted, the BNetzA published a position paper at the end of September 2022 with an initial opinion on the next steps. The BNetzA starts from the assumption that there was an obvious spectrum scarcity, based on the results of the initial demand survey. This would be an argument in favour of awarding the contract in the form of an auction. To ease the demand situation in the 800 MHz band, a position paper by the BNetzA proposes a frequency swap to the same extent with the 900 MHz band. The result would be that the 800 MHz frequencies would run until the end of 2033 and the 900 MHz frequencies until the end of 2025. The frequencies at 900, 1,800 and 2,600 MHz would be auctioned off. The position paper also presented both established and new measures that should lead to an improvement in coverage, either alternatively or in combination. In addition, various instruments are being considered to promote competition at the service level. The Telefónica Deutschland Group submitted comments on the position paper within the specified time limit. Further steps in the frequency provision process are expected in the first half of 2023. The BNetzA intends to make a decision about frequency provision in 2023.

<u>Coverage requirements resulting from the 2019 frequency auction / Cooperation</u>

On 6 January 2023, Telefónica Deutschland Group submitted its final report to the BNetzA on the fulfilment of the coverage obligations under the 2019 spectrum auction due on 31 December 2022.

Specifically, coverage of at least 98% of households in each federal state was to be achieved by 31 December 2022 – in each case with a transmission rate of at least 100 Mbit/s in the downlink in the antenna sector – as well as – in each case as far as legally and actually possible – complete coverage of the federal motorways, the federal highways with connection function levels 0 and 1, and railways with more than 2,000 passengers per day. For the federal motorways and federal highways, the latency was required not to exceed 10 milliseconds between an end device and the associated base station. In the case of federal highways and railways, coverage by other network operators affected by the coverage requirement is taken into account. In addition, 1,000 base stations distributed across the Länder were required to be commissioned and made available for 5G applications in accordance with their respective proportion of the territory of the Federal Republic. Finally, 500 base stations with a transmission rate of at least 100 Mbit/s were required to be commissioned in previously defined white spots, distributed across the Länder in accordance with their respective proportion of the territory of the Federal Republic. When verifying the fulfilment of this requirement, the BNetzA also takes into account that the construction of new base stations requires an appropriate lead time and the participation of local districts and municipalities. In its final report, Telefónica Deutschland Group informed the BNetzA that it had fully complied with the household coverage requirements as well as the 1,000 5G base stations, and had complied with the requirements for the most important transport routes on federal motorways, federal highways and railways, to the extent that this was legally and actually possible. The report also states that, as of 31 December 2022, Telefónica Deutschland Group was not yet able to fully comply with the 500 white spots due to the short lead time since determination of these white spots, as well as for other legal and actual reasons. The BNetzA is currently reviewing the final report.

The remaining supply coverage obligations from the 2019 frequency auction must be fulfilled by 31 December 2024.

Frequency holders are allowed to enter into cooperation agreements to fulfil individual obligations. For this purpose, in July 2021, Telefónica Deutschland Group, the Deutsche Telekom Group and the Vodafone Group concluded a cooperation for the joint construction of additional radio towers and masts, as well as their technical support and use. The plan is for the participating companies to construct an equal number of new sites, which can then be used by the cooperation partners as needed on equal terms and equipped with their own antennas and network technology.

In November 2021, Telefónica Deutschland Group concluded an agreement with Deutsche Telekom Group on active shared network usage at "grey spots", which are areas in which previously only one mobile network operator offers mobile network access to its customers. A similar agreement with the Vodafone Group has been concluded on 25 January 2022. In both cooperation agreements, live operations were launched in the third quarter of 2022 with reciprocal access to the first mobile network sites.

The BNetzA renders decision on ending the dual role of 1&1 Mobilfunk GmbH as a service provider or MBA MVNO and a network operator

The BNetzA has set deadlines for 1&1 Mobilfunk GmbH to end its dual role as service provider or MBA MVNO and mobile network operator. According to this decision, sales as a service provider or MBA MVNO must be discontinued by no later than the end of 2023. Any business activity as a service provider or MBA MVNO must be discontinued by no later than the end of 2025. The background to this is the regulatory principle of competitive independence, according to which mobile network operators are fundamentally precluded from simultaneously operating as a service provider for another network operator. 1&1 Mobilfunk GmbH was allowed to have a dual role for a temporary period following the spectrum auction in 2019. 1&1 Mobilfunk GmbH has now been set deadlines to give up this dual role.

Telecommunications Market

BNetzA specifies regulations on special right of termination and a right to a reduction in price in the new Telecommunications Act

On 1 December 2021, the amended German Telecommunications Act ("TKG") on the implementation of the EU Electronic Communications Code came into force. Among other provisions, both mobile and fixed-line customers will have a special right of termination and a right to a reduction in price if the service provided deviates from the agreed service. The BNetzA has published a General Administrative Order for fixed-network internet access with effect from 13 December 2021 to specify the vague legal terms "significant, continuous or regularly recurring deviation in speed" and guidelines on a monitoring mechanism for furnishing proof of such deviations. For mobile telephony, the details are still being worked out by the BNetzA.

Further sections of the German Law on fair consumer contracts come into force

After individual provisions of the German Fair Consumer Contracts Act came into force on 1 October 2021, the remaining subsections followed on 1 March 2022 and 1 July 2022. In particular, there is an obligation to introduce a "cancellation button" from 1 July 2022 so that consumers have an easy-to-reach online channel for cancelling the contract.

IT Security Act 2.0

In May 2021, the "Second Act to Increase the Security of Information Technology Systems" came into force, which builds on the first act from 2015 and aims to better protect public structures from cyber attacks. This is especially true for critical infrastructures (KRITIS), such as telecommunications. In the course of implementation, various procedures and certifications must be carried out, which could lead to certain components and manufacturers being prohibited or excluded. On 7 October 2021, the Federal Ministry of the Interior and Community issued a "General order on the details of the minimum requirements for the guarantee declaration (prohibition of the use of critical components) for the telecommunications sector to be determined on the basis of the act covering the Federal Office for Information Security (BSI)". Since there are no clear definitions, among other reasons, Telefónica Deutschland Group has brought an action against this general order. On 16 September 2022, the Federal Ministry revoked the general order without providing more detailed reasons. As a result, the action is now closed.

ECJ rules that data retention in Germany is not compatible with EU law

On 20 September 2022, the European Court of Justice (ECJ) handed down its ruling on German data retention and declared the indiscriminate retention of IP addresses, location and connection data of all users, as laid down in the German Telecommunications Act, to be incompatible with European law. German lawmakers must now amend these provisions, which date back to 2015. 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 ECJ ruling does not result in any specific need for action on the part of Telefónica Deutschland Group for the time being.

BNetzA sets out the minimum requirements for internet access services within the framework of the right to be supplied with telecommunications services and puts regulations on the affordability of end-user prices up for consultation

The amended Telecommunications Act (TKG), which entered into force on 1 December 2021, grants a right to be supplied with a minimum offering of telecommunications services. This minimum offering includes voice communications services and a fast internet access service for appropriate participation in social and economic life. The BNetzA has defined the minimum requirements for internet access services in the German Telecommunications Minimum Supply Ordinance (Telekommunikationsmindestversorgungsverordnung, TKMV) with effect from 1 June 2022. According to this ordinance, the download speed must be at least 10 megabits per second, the upload rate must be at least 1.7 megabits per second, and the latency, i.e. the response time, should not exceed 150 milliseconds. The BNetzA will review these figures annually. Furthermore, on 17 August 2022, the BNetzA published specifications on the affordability of end-user prices. No specific price ceilings were set, but these prices were oriented towards other regional retail prices. In October 2022, the telecommunications industry presented its comments to the BNetzA in a comprehensive statement by the associations.

Regulation on accessibility requirements is announced

On 22 June 2022, the Federal Ministry of Labour and Social Affairs announced a regulation on accessibility requirements for products and services under the German Accessibility Strengthening Act (Barrierefreiheitsstärkungsgesetz). This law stipulates that certain products and services must in future be manufactured and sold or offered and provided in a barrier-free manner. The law and the regulation implement the European Accessibility Act (known as the EAA). The law and the regulation enter into force on 28 June 2025. From this point on, the products and services listed in the Accessibility Strengthening Act must be accessible. This also applies to telecommunication services and smartphones.

Access and Price Regulation

New version of the EU Roaming Regulation published

The new version of the EU Roaming Regulation was published in the Official Journal of the European Union on 13 April 2022 and entered into force for the most part on 1 July 2022. It provided for the extension of the current principle of "roam-like-at-home" until the end of June 2032 and introduces additional benefits and protections for consumers. The key innovations are the introduction of Quality of Service (QoS), improved, free access to emergency call services, the obligation to provide information about and protections against additional charges abroad, such as for service numbers or in aeroplanes. The regulation also includes a gradual reduction in wholesale charges, according to which, from 1 July 2022, data will be subject to a charge of EUR 2.00 per gigabyte, which will be reduced to EUR 1.80 from 1 January 2023, EUR 1.55 from 1 January 2024, EUR 1.30 from 1 January 2025, EUR 1.10 from 1 January 2026 and EUR 1.00 from 1 January 2027 to 30 June 2032. From 1 July 2022, a wholesale fee of 0.40 euro cents per SMS will apply; this will be reduced to 0.30 euro cents from 1 January 2025 to 30 June 2032. A wholesale charge of 2.20 euro cents per minute applies to outgoing voice calls from 1 July 2022; this will be reduced to 1.90 euro cents from 1 January 2025 to 30 June 2032. The EU Commission will also be asked to look into measures on intra-EU calls, i.e. calls from the home country to another EU member state. BEREC (Body of European Regulators for Electronic Communications) finalised and published the wholesale and retail guidelines required by the EU Roaming Regulation in October and December 2022. Telefónica Deutschland Group participated in commenting on the guidelines.

BNetzA continues regulatory procedures on copper and fibre-optic infrastructures

The BNetzA has identified the existence of significant Germany-wide market power of Telekom Deutschland GmbH on wholesale market 3a (= market for wholesale access provided locally at a fixed location) and still deems it to be in need of regulation. This applies to both the copper network of Telekom Deutschland GmbH and the newly constructed fibre-optic network for the implementation of FTTH. On 21 July 2022, after prior notification to the EU Commission, the BNetzA issued the framework conditions under which charges and other access conditions will be controlled by the BNetzA in future. This relates both to access to the local loop in the copper network, the "last mile", and also to virtual unbundled local access (VULA) to the copper and fibre connections of Telekom Deutschland GmbH. In essence, the BNetzA is maintaining its first draft of October 2021.

On 26 October 2022, the BNetzA published a draft decision for wholesale market 3b (= market for wholesale mass market products provided centrally at a fixed location). The draft also stipulates that the copper and fibre-optic infrastructure of Telekom Deutschland GmbH must be regulated, but that in future regulatory obligations will only apply to municipalities with a population of less than 60,000. The regulatory obligations will be lifted in larger municipalities. Otherwise, the remaining regulatory obligations are closely aligned with the requirements for local access to VULA in accordance with the regulatory order on wholesale market 3a. The draft of the BNetzA was initially consulted nationally and then by the EU Commission. Despite numerous critical comments from Germany and on the part of the EU Commission, the draft of the BNetzA was published without further amendments as a final regulatory order in the Official Journal 01/2023 on 11 January 2023 with the notification no. 1.

The BNetzA is maintaining its flexible approach to access to fibre-optic networks. On the one hand, Telekom Deutschland GmbH will be required to grant wholesale customers equivalent access to the FTTH network. However, price regulation measures will not be evaluated in advance. Instead, they will only be considered if there are indications that the conditions of competition for wholesale customers will be impaired. The BNetzA does not consider this to be the case at present.

Conclusion of an agreement with Telekom Deutschland GmbH for long-term access to xDSL and FTTH accesses

On 1 October 2020, Telefónica Deutschland Group concluded binding long-term preliminary agreements with Telekom Deutschland GmbH, defining future access entitlements and corresponding conditions for access to xDSL and FTTH accesses. Most of the agreed conditions were subject to the BNetzA not prohibiting the fee agreements. No prohibition has been issued with regard to the agreed xDSL conditions. The conditions for FTTH were not contested after review by the BNetzA and notification to the EU Commission.

Overview of the Financial Year 2022

Operational Performance

In financial year 2022, Telefónica Deutschland Group continued its growth path and achieved good operational and financial performance throughout the year. In the final year of its 'Investment for Growth' programme, the Group continued to expand its market share in mobile service revenues in a dynamic yet still rational environment. Ongoing core business momentum is building on high O_2 brand appeal, including strong customer demand for the innovative O_2 Grow tariff, network parity and the Company's ESG leadership[21].

The renowned magazine connect[22] network test awarded the O_2 mobile network with a "very good" rating for the third time in a row. With a gain of 20 points, Telefónica Deutschland Group made the biggest leap forward in quality of all German network operators and secured a partial victory in the 5G category with the largest share of real 5G based on the 3.6 GHz and 700 MHz spectrum nationwide.

In total, the positive development of the retail consumer in combination with a solid partner business drove Telefónica Deutschland Group's postpaid net additions to 1,228 thousand (1,526 thousand in 2021) in financial year 2022 and 83 thousand M2M net additions (203 thousand in 2021). In contrast, the development in prepaid was driven by a combination of a revenue-neutral technical adjustment[23] of the customer base (-2,535 thousand accesses) in the fourth quarter of 2022 and an unabated prepaid-to-postpaid migration trend. As a result, Telefónica Deutschland Group recorded a decrease of prepaid accesses by 2,698 thousand (-310 thousand in the previous year).

Accordingly, the number of mobile connections at the end of 2022 amounted to 44.3 million, -3.0% compared to the previous year. This development is fundamentally based on the primarily technical decline in mobile accesses in the mobile prepaid segment (excluding M2M) to 16.3 million (-14.2% compared to the previous year) mentioned above. Conversely, postpaid (excluding M2M) was again a strong growth driver. The number of mobile postpaid accesses increased to 26.3 million as of 31 December 2022 (+4.9% year-on-year), or 59.4% of the total mobile base (+4.5 percentage points year-on-year). Churn rates in postpaid remained low due to sustained network quality improvements and a multi-award winning customer experience in the O_2 network. As expected, churn rates were, however, higher than in the previous year, due to the introduction of the European Electronic Communications Code (EECC). This means that the implied annualised churn rate for the O_2 brand was 13.1% (11.1% in 2021). M2M connections totalled 1.7 million as of 31 December 2022, up 5.1% year-on-year.

O_2 postpaid ARPU was lower by 0.7% in financial year 2022, mainly as a result of the accelerated reduction of mobile termination rates (MTRs), while high-value tariffs remained popular. Adjusted for MTRs, O_2 postpaid ARPU was 0.1% higher than in the previous year, reflecting international roaming trends.

Fixed broadband achieved a total 32 thousand net additions in 2022 (1 thousand in 2021), driven in particular by strong demand for cable tariffs within Telefónica Deutschland Group's technology-agnostic O_2 my Home portfolio. Accordingly, the fixed broadband customer base totalled 2.3 million at the end of the year (+1.4 % compared to the previous year) and the ARPU increased by 3.3% to EUR 25.0. In addition, Telefónica Deutschland Group saw continued demand for mobile-based fixed-mobile substitution (FMS) products in its O_2 my Home portfolio.

Financial Performance

Telefónica Deutschland Group's continued focus on profitable growth resulted in good financial performance.

Revenues[24] increased by 5.9% year-on-year to EUR 8,224 million in financial year 2022 and were thus at the upper end of the financial outlook that had been raised in the course of the nine months 2022 results. This development benefited in particular from the continued growth in mobile service revenues and record hardware sales. Within mobile service revenues, the ongoing strong commercial traction of the O_2 brand and a solid contribution from the partner business more than compensated for the expected negative impact from the reduction in mobile termination rates. Revenues of mobile devices were driven by sustained strong demand for high-quality mobile devices and good availability at Telefónica Deutschland Group. Customers were increasingly opting for longer-term handset financing.

Operating income before depreciation and amortisation (OIBDA)[24], adjusted for exceptional effects grew to EUR 2,539 million in the reporting year, +5.3% compared to the previous year (EUR 2,411 million) and was thus at the upper end of the expectations of the twice raised outlook. The adjusted OIBDA margin was 30.9% (-0.2 percentage points year-on-year); mainly due to strong growth in broadly margin-neutral hardware revenues.

[21] Telefónica Deutschland Group manages its ESG performance through regular analyses, from which it determines actions for improvement in the areas of environmental and climate protection, social commitment and corporate governance. It also makes use of sustainability ratings. In the ratings by Sustainalytics, Morgan Stanley Capital International (MSCI) and ISS ESG, on which Telefónica Deutschland Group is concentrating, ESG performance was successfully maintained in the reporting year, with good to very good ratings being achieved once again.

[22] Source: Connect mobile communications network test, issue 1/2023: "very good" (894 points); in total, one "outstanding" rating and two "very good" ratings were awarded (915 and 894 points)

[23] Introduction of a stricter definition of active SIM cards

[24] Includes non-recurring special factors in the amount of EUR +26 million in the financial year 2022

Exceptional effects in financial year 2022 totalled an expense of EUR 16 million (previous year: income of EUR 243 million) and included nearly exclusively restructuring expenses of EUR 16 million (previous year: EUR 22 million). In contrast, exceptional effects in the previous year mainly included a net gain of EUR 262 million related to the second tranche of the sale of major parts of the business operations of rooftop sites to Telxius Telecom, S.A., as well as other income from the reversal of provisions in connection with M&A in the amount of EUR 3 million.

Capital Expenditure

Capital expenditure (CapEx) amounted to EUR 1,209 million in 2022 (previous year: EUR 1,284 million) with a CapEx/Sales ratio of 14.7% (previous year: 16.5%). Telefónica Deutschland Group successfully completed its three-year network-focused Investment for Growth programme in financial year 2022. The Company made very good progress in network modernisation as well as in 5G roll-out[25]. Telefónica Deutschland Group is well on track to complete the migration of its core network to a European manufacturer's technology and the O_2 5G network already achieved more than 80% population coverage in Germany. This significantly exceeded the original target, while capital expenditure remained within an unchanged envelope due to roll-out efficiencies.

T 02 — OVERVIEW OF THE FINANCIAL YEAR 2022

	Actual 2021	**Outlook for 2022** [(1)]	**Updated Outlook for 2022** (year-on-year)	**Financial year 2022** (year-on-year in %)	**Assessment** (compared to original outlook)
Revenues[(2)]	EUR 7,765 million	low single-digit percentage year-on-year growth	lower mid-single-digit percentage year-on-year growth	EUR 8,224 million (+5.9%)	Better than expected
OIBDA adjusted for exceptional effects[(2)]	EUR 2,411 million	low single-digit percentage year-on-year growth	lower mid-single-digit percentage year-on-year growth	EUR 2,539 million (+5.3%)	Better than expected
Capex/Sales Ratio	16.5%	14% - 15%	14% - 15%	14.7%	As expected

[(1)] The financial outlook originally published for the financial year 2022 in the 2021 Annual Report dated 2 March 2022 for OIBDA adjusted for exceptional items was raised in the context of the half-year and nine-month 2022 results. The financial outlook for revenues was also raised as the nine-month figures were published.
[(2)] Includes non-recurrent special factors in the amount of EUR +26 million in the financial year 2022

Business development is further detailed in the following sections.

[25] The selected population-based evaluation includes not only the household-based coverage calculation with a fixed location reference as reported to the German Federal Network Agency. It also includes commuter flows within the population, with the result that some of the population are counted both in their residences and in their workplaces (maximum population). In doing this, Telefónica Deutschland Group takes into account that the services are not only in demand at home but also when travelling. This value is the value for the end of 2022, which indicates the availability of mobile telecommunications services outside of buildings (outdoors).

Results of Operations

T 03 – CONSOLIDATED INCOME STATEMENT

1 January to 31 December

(in EUR million)	2022	2021	Change	% change
Revenues	**8,224**	**7,765**	**459**	**5.9**
Other income	153	402	(249)	(62.0)
Operating expenses	(5,854)	(5,514)	(340)	6.2
Supplies	(2,524)	(2,403)	(121)	5.0
Personnel expenses	(622)	(585)	(36)	6.2
Impairment losses in accordance with IFRS 9	(92)	(72)	(20)	28.0
Other expenses	(2,616)	(2,454)	(163)	6.6
Operating income before depreciation and amortisation (OIBDA)	**2,523**	**2,653**	**(131)**	**(4.9)**
OIBDA margin	***30.7%***	***34.2%***	**–**	***(3.5%-p.)***
Depreciation and amortisation	(2,283)	(2,382)	99	(4.1)
Operating income	**240**	**272**	**(32)**	**(11.8)**
Financial result	(36)	(62)	26	(42.4)
Result from investments accounted for using the equity method	(14)	(4)	(10)	(>100)
Profit/(loss) before tax	**189**	**205**	**(16)**	**(7.8)**
Income tax	42	5	37	>100
Profit/(loss) for the period	**232**	**211**	**21**	**9.9**

T 04 – REVENUE BREAKDOWN

1 January to 31 December

(in EUR million)	2022	2021	Change	% change
Mobile business revenues	**7,394**	**6,942**	**452**	**6.5**
Mobile service revenues	5,742	5,492	250	4.6
Hardware revenues	1,652	1,450	202	13.9
Fixed-line business revenues	**806**	**814**	**(8)**	**(1.0)**
Other revenues	**24**	**10**	**15**	**>100**
Revenues	**8,224**	**7,765**	**459**	**5.9**

T 05 – RECONCILIATION OF PERFORMANCE INDICATORS ALSO USED FOR THE INTERNAL MANAGEMENT

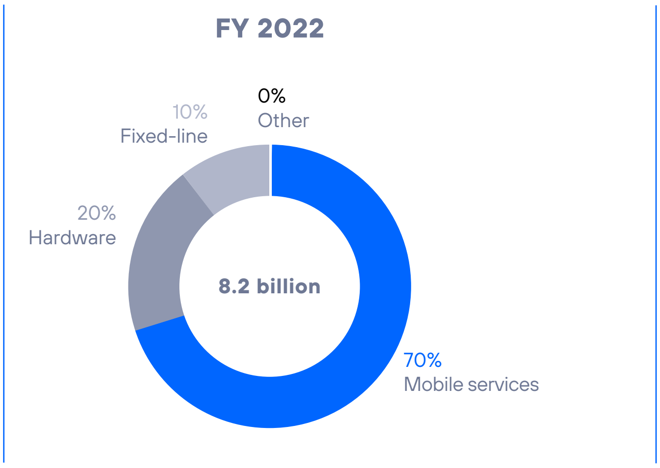
1 January to 31 December

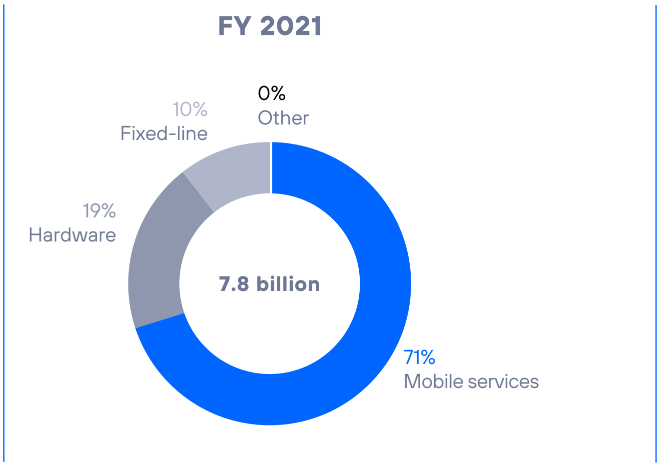
(in EUR million)	Consolidated Income Statement 2022	Exceptional effects from restructuring 2022	Other exceptional effects 2022	2022 adjusted	2021 adjusted	Change	% change
Revenues	**8,224**	**–**	**–**	**8,224**	**7,765**	**459**	**5.9**
Other income	153	–	–	**153**	140	13	9.2
Operating expenses	(5,854)	16	(0)	**(5,838)**	(5,495)	(343)	6.2
Supplies	(2,524)	–	–	**(2,524)**	(2,403)	(121)	5.0
Personnel expenses	(622)	5	–	**(617)**	(578)	(39)	6.8
Impairment losses in accordance with IFRS 9	(92)	–	–	**(92)**	(72)	(20)	28.0
Other expenses	(2,616)	11	(0)	**(2,605)**	(2,442)	(163)	6.7
Operating income before depreciation and amortisation (OIBDA)	**2,523**	**16**	**(0)**	**2,539**	**2,411**	**128**	**5.3**

Revenues increased

Revenues increased in financial year 2022, mainly due to the growth in revenues from mobile services as well as from the contribution of revenues from hardware, which are largely margin-neutral. There were small shifts in the revenue breakdown compared to the prior year due to the above-average growth in hardware sales. In addition, revenues from mobile services were positively impacted by non-recurrent special factors in the amount of EUR 26 million.

G 05 – REVENUES (IN % AND IN EUR BILLION)





Higher revenues from mobile services

In financial year 2022, Telefónica Deutschland Group still operated in a rational and dynamic competitive environment. In the reporting period, the revenue mix improved, due in particular to the positive business performance of own brands supported by the solid contribution of the partner brands. Data revenues in particular rose. Normalised travel activity also resulted in an increase in the share of roaming revenues. In addition, revenues from mobile services were positively impacted by non-recurrent special factors in the amount of EUR 26 million. Another driver was the significant increase in the postpaid customer base compared to 31 December 2021, a result of the good development of our O_2 brand portfolio and the partner brands. As a result, our postpaid mobile customer base excluding M2M increased by 1.2 million net additions to 26.3 million in financial year 2022 (growth in financial year 2021: 1.5 million), which led to an increase of the postpaid share of total mobile customers excluding M2M by 4.5 percentage points compared to 31 December 2021, to 59.4%. In addition, the average revenue per user (ARPU) for mobile customers increased by EUR 0.2 to EUR 10.1 compared to the previous year.

Increase in hardware revenues

Hardware revenues are generally subject to general fluctuation, as they depend on the launch cycles of new mobile devices. Due to continued high demand for hardware in financial year 2022, revenue from sales of increasingly high-end devices – including to mobile service partners – increased 13.9% year on year.

Slight decline in fixed-line business revenues

Revenues from fixed-line business fell slightly in 2022 compared to the previous year. The reason for this was the decline in the low-margin fixed network business with international voice minutes, which is attributable to the reduction in termination rates. In contrast, fixed broadband revenues (FBB) in retail business continued to grow as a result of increasing demand for cable and fibre, partly offsetting the decline.

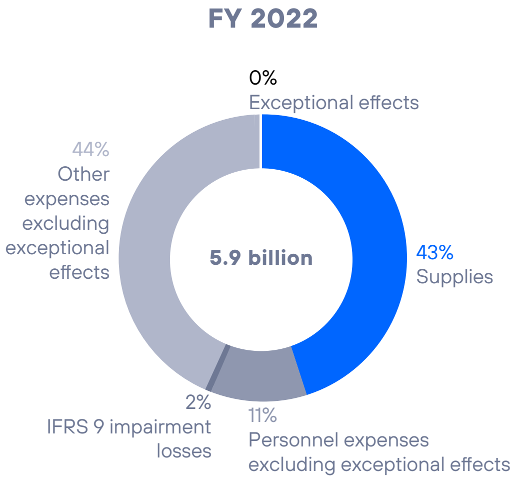
Decline in other income influenced by net gain on disposal in the previous year

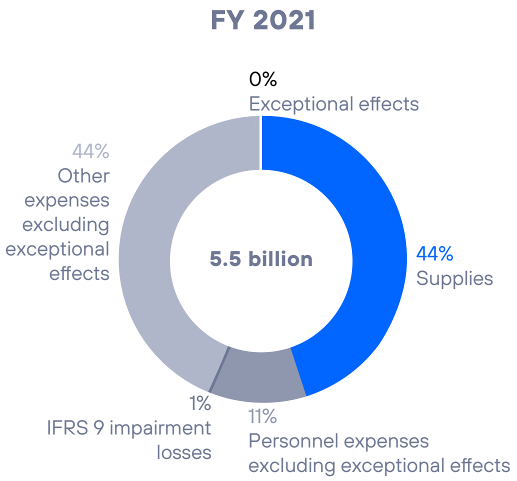
Other income in the financial year 2022 fell to EUR 153 million (previous year: EUR 402 million). In the previous year, these mainly included the net gains on disposal of EUR 262 million related to the second transaction step of the sale of major parts of the business operations of the rooftop sites to Telxius.

Operating expenses increased

Operating expenses increased in the financial year 2022 compared to the previous year, mainly due to the increase in other expenses and a higher cost of materials and, to a lesser extent, higher personnel expenses. Operating expenses include exceptional effects of EUR 16 million (previous year: EUR 19 million), which are mainly due to restructuring expenses of EUR 16 million (previous year: EUR 22 million). The previous year includes other income from the reversal of provisions in connection with M&A of EUR 3 million.

G 06 - OPERATING EXPENSES (IN % AND IN EUR BILLION)





Increase in supplies

Supplies for hardware and connectivity increased in financial year 2022 compared to the previous year. This was primarily due to a higher cost of materials for hardware in connection with increased revenues from hardware. This was partly offset by a decrease in the supplies for connectivity as a result of the reduction in mobile telecommunications termination rates on 1 July 2021 and on 1 January 2022, as well as from lower expenses for connectivity in fixed-line/broadband.

Personnel expenses up year-on-year

In the financial year 2022, personnel expenses increased year-on-year. This is primarily the result of a general salary increase at the end of 2021 and during the course of the financial year 2022, as well as one-time benefits to employees in financial year 2022. This was offset by restructuring expenses of EUR 5 million (previous year: EUR 8 million).

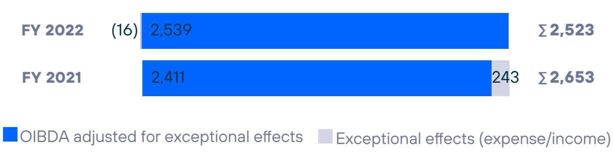
Increase in other expenses

Other expenses increased in the financial year 2022. This is chiefly due to higher expenses in the technology area for energy, transformation and expanding 5G, as well as an increase in costs for selling and marketing, partially resulting from the lockdown in the previous year. In addition, in the previous year there was other income from the reversal of provisions in connection with M&A of EUR 3 million. In contrast, restructuring expenses fell to EUR 11 million (previous year: EUR 14 million).

Increase in OIBDA adjusted for exceptional effects

OIBDA adjusted for exceptional effects increased by 5.3% year-on-year to EUR 2,539 million in the financial year 2022. This development can be attributed to the continued momentum of the own brands and the related improvement in the quality of results, as well as to further improvements in efficiency, especially in mobile communications, so that the increase in operating expenses could be more than compensated for. In addition, OIBDA was positively impacted by non-recurrent special factors in the amount of EUR 26 million. The negative exceptional effects amounting to EUR 16 million (previous year: income of EUR 243 million) comprised restructuring expenses of EUR 16 million in financial year 2022. The previous year included the net gain on disposal of EUR 262 million from the sale of major parts of the business operations of the rooftop sites to Telxius, other income resulting from the release of provisions in connection with M&A of EUR 3 million and offsetting restructuring expenses of EUR 22 million. As a result, OIBDA decreased to EUR 2,523 million (previous year: EUR 2,653 million).

G 07 - OIBDA (IN EUR MILLION)



Decline in depreciation and amortisation

The decrease in depreciation and amortisation to EUR 2,283 million (previous year: EUR 2,382 million) in the financial year 2022 is mainly due to the elimination of depreciation as a result of the early shutdown of the 3G network at the end of 2021. Furthermore, decisions in the previous year to shorten the useful lives of assets as part of the optimisation and modernisation of the technological architecture led to higher depreciation and amortisation in the same period of the previous year. Within the reporting period, higher depreciation for right-of-use assets as well as for increased investments in the area of IT architecture had, in part, the opposite effect.

Operating income influenced by the absence of net gains on disposal in the previous year
Operating income decreased in the financial year 2022 to EUR 240 million (previous year: EUR 272 million). The primary reason for this was the non-recurrence of the net gain on disposal of EUR 262 million in Other income from the second transaction step of the sale of major parts of the business operations of the rooftop sites to Telxius. Without these effects, operating income would have risen year-on-year, in particular as a result of the increase in revenues and reduced depreciation and amortisation which more than offset the increase in operating expenses.

Positive development in the financial result
The positive development of the financial result from EUR -62 million in the previous year to EUR -36 million in the reporting period is due both to higher interest income – mainly on account of measuring non-current receivables from the sale of major parts of the business operations of the rooftop sites to Telxius – and to lower interest expenses, partly as a result of non-recurring effects and changes in the interest rate environment.

Result from investments accounted for using the equity method
Against the backdrop of the joint venture with Telefónica Infra, S.L.U. and Allianz Group, formed in 2020 to expand fibre-optic accesses (FTTH) for households in Germany, the pro rata result related to the at-equity 10% investments in UGG TopCo GmbH & Co. KG and in UGG TopCo/HoldCo General Partner GmbH is reported. This amounted to EUR -14 million in financial year 2022 (previous year: EUR -4 million).

Income taxes benefited from deferred tax income
After proportionate offsetting against tax losses carried forward, Telefónica Deutschland Group again posted positive taxable income. Tax income of EUR 42 million (previous year: EUR 5 million) reported in the financial year 2022 includes tax income of EUR 73 million from changes in deferred taxes and, offsetting this, current tax expenses of EUR 31 million after proportionate offsetting against tax losses carried forward. The income from deferred taxes is attributable to the changes in taxable temporary differences and the increased deductibility of losses carried forward. Both the current tax expense of EUR 79 million and the deferred tax income of EUR 84 million in the 2021 financial year were influenced by the second transaction step realised in the previous year as part of the spin-off and the sale of major parts of the business operations of the rooftop sites to Telxius.

Profit for the period increased despite the non-recurrence of net gains on disposal in the previous year
Profit for the period increased in the financial year 2022 to EUR 232 million (previous year: EUR 211 million). The increase was realised despite the non-recurrence of the net gain on disposal in the second transaction step of the sale of major parts of the business operations of the rooftop sites to Telxius carried out in 2021, as well as higher operating expenses. This was mainly due to the positive revenue development, lower depreciation and amortisation and the deferred tax income.

Financial Position

Principles and goals of financial management

Risk control and a central management are the fundamental principles of financial management at 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 Telefónica Deutschland Group would not be able to meet its financial obligations.

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

Financing

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

Refinancing of the syndicated loan
On 22 March 2016, 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. In 2020, the term of this credit facility was extended by one year to 17 December 2025. The term of this credit facility was again extended by another year to 17 December 2026 in 2021. The credit line serves general corporate purposes and has not been drawn as of 31 December 2022.

Financing agreements with the European Investment Bank (EIB)
On 13 June 2016, Telefónica Deutschland Group signed its first financial agreement with the EIB, which originally amounted to EUR 450 million. The facility is intended to finance the consolidation, modernisation and expansion of Telefónica Deutschland Group's mobile network after the acquisition of the E-Plus Group. The funds provided by the EIB have terms of up to eight years. The amortising loan had a value of EUR 183 million as of 31 December 2022.

Additional financing agreements with the EIB were signed on 18 December 2019 for EUR 300 million and on 14 January 2020 for EUR 150 million. These loans were fully drawn down as of 31 December 2022. The EIB loans 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, 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. In the 2021 financial year, variable-interest tranches totalling EUR 326 million were terminated and repaid in advance as part of active financial management. Taking into consideration further scheduled repayments in the previous years totalling EUR 188 million, a promissory note volume of EUR 397 million is still outstanding as of 31 December 2022, which is unchanged compared to the previous year.

Bond liabilities

In July 2018, O2 Telefónica Deutschland Finanzierungs GmbH placed a 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. The bonds are guaranteed by Telefónica Deutschland. The details are as follows:

T 06 - NOMINAL AMOUNT

Nominal amount (in EUR million)	Term from	until	Coupon p.a.
600	5 July 2018	5 July 2025	1.75%

Telefónica Deutschland Group continues to benefit from the Telefónica, S.A. Group cash pooling

Telefónica Deutschland Group will continue to participate in the liquidity management system of 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 has access to overdraft facilities up to a maximum amount of EUR 454 million, of which EUR 450 million has a term of more than one year. 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 1,404 million. This comprises bilateral revolving credit facilities with various banks to the value of EUR 200 million, with a remaining term of more than one year, the unutilised syndicated loan facility of EUR 750 million, and available overdraft facilities from Telfisa Global B.V. of EUR 454 million.

Silent factoring as a tool to manage working capital

We have entered into factoring agreements with various credit institutions regarding the sale of receivables, with the aim, among other things, of managing our working capital. This mainly relates to factoring transactions for instalment receivables with a total net cash effect of EUR 966 million in financial year 2022. 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 2022 (>Note 5.5 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, 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

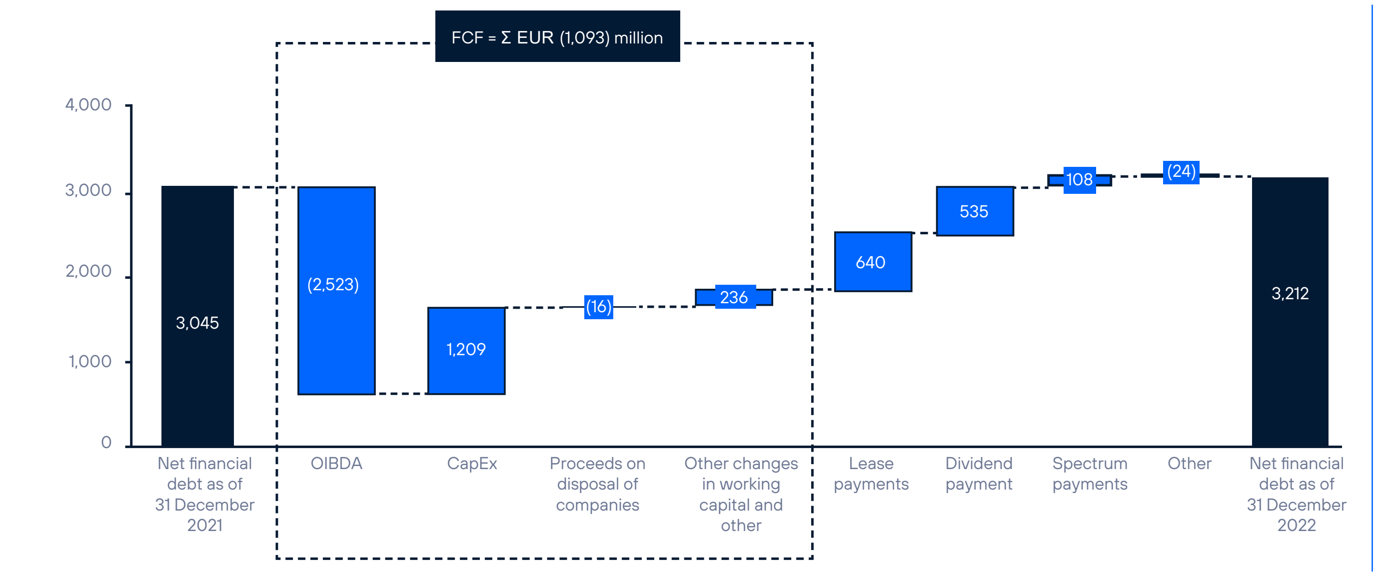
Net financial debt increased

Net financial debt, a key component of the net leverage ratio, which remained at 1.3x at the end of the reporting year, decreased as of 31 December 2022 compared to the previous year by EUR 167 million to EUR 3,212 million.

The payments of lease liabilities of EUR 640 million, the dividend payment for financial year 2021 of EUR 535 million and payments for spectrum licences of EUR 108 million increased net financial debt in particular. By contrast, free cash flow of EUR 1,093 million largely covered these payments, thereby offsetting the increase in net financial debt for the most part.

The graphic below illustrates the development of net financial debt in financial year 2022.

G 08 - DEVELOPMENT OF NET FINANCIAL DEBT (IN EUR MILLION)



The following table 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.

T 07 - COMPOSITION OF NET FINANCIAL DEBT

As of 31 December

(in EUR million)	2022	2021	Change	% change
A Liquidity	777	1,020	(243)	(23.9)
B Current financial assets [(1)]	339	450	(110)	(24.6)
C Current financial debt [(2)]	725	637	88	13.8
D=C-A-B Current net financial debt	(391)	(833)	442	(53.0)
E Non-current financial assets [(1)]	570	531	39	7.4
F Non-current financial debt [(2)]	4,173	4,408	(235)	(5.3)
G=F-E Non-current net financial debt	3,603	3,878	(275)	(7.1)
H=D+G Net financial debt[(3)]	3,212	3,045	167	5.5

[(1)] Current and non-current financial assets include mobile device receivables not yet due, other interest-bearing assets, net investment (in accordance with IFRS 16) and loans issued to third parties.
[(2)] Current and non-current financial debt mainly includes lease liabilities, issued bonds, promissory notes and registered bonds as well as other loans.
[(3)] Net financial debt includes current and non-current financial debt less current and non-current financial assets and liquidity.

Note:
Mobile device receivables are presented in trade receivables in the Balance Sheet.

Off-balance sheet obligations

Purchase obligations and other contractual obligations decreased by EUR 932 million to EUR 4,621 million in the financial year 2022 (previous year: EUR 5,554 million). The decrease is due in particular to a decreasing purchase obligation under long-term agreements in fixed-line services and, to a lesser extent, to lower obligations under supply contracts for mobile devices (>NOTE 18 PURCHASE AND OTHER CONTRACTUAL OBLIGATIONS).

Liquidity Analysis

T 08 - CONSOLIDATED STATEMENT OF CASH FLOWS

1 January to 31 December (in EUR million)	2022	2021
Cash flow from operating activities	2,471	2,133
Cash flow from investing activities	(1,378)	(631)
Free cash flow (cash flow from operating activities + cash flow from investing activities)	**1,093**	**1,502**
Cash flow from financing activities	(1,336)	(1,818)
Net increase (decrease) in cash and cash equivalents	**(243)**	**(317)**
Cash and cash equivalents at the beginning of the period	**1,020**	**1,337**
Cash and cash equivalents at the end of the period	**777**	**1,020**

Consolidated Statement of Cash Flows

The following is an analysis of the cash flow development of Telefónica Deutschland Group in the financial years 2022 and 2021.

Increase in cash flow from operating activities

Cash flow from operating activities totalled EUR 2,471 million in financial year 2022, up from the previous year's figure of EUR 2,133 million. This positive contribution to the result was supported by the change in working capital, which amounted to EUR 29 million in the reporting period (financial year 2021: EUR -213 million).

Cash flow from investing activities impacted by lower cash inflows

The cash flow from investing activities in financial year 2022 amounted to EUR -1,378 million (previous year: EUR -631 million). The change compared to the prior year is in particular due to both lower cash inflows and in part to higher cash outflows. Cash outflows chiefly comprised increased payments for investments in plant and software. They increased overall from EUR 1,181 million to EUR 1,400 million in the same period last year. Cash inflows decreased to EUR 22 million (prior year period: EUR 549 million). In the previous year, these inflows were due in particular to cash inflows from the disposal of companies in the amount of EUR 540 million. Of this amount, EUR 519 million was related to the receipt of payment of the purchase price receivable due in the 2021 financial year from the second transaction step of the sale of major parts of the business operations of the rooftop sites to Telxius.

Free cash flow lower

Free cash flow amounted to EUR 1,093 million, a decrease of EUR 409 million in the 2022 reporting period compared to the same period of the previous year (EUR 1,502 million). This development is primarily due to the change in cash flow from investing activities with the effects described there, while cash flow from operating activities improved.

Cash flow from financing activities includes significantly reduced cash outflow

The cash flow from financing activities in financial year 2022 amounted to EUR -1,336 million (previous year: EUR -1,818 million). Cash outflows decreased significantly to EUR 1,451 million (prior year period: EUR 2,572 million) and mainly included the payment of lease liabilities of EUR 640 million, the dividend payment of EUR 535 million, payments for spectrum licences of EUR 108 million, the repayment of an overdraft facility of Telfisa Global B.V. of EUR 88 million, which was drawn down at short notice during the year, and repayment of an EIB loan of EUR 75 million. In contrast, financial year 2021 included payments of lease liabilities of EUR 602 million, dividend payment of EUR 535 million, scheduled repayment of a bond of EUR 500 million, repayment of short-term credit lines with various credit institutions totalling EUR 419 million, repayment of promissory notes of EUR 326 million, payments for spectrum licences of EUR 108 million and repayment of an EIB loan of EUR 75 million.

Cash inflows decreased by EUR 639 million year-on-year (EUR 754 million) to EUR 114 million. The change is due to reduced financial needs and in particular involved the utilisation of a short-term overdraft facility from Telfisa Global B.V. totalling EUR 88 million. In contrast, financial year 2021 primarily involved drawing on two loans from the EIB amounting to EUR 450 million, and utilising short-term credit lines with two credit institutions in the amount of EUR 300 million. Both of the short-term credit lines were already repaid within financial year 2021.

Cash and cash equivalents below the high level of the previous year

Based on the above-mentioned cash inflows or outflows, cash and cash equivalents decreased by EUR 243 million compared to the previous year's reporting date and on 31 December 2022 amounted to EUR 777 million (31 December 2021: EUR 1,020 million).

Net Assets

T 09 — CONSOLIDATED BALANCE SHEET

As of 31 December

(in EUR million)	**2022**	**2021**	**Change**	**% change**
Goodwill and other intangible assets	4,966	5,497	(531)	(9.7)
Property, plant and equipment	3,512	3,491	21	0.6
Right-of-use assets	3,277	3,349	(71)	(2.1)
Investments accounted for using the equity method	12	3	9	>100
Trade and other receivables	1,652	1,766	(115)	(6.5)
Deferred tax assets	463	433	30	7.0
Other financial assets	482	466	16	3.4
Other non-financial assets	750	657	93	14.2
Inventories	140	138	2	1.7
Cash and cash equivalents	777	1,020	(243)	(23.9)
Total assets = Total equity and liabilities	**16,030**	**16,819**	**(789)**	**(4.7)**
Interest-bearing debt	1,638	1,716	(78)	(4.5)
Lease liabilities	3,260	3,330	(70)	(2.1)
Trade and other payables	2,671	2,787	(116)	(4.2)
Payables – Spectrum	998	1,097	(99)	(9.0)
Provisions	539	713	(174)	(24.4)
Other non-financial liabilities	70	53	17	31.3
Income tax liabilities	68	93	(26)	(27.5)
Deferred income	730	739	(9)	(1.2)
Deferred tax liabilities	247	255	(8)	(3.3)
Equity	**5,810**	**6,036**	**(226)**	**(3.7)**

Decrease in goodwill and other intangible assets

The decrease compared to the previous year was mainly due to the amortisation of other intangible assets amounting to EUR 887 million. This was offset by the additions to other intangible assets of EUR 356 million, which related primarily to investments in software.

Property, plant and equipment largely stable

The increase in property, plant and equipment is primarily due to additions of EUR 854 million in the 2022 financial year relating primarily to network investments for technical equipment. This was almost completely offset by depreciation in the amount of EUR 759 million as well as, to a lesser extent, asset retirement obligations that were down by EUR 56 million, in particular due to an adjustment of the discount rates as part of the higher interest rates.

Decrease in right-of-use assets

The reduction in right-of-use assets is due to scheduled depreciation of EUR 637 million and disposals of EUR 29 million. This was offset by additions of right-of-use assets amounting to EUR 594 million, which were incurred in particular for rights-of-use assets for technical equipment.

Investment ratio (CapEx/sales ratio) down

Capital expenditure (CapEx) decreased in financial year 2022 to EUR 1,209 million compared to EUR 1,284 million in the same period in 2021. This is mainly due to the peak of investments in 2021 under the “Investment for Growth” programme. In the reporting year, this programme was continued primarily for 5G expansion, network optimisation and upgrading of the technological architecture. The investment ratio fell to 14.7% in the reporting period (2021: 16.5%).

Investments accounted for using the equity method

The investments accounted for using the equity method amounting to EUR 12 million (previous year: EUR 3 million) comprise the investments made by Telefónica Deutschland Group in the fibre-optic companies of Telefónica Deutschland Group, formed in financial year 2020 along with Telefónica Infra, S.L.U. and Allianz Group (>Management Report BUSINESS ACTIVITIES).

Trade and other receivables decreased
The decline was mainly due to an increase in factoring transactions in financial year 2022. This was partially offset by increased O_2 My Handy receivables resulting from continued robust demand for higher value mobile devices, as well as normal fluctuations in operating activities.

Rise in deferred tax assets
The deferred tax assets remaining after offsetting rose in financial year 2022, from EUR 433 million to EUR 463 million. Deferred tax income is attributable to the changes in taxable temporary differences and the increased deductibility of losses carried forward.

Increase in other financial assets
The increase of EUR 16 million was primarily due to higher retention amounts as part of factoring transactions and increased reinsurance claims. The item also includes the portion of the purchase price receivable that is not yet due in the amount of EUR 263 million (previous year: EUR 262 million) from the sale of major parts of the business operations of the rooftop sites to Telxius.

Other non-financial assets record increase
The increase of EUR 93 million compared to the previous year is primarily due to higher capitalised costs of obtaining contracts.

Decrease in cash and cash equivalents
This development is attributable to several factors that are presented in more detail in the chapter >Management Report FINANCIAL POSITION.

Interest-bearing debt down on previous year
The decrease in interest-bearing debt by EUR 78 million compared to the previous year was almost exclusively due to the scheduled partial repayment of a loan from the European Investment Bank (EIB) in the amount of EUR 75 million.

Decline in lease liabilities
Lease liabilities decreased primarily due to the EUR 38 million increase in lease payments compared to the previous year. This was only partially offset by the change in present values of EUR 565 million, mainly related to additions from new network sites.

Trade and other payables record decrease
The decrease compared to the previous year results in particular from fluctuations in normal operating business.

Payables – Spectrum
The payables are attributable to the outstanding payment obligations resulting from the mobile frequency auction in 2019. They decreased largely due to the instalment payment made in the financial year.

Provisions down year-on-year
Provisions decreased primarily due to higher discount rates compared to the previous year as a result of interest rate developments. As a result, in particular pension obligations decreased by EUR 113 million and asset retirement obligations by EUR 72 million.

Income tax liabilities decrease
This item comprises recognition of tax positions for income tax totalling EUR 68 million (previous year: EUR 93 million). The decrease of EUR 26 million compared to 31 December 2021 results from allocations for current taxes of financial year 2022 in the amount of EUR 31 million (previous year: EUR 79 million) less tax payments and advance tax payments of EUR 56 million (previous year: none).

Decline in deferred tax liabilities
The decrease in deferred tax liabilities remaining after netting in financial year 2022 to EUR 247 million (previous year: EUR 255 million) is attributable to the realisation of taxable temporary differences. These include reductions in tax amortisation on account of longer amortisation periods for tax purposes in connection with intangible assets, which were realised, and on the development of taxable temporary differences.

Equity impacted by dividend payment and profit for the period
The change in equity is mainly attributable to the dividend payment of EUR 535 million made after the Annual General Meeting in May 2022 and, offsetting this, to the profit for the period of EUR 232 million as well as positive changes in other comprehensive income/(loss) in the amount of EUR 77 million.

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

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 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 identify risks at the highest management level or on the basis of a group-wide consideration, and to discuss 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.

An overall risk profile is aggregated from identified risks to assess the extent to which the net assets, financial position and results of operations of the Company are at risk, which is then compared with the capacity to bear risk in a regular analysis.

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 and the Audit Committee are regularly informed about risks and their development.

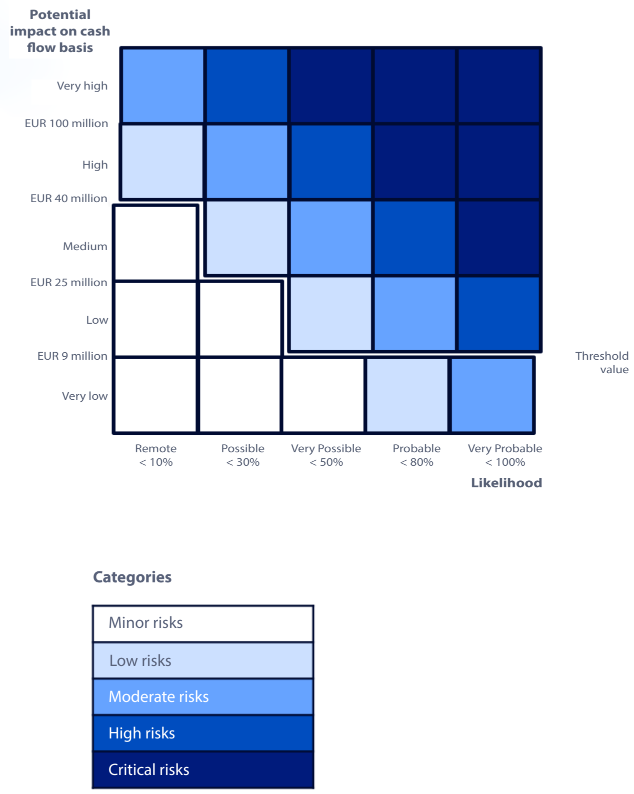
Opportunities are not recorded in the risk management system.

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 09 - RISK PROFILE



Based on the combination of the potential level of impact and the estimated likelihood of occurrence, the individual risks are divided into five categories (critical, high, moderate, low and minor risks).

Risks that have a very high potential level of impact of more than EUR 100 million and whose likelihood of occurrence is rated as at least "possible" are considered critical. With a growing likelihood of occurrence, risks with a high or medium potential level of impact also fall into this category. As the probability of occurrence and level of impact decrease, the risks fall into the corresponding categories below.

Minor risks and all risks whose potential level of impact is estimated at less than EUR 9 million are not reported to the Management Board and therefore are not included in the risk summary in the following chapter. Such risks are identified, documented and administered by the relevant management levels as part of the risk management process. The threshold value for reporting risks is represented by the space in the matrix.

Our Group 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

For internal use and reporting within the Group, risks are divided into business risks, operational risks and financial 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.

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, new network operators, MVNOs and consumer electronics companies – and also competes with alternative telecommunications services like OTT. 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 critical.

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 various countries could also impact our relations with suppliers as a result of existing or future trade barriers.

The impact of the war in Ukraine is not yet fully evident. However, the most significant new potential influences on our business activities are perceived to be fluctuating or higher energy prices, as well as in the supply chains for grid technology and radio towers. If certain network technologies or hardware were no longer to be available, the resulting follow-on costs could be enormous. Against the background of international conflicts, the ongoing proceedings on the use of critical components could also pose the risk that German authorities do not approve the usage of these components and we may not be able to carry out our network rollout as planned or face higher costs.

To counter this risk, we strive to avoid possible dependencies on individual suppliers and to hold appropriate inventories. We have also set up a task force to monitor and analyse the potential impact of the war in Ukraine on our business activities. Due to an increased likelihood of occurrence and a higher potential level of impact, we no longer classify the risk as moderate, but as critical.

Macroeconomic factors
Macroeconomic developments have an impact on our business activities as well as our net assets, financial position and results of operations. Inflation has increased during 2022 due to various factors and is expected to remain at a higher level in 2023 than in 2021. On the one hand, this could shift consumer sentiment and reduce customer demand for products; on the other hand, the purchase prices for goods and services could increase more than we had previously anticipated.

We are countering this risk through contractual agreements with suppliers and are monitoring changes and inflation expectations so that we can react appropriately. We classify this risk as high.

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 low risk by monitoring our gross margin, churn rates and through extensive market research activities.

COVID-19 pandemic
Restrictions relating to COVID-19 could possibly be imposed again and a certain amount of uncertainty remains for us as well.

We are countering this risk with a number of measures. In particular, we have drawn up a comprehensive, top-level pandemic plan as part of our emergency and crisis management. It is constantly being adapted to possible changes in the situation. We classify this risk as low.

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.

General 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. A result of new roaming requirements could be that measures by regulatory authorities could negatively affect our business activity as well as our financial and earnings position. We classify this risk as high.

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 licences 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 low 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 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 Group agreed with the 1&1 Group to transfer 2 x 10 MHz in the frequency range at 2.6 GHz to the 1&1 Group until the end of the term at the end of 2025; in return, Telefónica Deutschland Group 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 1&1 Group in 2014 on the provision of network capacities and services. A corresponding national roaming agreement was concluded in May 2021. 1&1 Group has set the national roaming start date for 1 August 2023. An extensive project was launched by Telefónica Deutschland Group to ensure strict compliance with the contracts concluded and hence prevent the possibility of significant fines. We classify this risk as low.

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 low.

In order to guard against the stated regulatory risks, 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.

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, but also by more consumer-friendly regulatory measures, 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 critical risk by intensively monitoring and evaluating customer satisfaction and the churn rates and by extensively monitoring our network elements.

Damage caused by cyber attacks
Cyber attacks 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. Against the backdrop of the war in Ukraine, the German Federal Office for Information Security has already issued a warning about the increase in cyber attacks on critical infrastructure operators. This is why we see an increased likelihood of cyber attacks. 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 cyber attacks. We classify this risk as critical.

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 high because even minor faults can result in substantial losses in sales.

Supply chain disruptions
As a provider of mobile and fixed network 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 case 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 moderate, even if there are no indications of future disruptions to the contractual relationships.

Use of services
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 low 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, 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. The fact that the EU-US Privacy Shield agreement is still declared invalid could, in particular, give rise to uncertainties in contractual relationships. However, a successor agreement to the EU-US Privacy Shield agreement is on the horizon; such an agreement is currently being examined by the EU institutions and may come into force in 2023.

Due to current developments regarding possible interpretations by the authorities, we see a higher likelihood of occurrence and therefore classify this risk no longer as moderate but as high.

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. This could negatively affect our business result or our reputation. We have reassessed the risk and now classify it as moderate.

In order to avoid legal risks, particularly from competition and data protection law, 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

Higher market interest rates

As a result of the overall rise or likely further rise in market interest rates, we expect higher interest expenses compared to previous years in the case of utilisation of financing lines with variable interest rates and when new financing is concluded, or also in the event of measures within the framework of our working capital management. Our financing operations that had been utilised as of 31 December 2022 were concluded solely with a fixed interest rate. We counter this risk, which is classified as low, through close monitoring and, if necessary, through financial hedging measures.

Overview of assessments of reported risks

Risk	Potential level of impact	Likelihood of occurrence	Assessment
Business risks			
Competitive markets and changing customer demands	Very high	Probable	Critical
Geopolitical risks	Very high	Very possible	Critical
Macroeconomic factors	Low	Very probable	High
Market acceptance and technological transformation	Medium	Possible	Low
COVID-19 pandemic	Low	Very possible	Low
Regulatory environment			
General regulatory influences	High	Very possible	High
Licences and frequencies	High	Remote	Low
Regulatory requirements in connection with the acquisition of the E-Plus Group	High	Remote	Low
Regulatory influences on our transmission power	High	Remote	Low
Operational risks			
Reliability of our services			
Attracting and retaining customers	High	Probable	Critical
Damage caused by cyber attacks	Very high	Probable	Critical
Technical faults	High	Very possible	High
Supply chain disruptions	High	Possible	Moderate
Loss of advantages in the case of reduced integration in the Telefónica, S.A. Group			
Use of trademark rights	Very high	Remote	Moderate
Use of services	High	Remote	Low
Legal risks			
Data privacy regulations	High	Very possible	High
Contractual relationships	Low	Probable	Moderate
Violation of customers' rights	Medium	Very possible	Moderate
Financial risks			
Higher market interest rates	Low	Very possible	Low

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 risks. 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, interest rates and other price changes will affect the value of financial instruments or the earnings of Telefónica Deutschland Group.

Currency Risk

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

The regional focus of Telefónica Deutschland Group's activities means that the translation 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 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.

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 basically 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. The overall rise in market interest rates will lead to higher interest charges in the foreseeable future compared to recent years when new financing is concluded or when credit lines are drawn down.

Inflation risk
The inflation risk consists of the risk of a negative effect on the financial result as a result of an adverse change in the inflation rate for Telefónica Deutschland Group. Non-current contractual receivables totalling EUR 263 million are subject to this risk.

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 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 is paid here 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, 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 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. 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 Telefónica Deutschland Group.

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 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 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 following financial year 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 and wide availability of 5G through growing network coverage and the rising number of compatible mobile devices

enable more customers to use high data transfer rates. The increased availability and use of streaming and TV services may also further increase demand for data. These 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 fixed-network connections through mobile-based WLAN routers (FMS), which can be used as an alternative to the traditional DSL connection, can also increase data usage. If demand for our mobile-based fixed-line alternatives is stronger than previously expected, this could have a positive impact on our revenues and OIBDA.

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 5G coverage

While we have expanded the capacity of our LTE network in 2022 and continued to expand the LTE network, especially in rural areas, we are continuing our focus on the expansion of the 5G network. By the end of 2022, we are already covering more than 80% of the population with this fast mobile standard.[26] The Telefónica Deutschland Group will continue to drive network expansion in 2023.

Within the business customer segment, 5G also lays the foundation for numerous new business models in areas such as campus networks, autonomous driving, virtual reality and the Internet of Things.

If the roll-out of the 5G network proceeds faster than planned, or if the market reacts more positively to the network roll-out than previously anticipated, this could have a positive impact on our revenues and OIBDA.

Fixed-line cooperation agreements via various technologies

As an integrated telecommunications provider, Telefónica Deutschland Group 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 ("Telekom"), through which we can offer our customers DSL products and, since November 2022, fibre-optic connections. In addition, cooperation agreements expand our presence in the fixed-line market and also open up further growth opportunities (>Management Report BUSINESS ACTIVITIES).

As part of the cooperation with the Vodafone Group, we will have access to up to 24 million[27] cable households in Germany and can supply most of them with fixed-line O_2 products with download speeds of up to 1 Gbps[28]. Through the cooperation agreement with Tele Columbus, Telefónica Deutschland Group also has long-term access to a further 2.4 million[29] households supplied with IP products by Tele Columbus via cable and fibre networks. This agreement allows data speeds of up to 1 Gbit/s to be provided to customers.[30]

As part of the joint venture of Telefónica Deutschland Group with Telefónica Infra, S.L.U. and Allianz Group, Telefónica Deutschland Group can offer more O_2 residential and business customers high-performance fibre-to-the-home connections. Through Unsere Grüne Glasfaser GmbH & Co. KG, in which Telefónica Deutschland Group holds a 10% stake, we are further expanding the fibre share of our fixed-line coverage.

If the availability of high-speed connections via our cooperation partners or via Unsere Grüne Glasfaser increases more significantly than planned, this could lead to stronger than expected demand for our fixed-network products and have a positive effect on our revenue.

In addition, Telefónica Deutschland Group's fixed-line network cooperation agreements open up additional growth opportunities for us in the area of convergent offerings. Furthermore, the remuneration for our transport services for UGG could develop more positively than expected in the long term, depending on the progress of the expansion. To this end, a Transport Use Agreement with a minimum term of 15 years was concluded in January 2021 to enable synergies between the companies in the wholesale sector.

Digital innovation

In order to fully exploit our position in the German market for mobile telecommunications services and to monetise additional opportunities for growth, we have introduced innovative digital products and value added services, such as our new cloud-based B2B billing platform, which offers business customers fast, maximally configurable billing and a high level of security.[31] The Telefónica Deutschland Group is also developing new digital market segments such as IoT for all its customer groups.

[26] The selected population-based evaluation includes not only the household-based coverage calculation with a fixed location reference as reported to the German Federal Network Agency. It also includes commuter flows within the population, with the result that some of the population are counted both in their residences and in their workplaces (maximum population). In doing this, Telefónica Deutschland Group takes into account that the services are not only in demand at home but also when travelling. This value is the value for the end of 2022, which indicates the availability of mobile telecommunications services outside of buildings (outdoors).
[27] Source: Telefónica Deutschland Holding AG press release: "O_2 launches nationwide roll-out of cable connections" (26 January 2021)
[28] Source: Telefónica Deutschland Holding AG press release: "Gigabit speed for over 22 million cable households" (26 April 2022)
[29] Source: Telefónica Deutschland Holding AG press release: "O_2 markets fixed-network tariffs on Tele Columbus cable connections" (14 July 2021)
[30] The number of households that can be reached as part of the cooperations should not be considered cumulatively due to overlaps.
[31] Source: Telefónica Deutschland Holding AG press release: "O_2 Telefónica launches new B2B billing platform with MATRIXX on Google Cloud" (2 March 2022)

Furthermore, we are developing new technologies based on mobile communications that allow Telefónica Deutschland Group to address customer needs in the best possible way. One example of this is network slicing, which, in the future, will enable customers to use a virtual network that is precisely tailored to their individual needs.

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

Digitalisation of processes

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, higher 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 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 and constantly growing product portfolio for business customers, with products such as O_2 Business Unlimited or O_2 Business Blue including 5G, meets the customer needs of small and medium-sized companies even better than expected, demand could be higher than anticipated.

Membership of the Telefónica, S.A. Group

As part of one of the largest telecommunications corporations in the world, 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 OIBDA and our earnings position and lead to us exceeding our forecast.

Summary of the Risks and Opportunities

Based on our assessment, the risks with the greatest potential impact result from the intensive competition on the German telecommunications market and the related customer acquisition and retention and from damage and disruptions that can arise from cyber attacks on our network or IT systems.

Compared to the previous year, we have now included a new risk, “Macroeconomic influences”, in order to reflect the risk resulting from increased inflation. Risks arising from the Ukraine war and from the use of critical network components are primarily mapped in “Geopolitical risks”, so this risk is now rated higher than before. The reassessment of the risk that may result from breaches of data privacy regulations resulted in an increase in this risk as well. The risk “Violation of customers’ rights” was also reassessed and is now classified as moderate. Higher expected additional interest expenses, however, cause the risk “Higher market interest rates” to rise above the threshold value and therefore to be reported for the first time.

A reassessment of the risk “Insurance” has indicated that the impact is now classified as low, it therefore falls below the threshold and is no longer reported.

In our estimation, the situation regarding the significant risks and opportunities for 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 the Group 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 (ICS) 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 >Management Report 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 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, Telefónica Deutschland Group's ICS reflects 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 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 and associated companies, 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. The Supervisory Board reviews the financial statements itself, taking into account the recommendations of the Audit Committee and the auditor's report, and approves them after its own review.

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 informed about the effectiveness of the ICS in part via the Audit Committee in accordance with section 171 (1) AktG in conjunction with section 107 (3) AktG and therefore also monitors the appropriateness of the system that has been established. 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 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.

Internal Control System[32]

Risk Management and Internal Control System

For the Management Board and Supervisory Board of Telefónica Deutschland AG, the internal control system and risk management are fundamental tools. The overall internal control system and risk management are in line with what is established in the Internal Control Integrated Framework of the "Committee of Sponsoring Organizations of the Treadway Commission" (COSO). Details on the risk management system can be found in the section >Management Report RISK MANAGEMENT SYSTEM AND RISK REPORTING. The handling of risks arising in the course of business is of great importance for the Company´s success and for a professional management. At Telefónica Deutschland Holding AG, an internal control system (ICS) to ensure the effectiveness and economic efficiency of business activities, proper financial reporting and compliance with the relevant legal regulations, as well as a risk management system to detect, assess, control, manage and monitor risks have therefore been implemented as integral components of corporate governance. One component of the internal control system is the accounting-related internal control system. Details can be found in the section >ACCOUNTING-RELATED INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM of the Combined Management Report. The overall internal control system, which also includes sustainability-related objectives, is described below.

Establishing and effectively maintaining appropriate internal controls is the responsibility of the Management Board of Telefónica Deutschland and is performed taking company-specific and legal requirements into account. Control mechanisms include, for example, the dual control principle, the separation of functions, role structuring and securing the IT infrastructure.

Management Board and Supervisory Board, especially the Audit Committee, receive regular reports on current risks, action plans and developments.

Telefónica Deutschland Holding AG and its governing 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 conduct called "Our Responsible Business Principles". This code of conduct includes mandatory fundamental principles and guidelines aimed to direct both management and employees in their daily work. The business principles constitute the foundation for ensuring that the company and its employees act ethically and professionally and with integrity.

The Management Board has no indication that the internal control and risk management system has not been appropriate or effective as of 31 December 2022. The elements of the current internal control system are continuously enhanced in order to adjust it to the changing legal and economic conditions of business operations.

Internal Audit

The Internal Audit department of Telefónica Deutschland Group is an independent management function that conducts regular audits and continuous controls to monitor compliance with internal rules, the efficiency of business processes and the appropriateness and effectiveness of Telefónica Deutschland Group's internal control system. Internal Audit supports the Audit Committee in its duties relating to the monitoring of the accounting process, the effectiveness of the internal control system as well as the risk management system. The audit department undergoes external certification on a regular basis.

The audit function's independence is ensured through organisational ties to the Chief Executive Officer and through regular reporting to the Audit Committee.

The annual audit planning process is risk-based and includes the senior management of the different business areas of Telefónica Deutschland Group as well as the Management Board. The planning process covers the topics that have been classified as most relevant in relation to the above-mentioned areas of responsibility. The audit plan is approved by the Audit Committee. Any ad hoc risks that arise during the year are addressed in special unscheduled audits, depending on their relevance. The audit function contains preventive measures to continuously monitor the effective execution of specific management controls as well as detection measures to identify deviations that have already occurred.

[32] The disclosures in this chapter are not connected to the management report and have therefore not been audited.

If weak points or areas for improvement are identified in an audit, action plans are agreed with the relevant departments in order to resolve these issues within an agreed period of time. The Internal Audit department promptly follows up on the implementation of the agreed measures by those responsible.

The results of the audit and the implementation status of any agreed action plans are presented to the Audit Committee on a quarterly basis.

Compliance

Telefónica Deutschland Group is committed to comply with all laws, regulations, processes, rules and enactments applicable to its business activity. The Group's compliance programme includes the main areas of anti-corruption with clear guidelines and procedures, competition law and the avoidance of ethically inappropriate behaviour. Preventive measures within the framework of the compliance programme include, for example, mandatory online training on the above-mentioned topics, on data protection and information security, as well as the avoidance of conflicts of interest. 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.

In the 2021 financial year, an auditor audited and certified the adequacy of the Company's compliance management system in the area of anti-corruption in accordance with the IDW PS 980 standard. This confirmed that the compliance management system has all the relevant elements for detecting compliance violations, that these have been implemented and are regularly monitored.

Report on Expected Developments

Economic Outlook[33]

According to forecasts by the German Council of Economic Experts, Germany's economic development will continue to be impacted by the war in Ukraine. In the first half of 2022, the main growth driver was services consumption, which is still on the rise. Since the middle of the year, however, soaring energy and food prices have resulted in ever greater losses of purchasing power and dampened private consumption. At the same time, production was adversely affected by the energy crisis, especially in the energy-intensive industries. The global downturn weakened demand for exports. The German economy held up relatively well overall in 2022 despite the ongoing difficult environment, according to the Federal Statistical Office. Price-adjusted economic growth was 1.8%, and calendar-adjusted growth was 1.9%. Although the ifo Institute expects a recession in 2023, it will be milder than previously thought, according to the new forecast of the economic experts, who predict that economic output will shrink by only 0.1% in 2023. However, exports and corporate investments are expected to gradually increase again in 2023. Supply bottlenecks are also expected to gradually ease and high industrial order backlogs will be cleared.

Inflation will remain high, but the ifo Institute projects that the electricity and gas price brake will slow the rise in consumer prices somewhat: the inflation rate will fall to 6.4% in 2023 after 7.9% in 2022.

The ifo Institute expects the economic slowdown to have an impact on the labour market as well. Employment growth is expected to come to a virtual halt in the months ahead and to resume at a sluggish pace over the remainder of the forecast period. As a result, the unemployment rate is expected to rise from 5.3% in 2022 to 5.5% in 2023 and eventually fall back to 5.3% in 2024. In addition, on the labour market, the Council of Experts expects labour and skills shortages that could further jeopardise economic growth. The primary reasons for this are demographic developments, on the one hand, and the increasing need for retraining due to increasing digitalisation and decarbonisation, on the other.

Overall, there are downside risks in economic performance as well as risks from labour and skills shortages, but the upwards momentum of inflation is expected to moderate over the course of 2023.

T 10 – GDP GROWTH 2021 – 2023 GERMANY (PRICE-ADJUSTED)[34]

In % compared to previous year	2021	2022	2023
Germany	2.6	1.8	-0.1

Market Expectations[35]

Digitalisation is now an integral part of our everyday lives and will continue to gain in importance for consumers and commercial enterprises. A large majority (87%) of the population sees digitalisation as an opportunity. 71% of people over the age of 75 also agree. This is a key finding of a representative study commissioned by the "Digital for Everyone" initiative. There is also a large openness to digital technologies in general: nine out of ten people (88%) have a positive opinion of digital technologies. For 89% of the population, digital technologies have become an integral part of their lives; for 80%, these technologies make their lives easier. According to a study by the digital association Bitkom, the majority of companies also assume that digital business models are becoming more important for their own economic success. At the same time, however, according to the German Federal Ministry of Education and Research (BMBF), it is becoming increasingly clear that our way of living and doing business has negative consequences for our planet. By using digital technologies, sustainable development can be supported and accelerated in many areas – be it through data-driven efficiency increases or digital innovations. New opportunities are also opening up for education, health and social innovation.

[33] Source: Council of Economic Experts: Annual Report 2022/23 "Managing the energy crisis in solidarity, shaping a new reality" (9 November 2022); ifo Institute: Winter 2022 Economic Forecast (14 December 2022); Federal Statistical Office: Press release no. 037 (30 January 2023)
[34] Source: Council of Economic Experts: Annual Report 2022/23 "Managing the energy crisis in solidarity, shaping a new reality" (9 November 2022); ifo Institute: Winter 2022 Economic Forecast (14 December 2022); Federal Statistical Office: Press release no. 037 (30 January 2023)
[35] Sources: Digital association Bitkom: Press release "Majority of Germans see digitalisation as an opportunity" (21 June 2022); German Federal Ministry of Education and Research (BMBF): Digitalisation and sustainability; Initiative D21: Web Congress Digital Society 2022 "#D21TALK – Rethinking Digitalisation and Sustainability" (23 February 2022); PwC: German Entertainment and Media Outlook (GEMO) 2022-2026 (10 August 2022); Analysys Mason: Hub survey "Western European telecoms market: trends and forecasts 2021–2026" (10 November 2022); Digital association Bitkom, Study "The Future of Consumer Technology 2022" (25 August 2022); German government: Announcement on the "Gigabit Strategy" (17 March 2022); Deutsche Telekom press release: "Telekom's fibre rollout" (14 March 2022); Telefónica Deutschland press release: "Smart marketing partnership with Unsere Grüne Glasfaser (UGG)" (2 March 2021)

The expansion of the fibre-optic network and the 5G mobile communications standard will be decisive for further digitalisation in Germany. According to the German Entertainment and Media Outlook (GEMO) study, total data traffic is expected to increase by an additional 23% to 123,392 petabytes in 2023. The main drivers for the demand for broadband services include streaming, the use of especially video-intensive social networks and the increase in gaming. The video segment, with a share of over 80% of data consumption, accounts for the majority of this. The demand for fast internet access will increase as more high-quality games are developed in conjunction with virtual reality (VR) or augmented reality (AR). Analysys Mason estimates that a mobile customer's data consumption will increase by about 50% from 2022 to 2023 to 10.9 GB per month. The roll-out of fibre optics is also progressing. The German government's gigabit strategy aims to triple the number of fibre connections by 2025, so that half of all households will have a fibre connection. Deutsche Telekom alone is planning to provide ten million households with an FTTH connection by the end of 2024. With its Unsere Grüne Glasfaser (UGG) joint venture, Telefónica Deutschland Group is looking to build up to 2.2 million fibre-optic connections.

Another trend is the metaverse. The Digital Association Bitkom expects the metaverse and its underlying technologies to become a feature of our everyday lives. In the future, 27% of the respondents said they could imagine going shopping in the metaverse, for example, and 22% said they would like to meet friends there or go to concerts together. Half of the German population aged 16 and over said they could imagine using AR glasses, and this figure rises to three quarters if the AR glasses do not use cameras. There will also be an increasing willingness to use VR glasses in future. In 2022, it increased by two percentage points to 43%. Voice control will also gain importance. On the one hand, this is a central operating mode for VR and AR. On the other hand, it also helps to ensure barrier-free operation of devices.

The increased use of networks for new applications with an increasing demand for data requires seamless processes to an even greater degree and shifts the demands to network operators.

Financial Outlook 2023

In financial year 2023, Telefónica Deutschland Group will further pursue its growth path leveraging the good momentum of the past financial years and the successful completion of its three-year "Investment for Growth" program. The Company continues to build on the multiple "very good"[36] awards winning O_2 network and its multi-brand and multi-channel strategy as the backbone of its go-to-market strategy. As a result, Telefónica Deutschland Group has been able to win back mobile market shares in financial year 2022 in a dynamic yet rational environment.

Postpaid remains the Company's strongest value generator, mainly driven by the high O_2 brand appeal while in the prepaid market, the prepaid to postpaid migration trends continue. Within the technology-agnostic O_2 my Home portfolio, high-speed cable and fibre accesses as well as 4G/5G-based fixed-mobile substitution (FMS) tariffs are increasingly gaining traction.

Based on current market dynamics, Telefónica Deutschland Group expects a robust pricing environment both in the premium and the discount segment in 2023. For its own brand portfolio, Telefónica Deutschland Group is focusing on the implementation of a 'more-for-more' strategy in customer acquisition, reflecting the Company's continuous investments in the successful improvement of product, service and network quality as well as its ESG leadership[37].

Furthermore, Telefónica Deutschland Group expects regulatory changes to remain a headwind to its financial performance in financial year 2023. Revenues, and to a lesser extent OIBDA, will be impacted primarily by the reduction of the mobile termination rate from EUR 0.55 cents per minute to EUR 0.40 cents per minute effective 1 January 2023.

Telefónica Deutschland Group will continue to pursue its digital transformation path to generate revenue and efficiency gains. In doing so, the company is emphasising sustainable growth and is pushing the execution of its ESG strategy. Digitalisation is playing a key role in tackling climate change and achieving CO_2 neutrality targets. Telefónica Deutschland Group's business model continues to prove resilient despite a significant increase in inflation.

Continuous growth of Telefónica Deutschland Group's mobile service revenues remains the main driver of the Group's revenue and profitability trends, mainly reflecting the O_2 brand's

[36] Source: Connect-Mobilfunk-Netztest, edition 1/2023: "very good" (894 points); overall awarded: once "outstanding" (952), twice "very good" (915 and 894 points)
[37] Telefónica Deutschland Group manages its ESG performance through regular analyses, from which it derives actions for improvement in the areas of environmental and climate protection, social commitment and corporate governance. It also makes use of sustainability ratings. In the ratings by Sustainalytics, Morgan Stanley Capital International (MSCI) and ISS ESG, on which Telefónica Deutschland Group is concentrating, ESG performance was successfully maintained in the reporting year, with good to very good ratings being achieved once again.

commercial success. Hardware revenues are expected to remain volatile and dependent on market dynamics as well as launch cycles and availability of new smartphones. As in the past, hardware margins are largely OIBDA-neutral.

Fixed broadband offers are complementing Telefónica Deutschland Group's tariff portfolio and contribute to customer retention and loyalty. Hence, the Company can optimally meet customer needs through its technology-agnostic approach, as all major infrastructures (i.e. VDSL, cable, fibre) can be offered via wholesale contracts in addition to FMS via its own mobile network.

In this context, Telefónica Deutschland Group expects for financial year 2023 low single-digit percentage year-on-year growth for revenues and OIBDA adjusted for exceptional effects.

This forecast takes into account regulatory headwinds of approximately EUR -50 to -60 million at revenue level and approximately EUR -10 to -15 million at OIBDA level, as well as broadly stable energy costs at around prior year's level.

Following the successful completion of the "Investment for Growth" program in 2022, Telefónica Deutschland Group expects the CapEx/Sales ratio to normalise at around 14% in financial year 2023.

Telefónica Deutschland Group's assumptions are based on current economic conditions and current competitive dynamics as well as existing wholesale relationships. At the same time, management is continuously monitoring and analysing business impacts on the Group of further macroeconomic and geopolitical developments and changes, especially in connection with the war in Ukraine.

T 11 – FINANCIAL OUTLOOK 2023

	Actual 2022[1]	Outlook for 2023 [2]
Revenues[2]	EUR 8,224 million	Low single-digit percentage year-on-year growth
OIBDA adjusted for exceptional effects[2]	EUR 2,539 million	Low single-digit percentage year-on-year growth
CapEx/Sales ratio	14.7%	Around 14%

[1] Financial year 2022 includes non-recurrent special factors in the amount of EUR +26 million
[2] Including regulatory headwinds of ca. EUR -50 to -60 million at revenue level and ca. EUR -10 to -15 million at OIBDA level

Other Disclosures

Report on Relations with Affiliated Companies

In the period from 1 January to 31 December 2022, 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, regarding the legal transactions and measures listed in the dependency report and based on the circumstances which were known to us at the time at which the legal transactions were carried out or the measures were taken, received adequate compensation for each legal transaction and has not been disadvantaged because of measures being taken. No measures were refrained from during the reporting period."

Separate Non-Financial Group Report

Telefónica Deutschland will publish a Separate Non-Financial Group Report which contains the information for Telefónica Deutschland Group at the following website address: www.telefonica.de/nfs.

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 non-par value registered shares, each with a proportionate interest in the share capital of EUR 1.00 ("shares"). The registered share capital is fully paid. As of 31 December 2022 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 recommendation 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 2022 and according to information provided to the Company, 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.

At the start of financial year 2022, the Management Board of Telefónica Deutschland Holding AG consisted of seven members. From 2 June 2022 until the end of the reporting period, the Management Board consisted of six members; the target remains unchanged at seven 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 conjunction with section 179 (2) sentence 2 AktG, resolutions of the Annual General Meeting of Telefónica Deutschland Holding AG 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 2022, the following authorisations of the Management Board for the issuing of shares exist:

Authorised capital

As of 31 December 2022, the Management Board is authorised, with the approval of the Supervisory Board, to increase the share capital of the company in the period until 19 May 2026 (inclusive), on one or more occasions, by a total of EUR 1,487,277,496 by issuing up to 1,487,277,496 new non-par value shares in exchange for cash and/or non-cash contributions (Authorised Capital 2021/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 20 May 2021, which at the same time cancelled the existing Authorised Capital 2016/I.

Conditional capital

For the purpose of the issue of registered non-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 non-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 own 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 2022 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 Group 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 of the bonds 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 3.0% p.a.

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 provisions of the German Stock Corporation Act (AktG) and the German Commercial Code (HGB).

Telefónica Deutschland Holding AG acts as a holding company and as a service provider, it is responsible for the management and strategic approach of Telefónica Deutschland Group. As the parent company of 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 Telefónica Deutschland Group.

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

As of 31 December 2022, Telefónica Deutschland Holding AG did not have any employees.

Results of Operations

T 12 - CONSOLIDATED INCOME STATEMENT

1 January to 31 December

(in EUR million)	2022	2021	Change	% change
Revenues	**10**	**10**	**1**	**8.5**
Other income	0	2	(1)	(75.0)
Operating expenses	(12)	(12)	(1)	5.1
Personnel expenses	(9)	(9)	(1)	7.4
Other operating expenses	(3)	(3)	0	(1.6)
Operating income	**(2)**	**(1)**	**(1)**	**>100**
Financial result	(0)	(1)	0	(88.1)
Profit/(loss) before tax	**(2)**	**(1)**	**(1)**	**54.0**
Income tax	(13)	(36)	24	(65.4)
Profit/(loss) after tax	**(14)**	**(37)**	**23**	**(61.9)**
Other taxes	0	(0)	0	(>100)
Profit/(loss) for the period	**(14)**	**(37)**	**23**	**(61.9)**

Telefónica Deutschland generates its revenues from compensation for services which it provides for its subsidiaries. In financial year 2022, the reimbursement costs resulted in revenues in the amount EUR 10 million.

Revenues in the financial year 2022 were at the previous year's level of EUR 10 million. In particular, the EUR 24 million decrease in expenses from income taxes compared to the previous year, which is related to the results of Telefónica Germany GmbH & Co. OHG and its controlled companies, resulted in a reduction in the net loss for the year from EUR 37 million in the previous year to EUR 14 million in the reporting year.

Revenues at previous year's level
In the financial year, revenues in the amount of EUR 10 million (2021: EUR 10 million) were generated. The revenues, at EUR 10 million, 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 agreements. Furthermore, invoiced management services are included in the amount of EUR 294 thousand, which Telefónica Deutschland Holding AG provided for Telefónica Germany GmbH & Co. OHG and Telefónica Germany Management GmbH.

Personnel expenses at previous year's level
Personnel expenses comprise the remuneration of the Management Board including social security contributions and amounted to EUR 9 million (2021: EUR 9 million).

Other operating expenses at previous year's level
At EUR 3 million, other operating expenses were at the same level as in the previous year (2021: EUR 3 million). They essentially include legal and consulting expenses from external service providers.

Income taxes significantly below previous year's level
Income tax expenses of EUR 13 million (2021: EUR 36 million) consist of current corporate income tax expenses including the solidarity surcharge. The change compared to the previous year is related to the development of the results of Telefónica Germany GmbH & Co OHG. As a shareholder of Telefónica Germany GmbH & Co. OHG, Telefónica Deutschland Holding AG is a taxable entity for corporate income tax and solidarity surcharge purposes.

Annual results significantly improved
The Company was able to reduce its net loss for the year from approximately EUR 37 million in the previous year to approximately EUR 14 million in the year under review. The development is mainly due to the decrease in income tax expense described above.

Financial Position and Net Assets

T 13 - BALANCE SHEET

As of 31 December

(in EUR million)	**2022**	**2021**	**Change**	**% change**
Fixed assets				
Financial assets				
Investments in affiliated companies	6,911	7,506	(595)	(7.9)
Current assets				
Receivables from affiliated companies	115	83	32	38.1
Other assets and miscellaneous assets	0	0	0	0
Total assets	**7,026**	**7,590**	**(564)**	**(7.4)**
Equity	6,932	7,482	(550)	(7.3)
Provisions	16	51	(35)	(67.8)
Liabilities	77	57	20	36.1
Total equity and liabilities	**7,026**	**7,590**	**(564)**	**(7.4)**

Principles and goals of financial management
As a service provider, Telefónica Deutschland Holding AG is responsible for the management of 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. In addition, cash flow is ensured by the annual withdrawal from the reserve accounts of the investment in Telefónica Germany GmbH & Co. OHG. Furthermore, Telefónica Deutschland Holding AG is integrated into the Group-wide financial management of Telefónica Deutschland Group and is therefore able to fulfil its payment obligations at all times. In this respect, the further information provided in the Financial Position section of the Group applies.

Bond for corporate financing
In July 2018, O2 Telefónica Deutschland Finanzierungs GmbH placed a bond with a nominal value of EUR 600 million and a term of seven years.

The bond of O2 Telefónica Deutschland Finanzierungs GmbH was transferred to Telefónica Germany GmbH & Co OHG as a loan.

Within the scope of the Group-wide financial management of 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 terms.

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

Decrease in financial assets
Investments in affiliated companies in the amount of EUR 6,911 million (2021: EUR 7,506 million) relate in the amount of EUR 6,900 million (2021: EUR 7,496 million) to the shares in Telefónica Germany GmbH & Co. OHG, Munich, of which the Company is the personally liable shareholder. The decrease in the carrying amount of the investment in Telefónica Germany GmbH & Co. OHG results from the withdrawal by Telefónica Deutschland of a total of EUR 595 million on the basis of a shareholders' resolution dated 10 May 2022 in accordance with section 4(3) of the shareholders' agreement. As in the previous period, a carrying amount of EUR 10 million relates to the shares in Telefónica Germany Management GmbH, Munich.

Increase in receivables from affiliated companies
The increase of EUR 32 million was primarily due to the increase in receivables from affiliated companies from the fiscal unity for value-added tax purposes from EUR 77 million in 2021 to EUR 93 million in the reporting year. In addition, the increase was due to the increase in cash pool receivables from Telfisa Global B.V., Amsterdam from EUR 5 million in 2021 to EUR 20 million in the reporting year.

Decline in provisions
The decrease in provisions from EUR 51 million in 2021 to EUR 16 million in the reporting year is primarily due to the lower tax provision for corporation tax including solidarity surcharge of EUR 3 million in the financial year (2021: EUR 41 million), which is related to the results of Telefónica Germany GmbH & Co. OHG and its subsidiaries. As a shareholder of Telefónica Germany GmbH & Co. OHG, Telefónica Deutschland Holding AG is a taxable entity for corporate income tax purposes.

At EUR 4 million, pension provisions were at the previous year's level (2021: EUR 4 million). At EUR 9 million, other provisions in the reporting year were above the previous year's level (2021: EUR 6 million).

Increase in liabilities
The increase in liabilities in the reporting year was primarily the result of the increase in other liabilities by EUR 21 million to EUR 53 million (2021: EUR 32 million). The other liabilities of around EUR 53 million (2021: EUR 32 million) relate in particular to VAT liabilities, which the Company is required to pay to the tax authority as the controlling company of the VAT group of Telefónica Deutschland Holding AG.

Trade payables and liabilities to affiliated companies were at the previous year's level.

Decline in equity
Equity decreased in financial year 2022 by EUR 550 million or 7.3% to EUR 6,932 million (2021: EUR 7,482 million). The change in equity resulted from the dividend payment of EUR 535 million resolved on 19 May 2022 and paid in the financial year and from the result for the period of EUR -14 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.

Employees

As in 2021, Telefónica Deutschland Holding AG had no employees in financial year 2022.

Risks and Opportunities

The business development of Telefónica Deutschland Holding AG is basically subject to the same risks and opportunities as that of 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 Telefónica Deutschland Group, Telefónica Deutschland Holding AG assumes warranty obligations for its subsidiaries. Within the framework of the issue of the bond of O2 Telefónica Deutschland Finanzierungs GmbH, Munich, Telefónica Deutschland Holding AG has given an unconditional and irrevocable guarantee to each holder of the issued bond in July 2018 in the amount of EUR 600 million for the proper and timely payment of all amounts payable by the issuer on the bond in accordance with the bond terms.

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

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

On 21 January 2019, Telefónica Deutschland Holding AG also issued a letter of comfort for Telefónica Germany GmbH & Co. OHG with a term until 31 December 2040. As part of this agreement, Telefónica Deutschland Holding AG undertakes to ensure, without restriction and until 31 December 2040, 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.

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

For further information, please see >RISK AND OPPORTUNITIES MANAGEMENT.

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

The required description of the internal control system in accordance with section 289 (4) HGB with reference to the financial reporting process for Telefónica Deutschland Holding AG is given in >INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM BASED ON THE CONSOLIDATED FINANCIAL REPORTING PROCESS.

Outlook for 2023

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 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 Telefónica Deutschland Group level, we refer to the >REPORT ON EXPECTED DEVELOPMENTS.

Management Declaration

The Company has published this declaration, which among other items, 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 (http://www.telefonica.de/investor-relations/corporate-governance/erklaerungen-und-satzung.html) and in the Corporate Governance section 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. It also refers to the Company website where the remuneration report is made publicly available (http://www.telefonica.de/investor-relations/corporate-governance.html).

Munich, 16 February 2023

Telefónica Deutschland Holding AG

The Management Board

Markus Haas

Markus Rolle

Valentina Daiber

Nicole Gerhardt

Alfons Lösing

Mallik Rao

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Consolidated Balance Sheet

Assets (in EUR million)	Notes	As of 31 December 2022	As of 31 December 2021
A) Non-current assets		**13,221**	**13,657**
Goodwill	[5.1]	1,360	1,360
Other Intangible Assets	[5.2]	3,605	4,137
Property, Plant and Equipment	[5.3]	3,512	3,491
Right-of-Use Assets	[5.4]	3,277	3,349
Investments accounted for using the equity method	[10]	12	3
Trade and other receivables	[5.5]	292	269
Other financial assets	[5.6]	448	396
Other non-financial assets	[5.7]	251	221
Deferred tax assets	[6.7]	463	433
B) Current assets		**2,810**	**3,162**
Inventories	[5.8]	140	138
Trade and other receivables	[5.5]	1,359	1,498
Other financial assets	[5.6]	34	70
Other non-financial assets	[5.7]	499	436
Cash and cash equivalents	[5.9]	777	1,020
Total assets (A+B)		**16,030**	**16,819**

Equity and liabilities (in EUR million)	Notes	As of 31 December 2022	As of 31 December 2021
A) Equity		**5,810**	**6,036**
Subscribed capital	[5.10]	2,975	2,975
Additional paid-in capital	[5.10]	3,373	3,929
Retained earnings		(538)	(868)
Total equity attributable to owners of the parent company		5,810	6,036
B) Non-current liabilities		**5,928**	**6,495**
Interest-bearing debt	[5.11]	1,510	1,627
Lease liabilities	[5.12]	2,663	2,781
Trade and other payables	[5.13]	10	8
Payables – Spectrum	[5.14]	891	990
Provisions	[5.15]	472	647
Deferred income	[5.13]	136	187
Deferred tax liabilities	[6.7]	247	255
C) Current liabilities		**4,292**	**4,289**
Interest-bearing debt	[5.11]	128	89
Lease liabilities	[5.12]	597	548
Trade and other payables	[5.13]	2,661	2,779
Payables – Spectrum	[5.14]	107	107
Provisions	[5.15]	67	66
Other non-financial liabilities	[5.7]	70	53
Income tax liabilities	[6.7]	68	93
Deferred income	[5.13]	594	552
Total equity and liabilities (A+B+C)		**16,030**	**16,819**

Consolidated Income Statement

1 January to 31 December

(in EUR million)	**Notes**	**2022**	**2021**
Revenues	[6.1]	8,224	7,765
Other income	[6.2]	153	402
Supplies		(2,524)	(2,403)
Personnel expenses	[6.3]	(622)	(585)
Impairment losses in accordance with IFRS 9	[5.5]	(92)	(72)
Other Expenses	[6.4]	(2,616)	(2,454)
Operating income before depreciation and amortisation (OIBDA)		**2,523**	**2,653**
Depreciation and amortisation	[6.5]	(2,283)	(2,382)
Operating income		**240**	**272**
Finance income		23	6
Exchange gains		3	1
Finance costs		(59)	(68)
Exchange losses		(3)	(1)
Financial result	[6.6]	**(36)**	**(62)**
Result from investments accounted for using the equity method	[10]	(14)	(4)
Profit/(loss) before tax		**189**	**205**
Income tax	[6.7]	42	5
Profit/(loss) for the period		**232**	**211**
Profit/(loss) for the period attributable to owners of the parent company		**232**	**211**
Profit/(loss) for the period		**232**	**211**
Earnings per share	[7]		
Basic earnings per share in EUR		**0.08**	**0.07**
Diluted earnings per share in EUR		**0.08**	**0.07**

Consolidated Statement of Comprehensive Income

1 January to 31 December

(in EUR million)	**Notes**	**2022**	**2021**
Profit/(loss) for the period		**232**	**211**
Items that will not be reclassified to profit/(loss)			
Remeasurement of benefits after termination of employment	[5.15]	125	44
Income tax impact	[6.7]	(40)	(14)
Share in other comprehensive income of investments accounted for using the equity method	[10]	14	–
Income tax impact	[6.7]	(4)	-
Items that will be reclassified to profit/(loss)			
Change in the fair value of financial instruments measured at fair value through other comprehensive income	[5.5]	(28)	–
Income tax impact	[6.7]	10	-
Other comprehensive income/(loss)		**77**	**30**
Total comprehensive income/(loss)		**308**	**240**
Total comprehensive income/(loss) attributable to owners of the parent company		**308**	**240**
Total comprehensive income/(loss)		**308**	**240**

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 company	Equity
Financial position as of 1 January 2021		**2,975**	**4,512**	**(1,156)**	**6,330**	**6,330**
Profit/(loss) for the period		–	–	211	211	211
Other comprehensive income/(loss)		–	–	30	30	30
Total comprehensive income/(loss)		**–**	**–**	**240**	**240**	**240**
Dividends	[5.10]	–	–	(535)	(535)	(535)
Withdrawal	[5.10]	–	(583)	583	–	–
Other movements		–	–	0	0	0
Financial position as of 31 December 2021		**2,975**	**3,929**	**(868)**	**6,036**	**6,036**
Financial position as of 1 January 2022		**2,975**	**3,929**	**(868)**	**6,036**	**6,036**
Profit/(loss) for the period		–	–	232	232	232
Other comprehensive income/(loss)		–	–	77	77	77
Total comprehensive income/(loss)		**–**	**–**	**308**	**308**	**308**
Dividends	[5.10]	–	–	(535)	(535)	(535)
Withdrawal	[5.10]	–	(556)	556	–	–
Other movements		–	–	2	2	2
Financial position as of 31 December 2022		**2,975**	**3,373**	**(538)**	**5,810**	**5,810**

Consolidated Statement of Cash Flows

1 January to 31 December

(in EUR million)	**Notes**	**2022**	**2021**
Cash flow from operating activities			
Profit/(loss) for the period		232	211
Adjustments to profit/(loss)			
Financial result	[6.6]	36	62
Gains on disposals of assets		12	(245)
Income taxes	[6.7]	(42)	(5)
Depreciation and Amortisation	[6.5]	2,283	2,382
Result from investments accounted for using the equity method		14	4
Other non-cash expenses/income		(0)	(2)
Change in working capital and others			
Other non-current assets	[5.5], [5.6], [5.7]	(48)	(155)
Other current assets	[5.5], [5.6], [5.7], [5.8]	100	(197)
Other non-current liabilities and provisions	[5.13], [5.15]	(49)	(49)
Other current liabilities and provisions	[5.13], [5.15]	26	188
Other			
Taxes paid		(56)	–
Interest received		7	4
Interest paid		(43)	(64)
Cash flow from operating activities		**2,471**	**2,133**
Cash flow from investing activities			
Proceeds from disposals of property, plant and equipment and intangible assets		6	4
Payments on investments in property, plant and equipment and intangible assets	[5.2], [5.3]	(1,379)	(1,167)
Proceeds from disposal of companies		16	540
Payments on investments in associated companies		(10)	(7)
Proceeds from financial assets		0	6
Payments for financial assets		(11)	(7)
Cash flow from investing activities		**(1,378)**	**(631)**
Cash flow from financing activities			
Repayments of lease liabilities	[5.11]	(640)	(602)
Payments made relating to frequency auctions	[5.14]	(108)	(108)
Proceeds from interest-bearing debt	[5.11]	88	754
Repayments of interest-bearing debt	[5.11]	(167)	(1,319)
Dividends paid		(535)	(535)
Proceeds relating to financing activities		26	–
Other payments made relating to financing activities		–	(8)
Cash flow from financing activities		**(1,336)**	**(1,818)**
Net increase/(decrease) in cash and cash equivalents		**(243)**	**(317)**
Cash and cash equivalents at the beginning of the period	[5.9]	**1,020**	**1,337**
Cash and cash equivalents at the end of the period	[5.9]	**777**	**1,020**

Notes to the Consolidated Financial Statements

1. Reporting Entity

The Consolidated Financial Statements of Telefónica Deutschland Holding AG have been prepared as of and for the year ending 31 December 2022 and comprise Telefónica Deutschland Holding AG (also referred to as "Telefónica Deutschland" or the "Company") and its subsidiaries as well as joint operations (together referred to as the "Telefónica Deutschland Group" or the "Group") and associated companies.

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 and the International Securities Identification Number (ISIN) is DE000A1J5RX9.

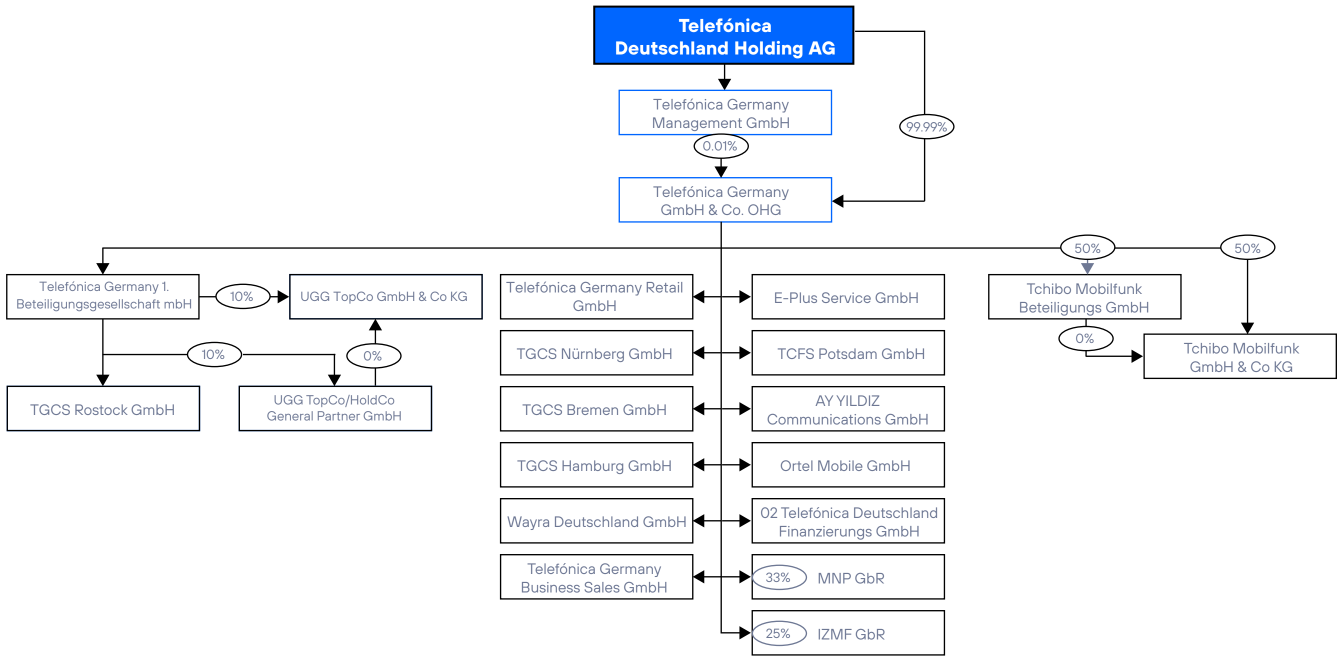
As of 31 December 2022, approx. 29.4% of the shares were in free float. 69.2% were held by Telefónica Germany Holdings Limited, Slough, United Kingdom (Telefónica Germany Holdings Limited), an indirect wholly owned subsidiary of Telefónica, S.A., Madrid, Spain (Telefónica, S.A.), and approx. 1.4% were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

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 business and private customers voice, data and value added services in mobile and fixed-line networks. In addition, Telefónica Deutschland Group ranks among the leading wholesale providers in Germany. Wholesale partners are offered access to the Group's infrastructure and services. Telefónica Deutschland Group is part of the Telefónica, S.A. Group, one of the biggest telecommunications corporations in the world. The Consolidated Financial Statements of Telefonica S.A. have been published on the Group's website.

As of 31 December 2022, the companies included in the Consolidated Financial Statements of 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 9 LIST OF SHAREHOLDINGS AND CHANGES IN THE GROUP STRUCTURE.

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).

The accounting policies applied in the published Consolidated Financial Statements for the previous year have also been applied to these Consolidated Financial Statements as of 31 December 2022. Exceptions to this are amendments to the IFRS and valuation changes as presented in >Note 3.1 CHANGES IN ACCOUNTING STANDARDS; PUBLISHED AMENDMENTS REQUIRING MANDATORY APPLICATION. Furthermore, the Group applied the additional requirements of German commercial law pursuant to section 315e (1) of the German Commercial Code (HGB).

The Management Board approved the Consolidated Financial Statements of Telefónica Deutschland Holding AG for publication and submission to the Supervisory Board on 16 February 2023.

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. We also advise that absolute amounts smaller than EUR 500,000 are stated either as "0" or "(0)", depending on whether a plus or minus sign appears before it.

A nil notification using "-" is indicated for items that do not have a value.

When preparing the Consolidated Financial Statements of Telefónica Deutschland Holding AG in accordance with IFRS, assumptions must also be made in some cases that may have an effect on the valuation of the assets and liabilities recognised in the Balance Sheet as well as on the amount of expenses and income.

The key assumptions concerning the future and other relevant sources of uncertainty in estimates at the reporting date that could have a material impact on the Consolidated Financial Statements within the next financial years are disclosed in the Notes to the respective items of the Balance Sheet or Income Statement (see >Note 5 SELECTED NOTES TO THE CONSOLIDATED BALANCE SHEET, and >Note 6 SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED INCOME STATEMENT). The estimates and underlying assumptions are based on the knowledge currently available to management and are accordingly derived from factors that are considered relevant, such as historical experience.

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

3. Changes in Accounting Standards

3.1. Published and mandatory amendments

The standards that are mandatory in the EU for the first time as of 1 January 2022 had no material impact on the Consolidated Financial Statements.

3.2. Published amendments not yet applicable

The standards and interpretations presented below have been adopted by the IASB, but their application is not yet mandatory at the date of publication of the 2022 Consolidated Financial Statements.

The Telefónica Deutschland Group expects to adopt all required amendments. The Group does not currently 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.

Standards, interpretations and amendments		Mandatory application for financial years beginning on or after
Amendments to IAS 1	Classification of liabilities as current or non-current payables with covenants	1 January 2024[1]
IFRS 17 (incl. amendments to IFRS 17)	Insurance Contracts	1 January 2023
Amendments to IFRS 17	First-time application of IFRS 17 and IFRS 9 – comparative information	1 January 2023
Amendments to IAS 1 and to the IFRS guideline document 2	Information on accounting policies	1 January 2023
Amendments to IAS 8	Definition of accounting estimates	1 January 2023
Amendments to IAS 12	Deferred taxes relating to assets and liabilities resulting from a single transaction	1 January 2023
Amendments to IFRS 16	Accounting for lease liabilities from sale-and-leaseback transactions	1 January 2024[1]

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

4. General Accounting Policies

4.1. Consolidation methods

Consolidation principles

The consolidation methods applied are as follows:

- Full consolidation method for companies where Telefónica Deutschland Group has control. Control is assumed if 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.
- Consolidation using the equity method for companies over which Telefónica Deutschland Group exercises significant influence and which are neither subsidiaries nor joint ventures.

All material receivables and liabilities and transactions between the consolidated companies are eliminated in consolidation. The returns generated in transactions involving goods that may be capitalised or services by subsidiaries with other Telefónica Deutschland Group companies are 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 Telefónica Deutschland Group, adjustments are made in consolidation in order to present the Consolidated Financial Statements.

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.

Subsidiaries

Subsidiaries are companies where Telefónica Deutschland Group has control. Control is assumed if 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. The existence and effect of substantial potential voting rights that may be currently exercised or converted, including potential voting rights held by other Group entities, are considered in assessing whether an entity is controlled.

All subsidiaries are included in the Consolidated Financial Statements (see >Note 1 REPORTING ENTITY) unless they are considered immaterial individually and cumulatively.

Company acquisitions

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 recognises identifiable assets acquired in a business combination and the liabilities assumed, including contingent liabilities, at fair value at the acquisition date.

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.

Associated companies

Investments in UGG TopCo GmbH & Co. KG and UGG TopCo/HoldCo General Partner GmbH were classified as associated companies under application of IAS 28.6, taking into account the specific facts and circumstances. We have based our assessment that Telefónica Deutschland Group exercises significant influence on the business and financial policies on the fact that Telefónica Deutschland Group enters into material business transactions with the companies and is involved in the relevant decision-making processes.

Currency translation

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

4.2. Significant accounting policies

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, 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 over the acquirer's interest, at the acquisition date, in the fair values of the identifiable assets, liabilities and contingent liabilities of the acquired business. Subsequent expenditures on internally generated goodwill are recognised in the Consolidated Income Statement as incurred.

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 5.1 GOODWILL).

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. Expenditures on brands are recognised in the Consolidated Income Statement as incurred.

Costs include external and internal costs which are composed of acquired assets and services as well as own work capitalised. Own work capitalised is recognised in other income.

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 asset primarily includes acquisition costs for mobile frequency licences for the provision of telecommunications services. Capitalisation takes place either in connection with a grant by a public authority or in the context of an acquisition of a company. The mobile frequency licences represent a qualifying asset under IAS 23, as the purpose of the acquisition is to build a network. 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 once commercial exploitation begins.

Customer bases

This category is for customer relationships which were acquired through company transactions, and therefore capitalised. They are amortised on a straight-line basis over the estimated duration of the customer relationship.

Software

Software is recognised at cost and is amortised on a straight-line basis over its useful life.

Brand names

This category is for brand names which were acquired through company transactions, and hence were capitalised. Brand names are amortised on a straight-line basis over the period of their expected economic use.

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 which are composed of acquired goods and services as well as own work capitalised. Own work capitalised is recognised in other income.

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.

Investment grants within the meaning of IAS 20 are recognised as soon as there is reasonable assurance that Telefónica will comply with the conditions of the grant and that the grant will be fully received. Under IAS 20.24, grants are recognised as a reduction of acquisition costs.

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

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 recognised.

A lease is defined as a contract whereby an identified asset is made available to 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. When determining the lease term besides the fixed contract term, termination and extension options are taken into account if reasonably certain. For considering all relevant facts and circumstances Telefónica Deutschland Group further assumes a 3-year forecast period based on the strategic management plan for the assessment if the exercise or non-exercise of those options is considered to be reasonably certain.

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 right-of-use asset also includes costs directly attributable to the acquisition. 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 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 a lease contains various contractual components, the services are generally divided into lease and non-lease components. Leases that are not allocated to the asset classes of cellsites, land, rooftops, towers, real estate or carrier means (cables, fibre-optic cable, etc) are treated in accordance with the simplification rule in IFRS 16.15.

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.

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, 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 seqq., the right of use of 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 of the head lease continues to be recognised in the Balance Sheet and the lease payments received of the sublease agreement are recorded in profit or loss over the term of the agreement.

Investments accounted for using the equity method

Investments in associates that are accounted for using the equity method are recognised in the Consolidated Balance Sheet from the date on which Telefónica Deutschland Group obtains significant influence over the investment. Initial measurement is at cost; initial acquisition costs directly attributable to the transaction increase the carrying amount. The carrying amount of the investment is adjusted in subsequent periods by the proportionate change in equity of the associate. Dividends received reduce the carrying amount. The pro rata total comprehensive income/loss of the investment attributable to Telefónica Deutschland Group is presented as "Result of investments accounted for using the equity method" in the Consolidated Income Statement and Consolidated Statement of Comprehensive Income.

Impairment of goodwill and other intangible assets, property, plant and equipment, right-of-use assets from leases and carrying amount of investments accounted for using the equity method

Goodwill as well as intangible assets not yet used and assets with indefinite lives are tested for impairment annually at the reporting date or if there are any indications of an impairment. Property, plant and equipment, intangible assets with a finite useful life and right-of-use assets are tested for impairment only if any indications of impairment exist at the reporting date.

The same applies to carrying amounts of associates accounted for using the equity method. Assets and goodwill are tested for impairment at the level of the cash-generating unit to which the asset belongs. As of 31 December 2022, Telefónica Deutschland Group comprises one single cash-generating unit, the reportable segment Telecommunications. Within 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, the carrying amount of the investment accounted for using the equity method or a cash-generating unit exceeds its recoverable amount.

Generally, in the first step, 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 value is less than the carrying amount of the cash generating unit, the value in use is also measured. The recoverable amount used to determine the impairment is the higher of the fair value less costs to sell and the value in use.

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 to the other assets of the unit pro rata on the basis of the carrying amount of each asset.

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 investment carrying amount of an associated company exceeds its recoverable amount, the carrying amount is written down to its recoverable amount. The resulting loss is recognised in the Consolidated Income Statement.

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.

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 be sold. 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 customers. At the time of the sale when risk is transferred, the respective inventory is recognised as expense.

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.

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. Non-derivative financial instruments are recognised on the settlement date, except for derivatives, which are recognised on the trade date. 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, Telefónica Deutschland Group uses the business model criterion to assess how the financial assets are managed at portfolio level. This assessment 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 with a positive fair value 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 lifetime. 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 lifetime.

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, 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 is the case if an internal collection measure has been unsuccessful.

At each reporting date, 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 Telefónica Deutschland Group in full without 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 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 lifetime using the simplified approach. In estimating expected credit losses, Telefónica Deutschland Group considers appropriate information that is relevant and reasonably available. This includes both quantitative and qualitative information and analyses based on Telefónica Deutschland Group's historical experience and credit ratings, as well as forward-looking information. 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 frequency 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 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 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 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 also be derecognised if a substantial modification of the contractual conditions has been made.

Offsetting

Financial assets and financial liabilities are offset, and the net amount is reported in the Consolidated Balance Sheet, when Telefónica Deutschland 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.

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.

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 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 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 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 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 dismantling and retirement are recognised if Telefónica Deutschland Group has a legal or constructive obligation to carry out the measures.

Restoration obligation

Asset retirement obligations arise from the contractual obligation to return the leased in the original condition at contract commencement date. 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 shops and office locations, and interest rate movements are evaluated annually.

Non-current assets and disposal groups held for sale

The Telefónica Deutschland Group classifies non-current assets or disposal groups as held for sale if the relevant carrying amount will be recovered principally through a sale and not its continuing use in the business. Non-current assets and disposal groups classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Costs to sell are the additional costs directly attributable to the sale of an asset (disposal group).

The criteria for an asset or disposal group to be classified as held for sale are only met if the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition.

Property, plant and equipment and intangible assets classified as held for sale cease to be depreciated from the date of classification under IFRS 5. The same applies to capitalised right-of-use assets resulting from leases.

Assets and liabilities classified as held for sale are recognised separately as current items in the Balance Sheet.

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 revenues:

- 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 arrangements

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. When the entitlement to consideration from a customer corresponds directly to the value of the services already provided, Telefónica Deutschland Group makes use of the practical expedient under IFRS 15.B16 and recognises revenue based on the amount invoiced.

In addition to standalone service contracts, Telefónica Deutschland Group offers its customers products under multi-component arrangements. 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 respective 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, Telefónica Deutschland Group does not consider these financing components because the analysis of the relevant 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 accounting of the individual contract consideration. The Telefónica Deutschland Group analysed the existing contracts and aggregated them into portfolios. The Group applies the revenue regulations at the level of these defined portfolios.

Capitalisation of costs of obtaining a contract

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 other expenses on a straight-line basis over the underlying amortisation period.

Within the capitalisation of costs of obtaining a contract, 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.

Accounting for contract modifications

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, cumulative catch up adjustments of revenues may occur.

Principal versus agent considerations

According to IFRS 15, the assessment whether 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.

Income taxes

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 Balance Sheet. Taxable temporary differences give rise to deferred tax liabilities in the Consolidated Balance Sheet. 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.

5. Selected Notes to the Balance Sheet

5.1. Goodwill

(in EUR million)	2022	2021
Carrying amount of goodwill at 1 January	**1,360**	**1,616**
Disposal due to sale of major parts of the business operations of the rooftop sites to Telxius	–	(256)
Carrying amount of goodwill at 31 December	**1,360**	**1,360**

Goodwill is allocated to the Telecommunications cash-generating unit. The Telefónica Deutschland Group regularly evaluates the recoverable amount of this cash-generating unit to identify potential impairment of goodwill. Determining the recoverable amount may entail the use of assumptions and estimates and requires a significant element of judgment. The fair value of goodwill is determined based on the market capitalisation of Telefónica Deutschland Holding AG as of the reporting date.

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 2022, as the recoverable amount of EUR 6,772 million (2021: EUR 7,182 million), based on fair value less costs to sell, was higher than the carrying amount of the cash-generating unit. An impairment test was carried out on the basis of a share price of EUR 2.303 as of 31 December 2022. The Group again did not recognise an impairment charge in financial year 2021.

The impairment test is described in Note 4 GENERAL ACCOUNTING POLICIES - SIGNIFICANT ACCOUNTING POLICIES.

5.2. Other intangible assets

Other intangible assets are depreciated on a straight-line basis over their useful lives, primarily within the following ranges:

	Estimated useful life (in years)
Licences	8 - 21
Customer bases	7 - 15
Software	1 - 5
Brand names	5 - 19

Determining the useful lives underlying amortised cost is essentially based on the assessment of future technological developments or the alternative use of the assets and is therefore subject to certain discretionary estimates.

A review of estimated useful lives in the financial year resulted in an extension of useful lives of software with a decrease in depreciation of around EUR 14 million.

(in EUR million)	**Licences and other licences for use**	**Customer bases**	**Software**	**Thereof own work capitalised**	**Brand names**	**Other**	**Construction in progress/ prepayments on intangible assets**	**Other Intangible Assets**
Cost								
As of 1 January 2021	**4,316**	**2,987**	**1,948**	***256***	**101**	**42**	**398**	**9,792**
Additions	–	–	294	*25*	–	0	77	372
Disposals	(11)	(267)	(276)	–	(0)	(38)	–	(593)
Reclassifications	211	–	14	–	–	0	(225)	(0)
As of 31 December 2021	**4,516**	**2,720**	**1,980**	***281***	**101**	**4**	**249**	**9,571**
As of 1 January 2022	**4,516**	**2,720**	**1,980**	***281***	**101**	**4**	**249**	**9,571**
Additions	0	–	325	*31*	0	(0)	31	356
Disposals	–	–	(135)	*(21)*	–	(1)	–	(136)
Reclassifications	–	–	66	–	–	(2)	(64)	(0)
As of 31 December 2022	**4,516**	**2,720**	**2,236**	***291***	**101**	**1**	**216**	**9,791**
Accumulated depreciation								
As of 1 January 2021	**(1,541)**	**(2,028)**	**(1,501)**	***(201)***	**(62)**	**(42)**	**–**	**(5,175)**
Additions	(293)	(282)	(270)	*(36)*	(3)	(1)	–	(849)
Disposals	8	267	276	–	0	38	–	590
As of 31 December 2021	**(1,826)**	**(2,044)**	**(1,495)**	***(236)***	**(65)**	**(4)**	**–**	**(5,434)**
As of 1 January 2022	**(1,826)**	**(2,044)**	**(1,495)**	***(236)***	**(65)**	**(4)**	**–**	**(5,434)**
Additions	(292)	(282)	(310)	*(31)*	(3)	(0)	–	(887)
Disposals	–	–	135	*21*	–	1	–	136
Reclassifications	–	–	(2)	–	–	2	–	0
As of 31 December 2022	**(2,118)**	**(2,327)**	**(1,672)**	***(246)***	**(68)**	**(1)**	**–**	**(6,186)**
Carrying amount								
As of 31 December 2021	**2,690**	**676**	**484**	***44***	**36**	**0**	**249**	**4,137**
As of 31 December 2022	**2,398**	**394**	**564**	***45***	**34**	**0**	**216**	**3,605**

Licences

As of 31 December 2022, licences consist primarily of the spectrum licences listed below:

In June 2019, Telefónica Germany GmbH & Co. OHG successfully bid for a total of 70 MHz in the 3.6 GHz range. The frequencies in the 3.6 GHz frequency range have been used since June 2020 and have a term until December 2040. The frequencies are currently used for 5G. The carrying amount of the frequency usage rights as of 31 December 2022 is EUR 913 million (2021: EUR 963 million). The remaining useful life is 18 years.

In May 2010, Telefónica Germany GmbH & Co. OHG acquired frequency usage rights for 2x10 MHz in the 800 MHz band that will expire in December 2025. The frequencies are currently used for 4G. The carrying amount as of 31 December 2022 is EUR 251 million (2021: EUR 334 million). The remaining useful life is 3 years.

In June 2015, Telefónica Germany GmbH & Co. OHG successfully bid for frequency usage rights for 2x10 MHz in the 1.8 GHz range, which have been used since 1 January 2017 and will expire in December 2033. The carrying amount of the frequency usage rights as of 31 December 2022 is EUR 312 million (2021: EUR 340 million). The remaining useful life is 11 years.

In June 2015, Telefónica Germany GmbH & Co. OHG successfully bid for frequency usage rights for 2x10 MHz in the 700 MHz range, which have been used since March 2020 and have a term until December 2033. The frequencies are currently used for 4G and 5G. The carrying amount of the frequency usage rights as of 31 December 2022 is EUR 268 million (2021: EUR 292 million). The remaining useful life is 11 years.

In June 2015, Telefónica Germany GmbH & Co. OHG successfully bid for frequency usage rights for 2x10 MHz in the 900 MHz range, which have been used since 1 January 2017 and have a term until December 2033. The frequencies are currently used for 4G and 2G. The carrying amount of the frequency usage rights as of 31 December 2022 is EUR 249 million (2021: EUR 272 million). The remaining useful life is 11 years.

In June 2019, Telefónica Germany GmbH & Co. OHG successfully bid for a total of 10 MHz in the 2.0 GHz range. The frequencies in the 2.0 GHz band have been used since January 2021 and have a term until December 2040. The frequencies are currently used for 4G. The carrying amount of the frequency usage rights as of 31 December 2022 is EUR 190 million (2021: EUR 201 million). The remaining useful life is 18 years.

In May 2010, Telefónica Germany GmbH & Co. OHG acquired frequency usage rights for about 2x5 MHz in the 2.0 GHz band that will expire in December 2025. As part of the acquisition of the E-Plus Group on 1 October 2014, further frequency usage rights were acquired in the amount of approximately 2x10 MHz in the 2.0 GHz band with terms until December 2025. The frequencies are currently used for 4G. The carrying amount as of 31 December 2022 is EUR 101 million (2021: EUR 135 million). The remaining useful lives are three years.

With the acquisition of the E-Plus Group on 1 October 2014, Telefónica Germany GmbH & Co OHG acquired 2x10 MHz in the 1.8 GHz range, which are used for DSS (Dynamic Spectrum Sharing), 4G and 2G, and run until December 2025. The carrying amount of the frequency usage rights as of 31 December 2022 is EUR 88 million (2021: EUR 117 million). The remaining useful life is 3 years.

In May 2010, Telefónica Germany GmbH & Co. OHG acquired paired and unpaired frequency usage rights totalling 50 MHz in the 2.6 GHz band that will expire in December 2025. As part of the E-Plus Group acquisition on 1 October 2014, additional paired and unpaired frequency usage rights totalling 30 MHz in the 2.6 GHz band with terms until December 2025 were acquired, of which frequency usage rights totalling 2x10 MHz were transferred in the 2020 financial year. The carrying amount as of 31 December 2022 is EUR 26 million (2021: EUR 35 million). The remaining useful lives are three years.

All frequency usage rights are allocated on a technology-neutral basis and are amortised on a straight-line basis over their useful lives.

Customer bases

The customer bases are primarily a result of the acquisition of the E-Plus Group by Telefónica Deutschland Group. The customer bases acquired in the E-Plus acquisition on 1 October 2014 are amortised mainly over remaining useful lives of one and two years.

Software

Software mainly includes developments and licences for IT and office applications. In the financial year 2022, additions mainly related to CRM and billing systems as well as portal 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 12 years.

Construction in progress/prepayments on intangible assets

Construction in progress/prepayments on intangible assets mainly comprise the frequency blocks in the 2 GHz bands purchased at auction by Telefónica Deutschland Group in June 2019. The German Federal Network Agency assigned the frequency blocks in August 2019. The carrying amount of the frequencies as of 31 December 2022 is EUR 170 million (2021: EUR 170 million). 2x5 MHz capacity in the 2 GHz spectrum will be available from 2026. The use of the frequency is limited until the end of 2040.

5.3. Property, plant and equipment

Accounting for investments in property, plant and equipment involves the use of estimates to determine the useful life for depreciation and amortisation purposes. The useful lives are reviewed periodically and, where appropriate, updated based on technological progress. The following bandwidths are chiefly used at present in Telefónica Deutschland Group:

	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

In the financial year 2022, impairments of EUR 64 million were recorded, mainly in connection with early retirement of network equipment.

Property, plant and equipment comprise the following:

(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 2021	**351**	**9,126**	**249**	**210**	**9,935**
Additions	4	823	27	59	913
Disposals	(195)	(949)	(44)	(13)	(1,201)
Reclassifications	1	36	7	(43)	–
Other	6	(46)	–	–	(40)
As of 31 December 2021	**167**	**8,989**	**239**	**212**	**9,607**
As of 1 January 2022	**167**	**8,989**	**239**	**212**	**9,607**
Additions	4	808	21	21	854
Disposals	(25)	(718)	(10)	(10)	(765)
Reclassifications	0	19	3	(22)	0
Other	(3)	(53)	–	–	(56)
As of 31 December 2022	**143**	**9,044**	**252**	**201**	**9,640**
Accumulated depreciation					
As of 1 January 2021	**(300)**	**(5,740)**	**(189)**	**–**	**(6,229)**
Additions	(13)	(907)	(28)	–	(948)
Disposals	194	822	44	–	1,060
As of 31 December 2021	**(118)**	**(5,825)**	**(173)**	**–**	**(6,117)**
As of 1 January 2022	**(118)**	**(5,825)**	**(173)**	**–**	**(6,117)**
Additions	(8)	(724)	(28)	–	(759)
Disposals	25	712	10	–	748
Reclassifications	–	–	(0)	–	(0)
As of 31 December 2022	**(101)**	**(5,837)**	**(190)**	**–**	**(6,128)**
Carrying amount	**42**	**3,207**	**62**	**201**	**3,512**
As of 31 December 2021	**48**	**3,164**	**66**	**212**	**3,491**
As of 31 December 2022	**42**	**3,207**	**62**	**201**	**3,512**

As of 31 December 2022, Telefónica Deutschland Group mainly capitalised leasehold improvements under land and buildings.

Plant and machinery mainly relates to network equipment.

Furniture, office equipment, tools and other items primarily consists of IT equipment.

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

Other movements in property, plant and equipment, which mainly relate to technical equipment and machinery and are connected with assets relating to dismantling or retirement obligations, amounted to EUR -56 million (2021: EUR -40 million). The change is mainly due to the effects of the interest rate adjustment and partly offsetting higher cost estimates.

5.4. Right-of-use assets

(in EUR million)	Land and buildings	Plant and machinery	Other	Right-of-Use Assets
Cost				
As of 1 January 2021	**929**	**2,630**	**195**	**3,755**
Additions	112	1,177	41	1,329
Disposals	(230)	(155)	(10)	(395)
As of 31 December 2021	**811**	**3,652**	**226**	**4,689**
As of 1 January 2022	**811**	**3,652**	**226**	**4,689**
Additions	144	398	52	594
Disposals	(22)	(50)	(22)	(94)
As of 31 December 2022	**932**	**4,001**	**256**	**5,189**
Accumulated depreciation				
As of 1 January 2021	**(272)**	**(548)**	**(82)**	**(902)**
Additions	(138)	(406)	(41)	(585)
Disposals	92	47	8	147
As of 31 December 2021	**(317)**	**(907)**	**(116)**	**(1,340)**
As of 1 January 2022	**(317)**	**(907)**	**(116)**	**(1,340)**
Additions	(120)	(465)	(52)	(637)
Disposals	14	31	20	65
As of 31 December 2022	**(423)**	**(1,342)**	**(147)**	**(1,912)**
Carrying amount				
As of 31 December 2021	**493**	**2,745**	**110**	**3,348**
As of 31 December 2022	**509**	**2,659**	**109**	**3,277**

As of 31 December 2022, 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 radio masts, dark fibre, leased lines and the leasing of space on passive infrastructure including antenna towers.

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 radio masts and rooftop sites.

The right-of-use asset is determined on the basis of the discounted lease liability. Please refer to the remarks under >Note 5.12 LEASE LIABILITIES for information on the assumptions made for the contract term and the incremental borrowing rate used.

5.5. Trade and other receivables

(in EUR million)	As of 31 December 2022 Non-current	As of 31 December 2022 Current	As of 31 December 2021 Non-current	As of 31 December 2021 Current
Trade receivables	292	1,120	269	1,307
Continuing involvement from the sale of receivables	–	190	–	132
Receivables from related parties (>Note 13 RELATED PARTIES)	–	29	–	25
Other receivables	–	73	–	78
Loss allowance	–	(51)	–	(44)
Trade and other receivables	**292**	**1,359**	**269**	**1,498**

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 577 million (2021: EUR 785 million) and the non-current trade receivables of EUR 292 million (2021: EUR 269 million).

Trade receivables, which are measured at amortised cost, have a gross carrying amount of EUR 543 million (2021: EUR 521 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 164 million (2021: EUR 136 million) is implicitly included in the fair value. The loss allowance of EUR 51 million (2021: EUR 44 million) relates mainly to the impairment of receivables measured 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 tables provide 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 2022. Separate consideration is applied to trade receivables measured at fair value through other comprehensive income and trade receivables measured at amortised cost.

Trade and other receivables at amortised cost

As of 31 December 2022

(in EUR million)	Gross carrying amount	Loss allowance	Average expected default rate
This presentation follows the simplified approach:			
Not due	446	8	1.9%
Overdue for 1-30 days	28	3	10.8%
Overdue for 31-60 days	11	2	17.9%
Overdue for 61-90 days	6	2	34.3%
Doubtful accounts			
Overdue for 91-180 days	11	6	52.8%
Overdue for 181-360 days	13	8	64.1%
Overdue for more than 360 days	28	22	79.3%
Total	**543**	**51**	

As of 31 December 2021

(in EUR million)	Gross carrying amount	Loss allowance	Average expected default rate
This presentation follows the simplified approach:			
Not due	437	9	2.1%
Overdue for 1-30 days	24	3	11.6%
Overdue for 31-60 days	10	2	17.3%
Overdue for 61-90 days	4	2	36.5%
Doubtful accounts			
Overdue for 91-180 days	9	5	55.0%
Overdue for 181-360 days	11	7	65.5%
Overdue for more than 360 days	26	17	70.2%
Total	**521**	**45**	

Trade and other receivables at fair value through other comprehensive income

As of 31 December 2022

(in EUR million)	Gross carrying amount	Loss allowance	Average expected default rate
This presentation follows the simplified approach:			
Not due	202	0	0.1%
Overdue for 1-30 days	4	0	0.1%
Overdue for 31-60 days	0	0	0.1%
Overdue for 61-90 days	0	0	21.0%
Doubtful accounts			
Overdue for 91-180 days	1	1	92.2%
Overdue for 181-360 days	0	0	84.2%
Overdue for more than 360 days	0	0	84.0%
Total	**208**	**2**	

As of 31 December 2021

(in EUR million)	Gross carrying amount	Loss allowance	Average expected default rate
This presentation follows the simplified approach:			
Not due	292	0	0.1%
Overdue for 1-30 days	8	0	0.1%
Overdue for 31-60 days	0	0	0.1%
Overdue for 61-90 days	0	0	25.0%
Doubtful accounts			
Overdue for 91-180 days	0	0	0.0%
Overdue for 181-360 days	0	0	0.0%
Overdue for more than 360 days	1	0	84.0%
Total	**301**	**1**	

In addition, there are gross receivables of EUR 853 million for O_2 My Handy that are measured at fair value through other comprehensive income. The discounting effect remaining in other comprehensive income is EUR 28 million (2021: EUR - million). This results in a carrying amount of EUR 825 million (2021: EUR 888 million) after discounting. Of this amount, EUR 76 million is at risk of default (2021: EUR 44 million). A separate valuation allowance of EUR 162 million is recognised for O_2 My Handy, of which EUR 51 million is for the receivables at risk of default (2021: EUR 136 million, of which EUR 25 million is for receivables at risk of default). This valuation allowance was recognised directly in equity and was not separately deducted at fair value on the Balance Sheet.

It also includes repurchased O_2 My Handy receivables at amortised cost in the amount of EUR 2 million (2021: EUR 2 million) with credit ratings already impaired at acquisition.

Overall, this results in gross receivables of EUR 1,603 million (2021: EUR 1,712 million), for which an impairment adjustment of EUR 215 million (2021: EUR 182 million) has been recorded.

Receivables older than 90 days are classified by Telefónica Deutschland Group as being at risk of default and are forwarded to collection service providers for processing as part of receivables management. A success rate dependent on the customer segment and the products is achieved, which is taken into account in the impairment. The impairment of these receivables is further subdivided on the basis of this maturity.

Compared to the previous year, the loss allowances for the financial year 2022 increases by 19%, resulting from the higher past due receivables.

When calculating the expected credit losses, a collection rate of 29% is taken into account in 2022 (2021: 29%).

For trade receivables with a contractual volume of EUR 97 million (2021: EUR 58 million), which were transferred to collection agencies during financial year 2022 and have not yet been paid, collection measures are still ongoing.

The breakdown of trade receivables is as follows:

	As of 31 December 2022		As of 31 December 2021	
(in EUR million)	**Non-current**	**Current**	**Non-current**	**Current**
Trade receivables billed	292	690	269	896
Trade receivables unbilled	–	429	–	412
Trade receivables	**292**	**1,120**	**269**	**1,307**

The following table shows the development of the allowances for the years ending as of 31 December 2022 and 2021.

	2022	
(in EUR million)	**Trade receivables measured at amortised cost**	**Trade receivables measured at fair value through other comprehensive income**
As of 1 January 2022	**(44)**	**(137)**
Addition	(27)	(65)
Utilisation	20	38
As of 31 December 2022	**(51)**	**(164)**

	2021	
(in EUR million)	**Trade receivables measured at amortised cost**	**Trade receivables measured at fair value through other comprehensive income**
As of 1 January 2021	**(57)**	**(112)**
Addition	(18)	(54)
Release	7	–
Utilisation	24	30
As of 31 December 2021	**(44)**	**(136)**

In 2022 and 2021, Telefónica Deutschland Group sold instalment receivables in order to optimise the working capital. The nominal value of transactions concluded in 2022 amounts to EUR 973 million (2021: EUR 491 million), and the carrying amount is EUR 966 million on 31 December 2022 (2021: EUR 484 million). The buyers of the receivables assume a large 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 190 million (2021: EUR 132 million). The utilisation is expected to result in a loss of EUR 11 million (2021: EUR 7 million).

The Telefónica Deutschland Group recognises trade receivables sold in the amount of its continuing involvement. This corresponds to the maximum amount with which Telefónica Deutschland Group remains liable for the associated maximum risk and recognises a corresponding other liability. The maximum risk comprises the credit risk and the late payment risk. The receivables and the associated liability are subsequently derecognised in the amount in which the continuing involvement of Telefónica Deutschland Group is reduced. The Telefónica Deutschland Group bears the entire late payment risk in all transactions and continues to bear a portion of the credit risk. The remaining credit risk is transferred to the purchasers of the receivables in the course of the transactions. Consequently, the opportunities and risks associated with the receivables sold were neither transferred nor retained.

All other receivables measured at amortised cost are subject to the impairment requirements of IFRS 9 and are recognised as impaired using the general approach. >Note 15 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT.

5.6. Other financial assets

(in EUR million)	As of 31 December 2022		As of 31 December 2021	
	Non-current	Current	Non-current	Current
Investments in start-ups	3	0	3	0
Reimbursement rights from insurance contracts	104	–	94	–
Silent factoring deposit	53	29	24	47
Deposits	0	–	0	–
Purchase price receivable from the sale of major parts of the business operations of the rooftop sites	263	–	246	15
Loans	12	0	16	0
Net investment in the lease	12	5	14	6
Other financial assets	**448**	**34**	**396**	**70**

For further information on the investments in start-up companies, see >Note 8 FURTHER INFORMATION ON FINANCIAL ASSETS AND FINANCIAL LIABILITIES.

The reimbursement rights in 2022 were accrued to cover the pension and partial benefit obligations, and do not represent plan assets in accordance with IAS 19. This item still includes EUR 10 million (2021: EUR 8 million) in surpluses from the offsetting of the net defined benefit liability against plan assets. 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.

In addition, other financial assets include current and non-current portions of a deposit that serves as collateral for silent factoring and corresponds to the maximum risk (credit and late payment risk) to be borne by Telefónica Deutschland Group in the individual transactions. The collateral is paid into a Telefónica Deutschland Group bank account pledged to the purchaser of the receivables. The deposit provides security for the bank's losses on the sale of receivables.

Other financial assets include EUR 263 million (2021: EUR 246 million) of the non-current portion of the purchase price receivable that is not yet due from the sale of major parts of the business operations of the rooftop sites to Telxius.

The non-current share of the purchase price receivable depends on the development of the inflation rate over the next few years. The receivable is valued using the effective interest method. The expected loss within the next 12 months is recognised as an impairment loss.

As of 31 December 2022, loan receivables mainly include a loan from the sale of network equipment and spectrum licences.

The net investment in the lease results from leasing receivables from finance leases for subleases for shops and locations with cell sites. These receivables follow the simplified impairment approach. The impairment losses are not material. For further information on net investment in the lease, see >Note 19 LEASES.

All financial assets measured at amortised cost are subject to the impairment requirements of IFRS 9 and are recognised as impaired using the general approach. There were no material increases in credit risk in the current and previous financial year. Consequently, the expected credit loss for 12 months is determined for all instruments. With regard to other financial assets, there were no indications of material impairment as of 31 December 2022 (>Note 15 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT).

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

Other non-financial assets were comprised as follows as of 31 December 2022:

(in EUR million)	As of 31 December 2022		As of 31 December 2021	
	Non-current	Current	Non-current	Current
Prepayments	109	57	92	54
Prepayments to related parties	–	1	–	1
Capitalised costs of obtaining contracts	141	424	127	364
Contract asset	2	17	1	18
Other tax receivables	–	0	–	0
Other non-financial assets	**251**	**499**	**221**	**436**

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

The capitalised costs of obtaining contracts include costs for commissions that can be directly allocated to contracts with customers. They are amortised on a straight-line basis in profit or loss over the underlying amortisation period, which is generally 24 months. In financial year 2022, amortisation of EUR 520 million (2021: EUR 486 million) was recognised.

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.

For contract assets, a loss allowance of EUR 1 million (2021: EUR 1 million) is already recognised directly in the carrying amount. Contract assets exist primarily with private customers.

Other non-financial liabilities were comprised as follows as of 31 December 2022:

	As of 31 December 2022	**As of 31 December 2021**
(in EUR million)	**Current**	**Current**
Payroll taxes and social security	9	9
Current tax payables for indirect taxes	60	43
Other taxes	0	1
Other non-financial liabilities	**70**	**53**

5.8. Inventories

(in EUR million)	**As of 31 December 2022**	**As of 31 December 2021**
Merchandise	141	140
Allowances	(1)	(3)
Inventories	**140**	**138**

Inventories comprise smartphones and accessories in particular.

The total amount of inventories recognised as an expense in financial year 2022 is EUR 1,533 million (2021: EUR 1,349 million).

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

5.9. 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

(in EUR million)	**As of 31 December 2022**	**As of 31 December 2021**
Cash at bank and in hand	13	9
Cash pooling	763	1,012
Cash and cash equivalents	**777**	**1,020**

Telefónica Deutschland Group 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. has guaranteed the performance of Telfisa Global B.V.'s obligations arising from the cash pooling agreements. Telefónica, S.A. is rated by international rating agencies with an investment grade rating of BBB. Therefore, no significant credit losses are expected (see also >Note 15 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT).

Telefónica Deutschland Group assumes that Telfisa Global B.V. will have sufficient financial resources to meet its obligations, in particular those towards Telefónica Deutschland Group, at all times.

5.10. Equity

Subscribed capital

As of 31 December 2022, 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, unchanged as of 31 December 2021, 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 2022, Telefónica Deutschland Holding AG did not hold any of its own shares.

In accordance with section 6 (2) of the articles of association, the shareholders do not have the right to securitise shares. The shares are freely transferable.

Authorised capital

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

Conditional capital

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

Authorisation of the Management Board to buy back own 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 2022 resolved a new authorisation in accordance with section 71 (1) no. 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.

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 3,929 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).

In the financial year, a withdrawal of EUR 556 million was made from the (free) additional paid-in capital to retained earnings. As of 31 December 2022, additional paid-in capital amounts to EUR 3,373 million (2021: EUR 3,929 million).

Retained earnings

In addition to the above mentioned reallocation from the additional paid-in capital, retained earnings primarily consist of accumulated results from previous years and actuarial adjustments to the pension provisions, which lead to the remeasurement of post-employment benefits, as well as income tax effects from these adjustments. Due to the interest rate developments, from the trade receivables measured at fair value through other comprehensive income, we saw a discounting effect in other comprehensive income for the first time in 2022. The investments accounted for using the equity method produced a share of their other comprehensive income for the first time in 2022.

Retained earnings also contain a legal reserve in accordance with section 150 (2) of the German Stock Corporation Act (Aktiengesetz – AktG) of EUR 0.014 million (2021: EUR 0.014 million).

Dividend distribution in the financial year

On 19 May 2022, the virtual Annual General Meeting of Telefónica Deutschland resolved to distribute a dividend of EUR 0.18 for each no par value share for financial year 2021, in total around EUR 535 million. For this purpose, EUR 583 million were withdrawn from the (free) additional paid-in capital and transferred to retained earnings in 2021. The dividend was paid to shareholders in May 2022.

Dividend distribution in the previous year

On 20 May 2021, the virtual Annual General Meeting of Telefónica Deutschland resolved to distribute a dividend of EUR 0.18 for each no par value share for financial year 2020, in total around EUR 535 million. For this purpose, EUR 288 million were withdrawn from the (free) additional paid-in capital and transferred to retained earnings in 2020. The dividend was paid to shareholders by 26 May 2021.

5.11. Interest-bearing debt

	As of 31 December 2022		As of 31 December 2021	
(in EUR million)	**Non-current**	**Current**	**Non-current**	**Current**
Bonds	598	5	598	5
Promissory notes and registered bonds	354	47	396	5
Loans payable	558	76	633	79
Interest-bearing debt	**1,510**	**128**	**1,627**	**89**

For the maturity profile of the listed liabilities, please refer to >Note 15 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT. Long-term interest-bearing debt with a remaining term greater than five years remains in the amount of EUR 324 million (2021: EUR 407 million).

Bonds

In July 2018, O2 Telefónica Deutschland Finanzierungs GmbH issued a bond 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 is guaranteed by Telefónica Deutschland Holding AG. The bond was used to refinance the bond due in November 2018, which has been meanwhile repaid, and for general business purposes. O2 Telefónica Deutschland Finanzierungs GmbH, Munich, has made the net proceeds of the bond issue available to Telefónica Germany GmbH & Co. OHG in the form of a loan.

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

Promissory notes/registered bonds

On 13 March 2015, 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 first tranche of EUR 113 million was repaid on schedule in March 2020. The variable-rate tranches of the promissory note loan in the amount of EUR 10.5 million were repaid ahead of schedule in September 2021. The average interest rate of the tranches with fixed interest rates 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 Telefónica Deutschland Group also placed promissory note loans in various tranches and a registered bond with a total volume of EUR 250 million in February 2018. The promissory note loans placed have tranches with terms of 1 year with fixed interest, which have already been repaid, 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 for the fixed tranches with terms of 1, 5, 7 and 10 years are 0.03%, 1.051%, 1.468% and 1.962% p.a., respectively. 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. The variable-rate tranches of the promissory note loan in the amount of EUR 103.5 million were repaid in September 2021.

On 25 April 2019, Telefónica Deutschland Group placed additional promissory notes in various tranches with a total volume of EUR 360 million. 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 interest rates for the fixed tranches with five, seven and 10 years are 0.893%, 1.293% and 1.786% p.a., respectively. The variable-rate tranches of the promissory note loan in the amount of EUR 211.5 million were repaid in October 2021. All tranches were issued at par.

Loans payable

The Group signed a EUR 750 million revolving syndicated credit facility (RCF) on 18 December 2019, which matures on 17 December 2024, with two extension options to the end of 2026. The first extension option was exercised in 2020 and the term of the credit facility was extended to 17 December 2025. The second extension option was exercised in 2021 and the credit facility was extended to 17 December 2026. The RCF bears a variable interest rate at Euribor money market conditions plus an agreed margin. The margin is also linked, among other factors, to the development of an ESG sustainability rating of Telefónica Germany GmbH & Co. OHG. As of 31 December 2022, the credit facility had not been used.

In addition, as of 31 December 2022, there are unused bilateral revolving credit facilities with various banks in the amount of EUR 200 million.

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 2022, Telefónica Deutschland Group has fully drawn down this fixed-interest amortising loan in the form of two tranches. The funds provided by the EIB are due by December 2024 and May 2025 and are being repaid in equal instalments since December 2019 and May 2020, respectively. As of 31 December 2022, the outstanding balance of this amortising loan is EUR 183 million.

Telefónica Germany GmbH & Co. OHG and the EIB also concluded additional loan agreements on 18 December 2019 for EUR 300 million and on 14 January 2020 for EUR 150 million Both loans were fully drawn down as of 31 December 2022.

The EIB loan will also have a maturity of 8 years as of drawdown and will be repaid in equal instalments. For these financing transactions, the benchmark interest rate for the fixed-interest tranches is determined according to the principles defined by the bodies of the EIB for loans of the same type.

Overdraft lines of EUR 454 million, of which EUR 450 million with a term of more than one year, remain in place as part of the cash pooling agreements between Telefónica Deutschland Group and Telfisa Global B.V. As of 31 December 2022, the credit facility was not used.

Reconciliation of debt movements to cash flow from financing activities

(in EUR million)	As of 1 January 2022	Cash flow from financing activities *	Additions/ Disposals	Other movements	As of 31 December 2022
Bonds	603	–	–	1	604
Promissory notes and registered bonds	401	–	–	0	401
Loans payable	712	(78)	–	0	634
Interest-bearing debt	**1,717**	(78)	–	1	**1,639**
Lease liabilities	**3,330**	(640)	565	5	**3,260**
Payables – Spectrum	**1,097**	(108)	–	9	**998**

(in EUR million)	As of 1 January 2021	Cash flow from financing activities *	Additions/ Disposals	Other movements	As of 31 December 2021
Bonds	1,113	(500)	–	(10)	603
Promissory notes and registered bonds	727	(326)	–	1	401
Loans payable	452	260	–	1	712
Interest-bearing debt	**2,292**	(566)	–	(8)	**1,717**
Lease liabilities	**2,841**	(602)	1,084	7	**3,330**
Payables – Spectrum	**1,196**	(108)	–	10	**1,097**

* The related interest paid from interest-bearing debt and on lease liabilities is reported under Cash flow from operating activities and not included in the reconciliation.

5.12. Lease liabilities

(in EUR million)	As of 31 December 2022		As of 31 December 2021	
	Non-current	Current	Non-current	Current
Lease liabilities	**2,663**	**597**	**2,781**	**548**

The maturity analysis of lease liabilities according to IFRS 7 based on cash flows is as follows:

As of 31 December 2022

(in EUR million)	Present value of future minimum lease payment obligations	Unamortised interest expense	Future minimum lease payment obligations
Due within 1 year	597	18	616
Due between 1 and 5 years	1,765	42	1,807
Due in more than 5 years	898	15	913
Total	**3,260**	**75**	**3,335**

As of 31 December 2021

(in EUR million)	Present value of future minimum lease payment obligations	Unamortised interest expense	Future minimum lease payment obligations
Due within 1 year	548	11	559
Due between 1 and 5 years	1,689	20	1,709
Due in more than 5 years	1,092	8	1,100
Total	**3,330**	**39**	**3,368**

The amount of the lease liabilities is primarily influenced by the largely recurring payments during the term of the contract and the discount rate. In this respect, the assessment of if and when potential extension options will be exercised plays a significant role in the measurement of the lease liability.

When determining the incremental borrowing rate that may be used for discounting, various contributing factors such as term, subject matter of the contract and the economic environment are taken into account and are subject to certain discretionary decisions.

5.13. Trade and other payables and deferred income

	As of 31 December 2022		As of 31 December 2021	
(in EUR million)	**Non-current**	**Current**	**Non-current**	**Current**
Trade payables to third parties	–	1,433	–	1,642
Accruals	7	804	7	795
Payables to related parties (>Note 12 RELATED PARTIES)	–	26	–	11
Trade payables	**7**	**2,263**	**7**	**2,448**
Other payables non-trade	–	315	–	245
Other payables to related parties (>Note 12 RELATED PARTIES)	2	43	1	49
Miscellaneous payables	–	39	–	38
Other payables	**2**	**398**	**1**	**331**
Trade and other payables	**10**	**2,661**	**8**	**2,779**
Deferred income	**136**	**594**	**187**	**552**

Accruals relate mainly to outstanding invoices for goods and services and for non-current assets.

Other payables non-trade mainly comprise liabilities due to personnel and payables from silent factoring.

Miscellaneous payables mainly comprise debtors with credit balances.

For the maturity profile of the listed liabilities, please refer to the disclosures in >Note 15 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT.

Deferred income primarily comprises contract liabilities from customer payments already made on prepaid credit and other advance payments received for future services. Deferred income also includes the contract liability relating to payments that were made by customers before the contractual services have been fully performed.

Furthermore, deferred income includes the obligation arising from payments received in connection with the agreement with a Mobile Virtual Network Operator (MVNO). This obligation also constitutes a contract liability.

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.

5.14. Payables – Spectrum

	As of 31 December 2022		As of 31 December 2021	
(in EUR million)	**Non-current**	**Current**	**Non-current**	**Current**
Payables – Spectrum	891	107	990	107

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 taking into account the instalments of EUR 390 million already paid by the end of 2022 (2021: EUR 282 million), the carrying amount of the liabilities as of 31 December 2022 is EUR 998 million (31 December 2021: EUR 1,097 million). Under IAS 20.24, the interest advantage was deducted from the investments already made in expansion to reduce acquisition costs. 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 426 million (2021: EUR 568 million).

5.15. Provisions

	As of 31 December 2022		As of 31 December 2021	
(in EUR million)	**Non-current**	**Current**	**Non-current**	**Current**
Pension Obligations	117	–	230	–
Restructuring	11	27	10	23
Asset retirement obligations	317	6	379	17
Other provisions	26	34	28	26
Provisions	**472**	**67**	**647**	**66**

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 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 Telefónica Deutschland Group. 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 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 2022, the employer's contribution to the statutory pension insurance amounts to EUR 39 million (2021: EUR 37 million).

Telefónica Deutschland Group concludes additional defined contribution plans. The contribution recorded for the defined contribution plan amounts to EUR 2 million (2021: EUR 2 million).

The following table contains the key data for the defined benefit plans:

(in EUR million)	**As of 31 December 2022**	**As of 31 December 2021**
Present value of defined benefit obligation from funded plans	(98)	(150)
Present value of defined benefit obligation from unfunded plans	(110)	(172)
Present value of the defined benefit obligation	**(208)**	**(322)**
Fair value of plan assets	101	99
Surplus	**10**	8
Pension provisions	**(117)**	**(230)**
Reimbursement rights from insurance contracts	**89**	**81**

The development of the present value of the defined benefit obligations in 2022 and 2021 was as follows:

(in EUR million)	**2022**	**2021**
Present value of the defined benefit obligation as of 1 January	**(322)**	**(350)**
Current service costs (personnel expenses)	(11)	(10)
Interest expense (financial result)	(3)	(2)
Remeasurement of the present value of the defined benefit obligation	123	36
thereof: adjustments for demographic assumptions	–	–
thereof: actuarial gains arising from changes in financial assumptions	124	37
thereof: experience-based adjustments	(1)	(1)
Benefits paid	5	4
Other	–	0
Present value of the defined benefit obligation as of 31 December	**(208)**	**(322)**

The development of the present value of plan assets in financial years 2022 and 2021 was as follows:

(in EUR million)	**2022**	**2021**
Fair value of plan assets as of 1 January	**99**	**95**
Return on plan assets excluding amounts included in interest income/(expense)	(1)	3
Interest income (financial result)	1	–
Employer contributions	2	2
Benefits paid	(3)	(2)
Other	3	1
Fair value of plan assets as of 31 December	**101**	**99**

The fair value of the reimbursement rights from insurance contracts developed in 2022 and 2021 as follows:

(in EUR million)	2022	2021
Fair value of reimbursement rights from insurance contracts as of 1 January	**81**	**69**
Return on reimbursement rights excluding amounts included in interest income/(expense)	2	4
Interest income (financial result)	1	0
Employer contributions	8	9
Benefits paid	(1)	(1)
Other	(3)	(1)
Fair Value of reimbursement rights from insurance contracts as of 31 December	**89**	**81**

The amounts recognised under 'Other' 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 2022, as in the previous year, there was no asset ceiling. A surplus cover of EUR 10 million results (2021: 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).

	2022	2021
Discount rate	3.7%	1.02%
Nominal rate of pension payment increase	1.0% / 2.20%	1.0% / 1.75%
Fluctuation rate	6.1%	6.1%
Wage and salary trends	2.25%	2.25%

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 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 mortality tables on which the actuarial calculation of the DBO as of the balance sheet dates is based for 2022 and 2021 are the Heubeck 2018G mortality tables.

(in years)	2022	2021
Life expectancy at age 65 for a retiree currently	22	22
Life expectancy of a currently aged 40 deferred member at age 65	26	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 2022:

(in EUR million)	Increase in parameters	Decrease in parameters
Discount rate (+0.25%/-0.25%)	(9)	9
Pension change (+0.50%/-0.50%)	8	(7)
Turnover rate (+1.00%/-1.00%)	(0)	0
Life expectancy (+1 year)	6	–

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:

(in EUR million)	1 January to 31 December 2022	1 January to 31 December 2021
Benefits expected to be paid within year 1	4	4
Benefits expected to be paid within year 2	4	4
Benefits expected to be paid within year 3	5	4
Benefits expected to be paid within year 4	5	5
Benefits expected to be paid within year 5	6	5
Benefits expected to be paid within 6 to 10 years	43	39

The average expected term of the defined benefit obligations is 17.5 years in financial year 2022 (2021: 21.7 years).

The best estimate of the contributions paid into the plans in the financial year ending 31 December 2023 is EUR 10 million (previous year: EUR 10 million).

Other provisions

(in EUR million)	Restructuring	Asset retirement obligations	Other	Total
As of 1 January 2022	**33**	**396**	**54**	**483**
Additions	14	123	18	155
Utilisation	(8)	(12)	(8)	(29)
Release	(0)	(187)	(4)	(191)
Interest effect	–	4	0	4
As of 31 December 2022	**38**	**323**	**60**	**421**
thereof: non-current	11	317	26	354
thereof: current	27	6	34	67

	Restructuring	Asset retirement obligations	Other	Total
As of 1 January 2021	**36**	**503**	**50**	**589**
Additions	7	13	11	32
Utilisation	(9)	(21)	(6)	(36)
Release	(1)	(54)	(1)	(56)
Derecognition	–	(46)	0	(46)
As of 31 December 2021	**33**	**396**	**54**	**483**
thereof: non-current	10	379	28	417
thereof: current	23	17	26	66

The provisions for restructuring as of 31 December 2022 primarily relate to obligations from severance agreements.

As in the previous year, these additions are recognised in personnel expenses and other expenses (for further information see >Note 6.3 PERSONNEL EXPENSES and >6.4 OTHER EXPENSES).

The provisions for asset retirement obligations include the calculated costs for the dismantling and removal of assets (e.g. active and passive mobile equipment such as operating facilities and technology). Since neither the costs for the future dismantling nor the future payment date have been determined at the time the contract is concluded, these parameters are estimated. The estimate is largely based on contracts with service providers. There are significant changes in inflation expectations in the reporting period compared to the previous year due to changes in the macroeconomic environment.

Additions of EUR 123 million are mainly attributable to cost adjustments. The releases of EUR 187 million mainly relate to the effects of interest rate adjustments.

Decisions on the recognition and valuation of provisions generally involve a high degree of discretion. 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. In addition, assumptions are made about the probabilities of future outflows of resources.

In principle, this also applies to employee 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 judgments 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.

6. Selected Explanatory Notes to the Consolidated Income Statement

War in Ukraine

In 2022, the war in Ukraine had a considerably negative impact on the global economy. The Telefónica Deutschland Group was not spared from these effects.

In particular, the increase in the inflation rate and energy prices as well as the noticeable impact on supply chains, including for network components, led to a change in risk assessment.

Since the beginning of the war, the management team has continuously been monitoring, analysing and assessing its development and impact on Telefónica Deutschland Group.

Energy supply and new energy supply contract

The energy market remains very tense. Energy prices are very volatile due to the war in Ukraine.

In October 2022, Telefónica Deutschland Group concluded a Power Purchase Agreement (PPA) with an energy supplier, which provides long-term energy security and energy supply with renewable energies from an offshore wind farm over the period from 2025 to 2035.

COVID-19 pandemic and climate change

There was no significant impact on Telefónica Deutschland Group's financials from either the COVID 19 pandemic or from climate change.

6.1. Revenues

1 January to 31 December

(in EUR million)	2022	2021
Rendering of services	6,548	6,306
Other revenues	1,676	1,460
Revenues	**8,224**	**7,765**

Revenues from the rendering of services include mobile service revenues and fixed line business revenues. Other revenues include hardware revenues and miscellaneous other revenues.

The breakdown of revenues according to mobile business and fixed line business is shown in the following table:

1 January to 31 December

(in EUR million)	2022	2021
Mobile business revenues	**7,394**	**6,942**
Mobile service revenues	5,742	5,492
Hardware revenues	1,652	1,450
Fixed-line business revenues	**806**	**814**
Other revenues	**24**	**10**
Revenues	**8,224**	**7,765**

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.

Hardware revenues

Hardware 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, customers 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 24, 36 or 48 monthly instalments.

Fixed-line business revenues

Fixed-line business revenues comprise mainly revenues from services for private customers, activation fees for private customers, revenues from mobile devices and non-recurring items (e.g. fees for change of address, number transfers etc.), data traffic revenues from telecommunications service providers in connection with the sale and trade of minutes between telecommunications service providers to connect their customer calls via the networks of other operators.

Other revenues

Other revenues relate to income from operating leases, new business, such as advertising and financial services, and revenues earned by doing business with the associate company UGG (Unsere Grüne Glasfaser).

Contract assets and contract liabilities from customer contracts

(in EUR million)	31 December 2022	31 December 2021
Contract asset	19	19
Contract liabilities	677	653

(in EUR million)	2022	2021
Amounts recognised in contract liabilities at the beginning of the period that resulted in revenue in the reporting period.	517	513

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) 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)	2022		2021	
	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	1,237	328	1,138	318

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.

The recognition of revenues is based on assumptions and estimates that can have a significant influence on the amount and timing of revenues:

<u>Determining the stand-alone selling price of the performance obligation mobile service tariff postpaid:</u>

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 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 Deutschland Group and the customer are initially bound by the respective contract term. However, Telefónica Deutschland Group 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 enforceable minimum contract term.

In the portfolio approach, the term is calculated 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.

6.2. Other income

1 January to 31 December

(in EUR million)	2022	2021
Own work capitalised	112	107
Net gain on disposal of assets	–	262
Other	40	33
Other income	**153**	**402**

Own work capitalised represents the capitalisation costs for own employees in CapEx projects. In the financial year, 72% (previous year: 74%) of the capitalised own work relate to network expansion projects, and the remaining 28% (previous year: 26%) to IT projects.

As in the previous year, the item Others mainly includes claims for damages and penalties.

Other income in the previous period includes the net gain on disposal of EUR 262 million from the second transaction step of the contractually agreed sale of major parts of the business operations of the rooftop sites to Telxius.

6.3. Personnel expenses

In the 2022 financial year, personnel expenses totalled EUR 622 million (2021: EUR 585 million). Thereof, EUR 528 million (2021: EUR 495 million) related to wages and salaries, social security EUR 82 million (2021: EUR 78 million) and EUR 13 million (2021: EUR 12 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 5.15 PROVISIONS.

In addition, restructuring expenses of EUR 5 million (2021: EUR 8 million) were recognised as personnel expenses (>Note 5.15 PROVISIONS).

6.4. Other expenses

1 January to 31 December

(in EUR million)	2022	2021
Other third-party services	2,242	2,069
Other operating expenses	65	81
Allowance for current assets	9	8
Advertising	301	295
Other Expenses	**2,616**	**2,454**

Other third-party services mainly include commissions, expenses for external services to maintain ongoing business operations and fees for consulting services, repair and maintenance expenses, as well as expenses for operating equipment.

Other expenses included restructuring expenses of EUR 11 million as of 31 December 2022 (2021: EUR 8 million) (>Note 5.15 PROVISIONS).

6.5. Depreciation and amortisation

1 January to 31 December

(in EUR million)	**2022**	**2021**
Amortisation of intangible assets	887	849
Depreciation of property, plant and equipment	759	948
Depreciation of right-of-use assets	637	585
Depreciation and amortisation	**2,283**	**2,382**

6.6. Financial result

1 January to 31 December

(in EUR million)	**2022**	**2021**
Interest expense/income from financial assets	14	3
Interest expenses on lease liabilities	(15)	(26)
Interest expenses from financial liabilities	(31)	(35)
Interest component from measurement of provisions and other liabilities	(4)	(4)
Other exchange (losses)/gains	0	(0)
Financial result	**(36)**	**(62)**

The interest income mainly results from the compounding of the outstanding purchase price claim in relation to the sale of major parts of the business operations of the rooftop sites.

Interest expenses from financial liabilities primarily comprise the interest for the bond issued in July 2018, on the promissory notes and registered bonds issued in March 2015, February 2018 and April 2019, and on the financing agreements with the European Investment Bank (EIB) signed on 13 June 2016, 18 December 2019 and 14 January 2020, and on the spectrum liabilities.

6.7. Income tax

Consolidated income tax group

As of 31 December 2022, the consolidated income tax group of the Telefónica Deutschland Group comprised 13 (2021: 13) companies. A full tax rate of 32% (previous year 32%) is used as the Group tax rate in the deferred and current tax calculation, which consists of the corporate income tax rate and solidarity surcharge of 15.825% (previous year 15.825%) and the weighted trade tax rate of 16.175% (previous year 16.175%).

After proportionate offsetting against tax losses carried forward, Telefónica Deutschland Group again posted positive taxable income in 2022.

Current and deferred taxes

1 January to 31 December

(in EUR million)	**2022**	**2021**
Current tax expense	(31)	(79)
Deferred tax income/(expense)	73	84
Income tax	**42**	**5**

The movements in deferred taxes are as follows:

(in EUR million)	**2022**	**2021**
As of 1 January	**178**	**108**
Deferred tax income/(expense)	73	84
Amount of deferred taxes recognised directly in equity as shown in the Consolidated Statement of Comprehensive Income or in Other comprehensive income	(34)	(14)
As of 31 December	**217**	**178**

Tax income of EUR 42 million (previous year: EUR 5 million) reported in the financial year 2022 includes current tax expense of EUR 31 million (previous year: EUR 79 million) from the parts that did not concern prepayments, reported as tax liabilities, and a tax income of EUR 73 million (previous year: EUR 84 million) from changes in deferred taxes. The deferred tax income reported in profit or loss includes changes to taxable temporary differences and the additional capitalisation of deferred tax assets on tax losses carried forwardwhile in the previous year it primarily included the reversal of deferred tax liabilities due to the disclosure of silent tax reserves as a result of the transfer of assets and liabilities as part of the second step of the spin off of additional major parts of the business operations of the rooftop sites from Telefónica Germany GmbH & Co. OHG to Telefónica Germany Zweite Mobilfunk Standortgesellschaft mbH, which had been contractually agreed, as well as the additional capitalisation of deferred tax assets on tax loss carryforwards.

Tax loss carried forward and temporary differences

The tax losses carried forward for which no deferred tax assets are recognised as of 31 December 2022 amount to EUR 14 366 million for corporate tax and EUR 13,493 million for trade tax (2021: EUR 13,927 million and EUR 13,340 million). Alongside the pro rata use of tax loss in the current year, the tax losses carried forward increased due to external tax audits. This retroactive increase in the tax losses carried forward from the previous year's adjustments did not affect the current tax or the deferred tax assets on the tax losses carried forward recognised in the previous periods and in the current year as this increase concerns only tax losses carried forward that cannot be recognised.

The total deferred tax assets and liabilities amount to EUR 217 million (2021: EUR 178 million).

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 2022		**As of 31 December 2021**	
(in EUR million)	**Deferred tax assets**	**Deferred tax liabilities**	**Deferred tax assets**	**Deferred tax liabilities**
Goodwill and other intangible assets	254	(343)	318*	(449)*
Tangible assets	–	(83)	–	(107)
Right-of-use assets	–	(1,042)	–	(1,071)
Non-current amortisable costs of obtaining a contract	–	(45)	–	(41)
Other non-current financial assets	–	(34)	0	(32)
Current amortisable costs of obtaining a contract	–	(136)	–	(116)
Other current financial assets	–	(2)	–	(2)
Trade and other receivables	48	(0)	32	(6)
Financial liabilities, trade and other payables	2	(13)	3	(15)
Provisions including pension provisions	102	(2)	164	–
Non-current lease liabilities	852	–	890	–
Other non-current financial liabilities	–	(1)	–	(1)
Current lease liabilities	194	–	178	–
Other current financial liabilities	0	–	–	(0)
Tax losses carried forward	463	–	433	–
Deferred tax assets/(liabilities) gross	**1,916**	**(1,699)**	**2,018***	**(1,841)***
thereof: non-current	1,722	(1,562)	1,840*	(1,722)*
thereof: current	194	(137)	178	(119)
Netting	(1,453)	1,453	(1,586)*	1,586*
Deferred tax assets/(liabilities) after netting according to Consolidated Balance Sheet	**463**	**(247)**	**433**	**(255)**
Total deferred tax assets/(liabilities)	217	–	178	–

* The presentation of deferred tax assets and liabilities relating to temporary differences arising from goodwill for December 31, 2021 as the comparative period has been adjusted compared to the consolidated financial statements published for 2021. The deferred tax assets and liabilities arising from this are now presented grouped by economic grouping, rather than in total as either deferred tax assets or deferred tax liabilities as previously. However, this has no effect on earnings or the balance sheet, as the deferred taxes on goodwill are all non-current in nature and have been presented on a net basis.

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 each case, a time horizon of seven years is used for the recoverability of deferred tax assets as well as for the tax planning.

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.

Taxable temporary differences recognised in previous years as part of the spin-off in anticipation of the second transaction step of the sale of parts of the business operations of the rooftop sites, whose carrying amounts were mainly recognised in non-current assets, had been realised as part of the sale.

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, a time horizon of five to seven years was used for the recoverability of deferred tax assets. Currently, tax planning is based on a seven-year period.

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. For uncertainties over income tax treatments, around EUR 6 million was carried as a liability in the financial year in accordance with IFRIC 23.

Reconciliation of earnings before tax to income tax expense recognised

1 January to 31 December

(in EUR million)	**2022**	**2021**
Profit/(loss) before tax	**189**	**205**
Tax expense at prevailing statutory rate (32%)	(61)	(66)
Use of tax losses carried forward for previously unrecognised deferred taxes	11	79
Non-deductible expenses	(15)	(18)
Change in unrecognised temporary differences and tax losses carried forward	76	7
Deferred taxes related to other periods	33	-
Other	(3)	3
Income tax	**42**	**5**
Current tax income/(expense)	(31)	(79)
Deferred tax income/(expense)	73	84
Income tax	**42**	**5**
Effective overall tax rate	-22%	-2%

Taxable income in the previous year is significantly affected by the second transaction step as part of the spin-off and sale of major parts of the business operations of the rooftop sites. In the course of the spin-off, hidden reserves were realised for tax purposes and were subject to tax as taxable income within the scope of minimum taxation.

7. 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)	**2022**	**2021**
Total profit/(loss) attributable to ordinary shareholders of the parent company	232	211
Weighted average number of ordinary shares issued (in million units)	2,975	2,975
Earnings per share in EUR (basic)	**0.08**	**0.07**

1 January to 31 December

(in EUR million)	**2022**	**2021**
Total profit/(loss) attributable to ordinary shareholders of the parent company	232	211
Weighted average number of ordinary shares issued plus options on shares (in million units)	2,975	2,975
Earnings per share in EUR (diluted)	**0.08**	**0.07**

In addition, the share capital of Telefónica Deutschland Holding AG is conditionally increased (see >Note 5.10 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.

8. Further Information on Financial Assets and Financial Liabilities

In the following tables, the fair values of all financial assets and financial liabilities of 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 2022, 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 measurement 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 on 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 2022

Financial Assets

(in EUR million)	**Financial assets measured at fair value through profit or loss**	**Financial assets measured at fair value through other comprehensive income**	**Financial assets measured at amortised acquisition cost**	**Not in the scope of IFRS 7 (**)**	**Total carrying amount**	**Measurement hierarchy: Level 1 (Quoted prices)**	**Measurement hierarchy: Level 2 (Significant other observable input parameters)**	**Measurement hierarchy: Level 3 (Significant unobservable input parameters)**	**Total fair value**
Non-current trade and other receivables (>Note 5.5)	–	292	–	–	292	–	292	–	292
Other non-current financial assets (>Note 5.6)	3	–	327	117	448	–	339	3	342
thereof: investments in start-ups	3	–	–	–	3	–	–	3	3
thereof: net investment in the lease	–	–	–	12	12	–	12	–	12
thereof: other	–	–	327	104	432	–	326	–	326
Current trade and other receivables (>Note 5.5)	603	565	565	191	1,359	–	565	–	n.a. (*)
Other current financial assets (>Note 5.6)	0	–	29	5	34	0	–	–	n.a. (*)
thereof: investments in start-ups	0	–	–	–	0	0	–	–	n.a. (*)
thereof: net investment in the lease	–	–	–	5	5	–	–	–	n.a. (*)
thereof: other	–	–	29	–	29	–	–	–	n.a. (*)
Cash and cash equivalents (>Note 5.9)	–	–	777	–	777	–	–	–	n.a. (*)
Total	**3**	**895**	**1,699**	**313**	**2,910**	**0**	**1,234**	**3**	**634**

As of 31 December 2021

(in EUR million)	Financial assets measured at fair value through profit or loss	Financial assets measured at fair value through other comprehensive income	Financial assets measured at amortised cost	Not in the scope of IFRS 7 (**)	Total carrying amount	Level 1 (Quoted prices)	Level 2 (Significant other observable input parameters)	Level 3 (Significant unobservable input parameters)	Total fair value
						Measurement hierarchy			Financial Assets
Non-current trade and other receivables (>Note 5.5)	–	269	–	–	269	–	269	–	269
Other non-current financial assets (>Note 5.6)	3	–	286	108	396	–	304	3	306
thereof: investments in start-ups	3	–	–	–	3	–	–	3	3
thereof: net investment in the lease	–	–	–	14	14	–	14	–	14
thereof: other	–	–	286	94	380	–	290	–	290
Current trade and other receivables (>Note 5.5)	–	785	579	133	1.498	–	785	–	n.a. (*)
Other current financial assets (>Note 5.6)	0	–	63	6	70	0	–	–	n.a. (*)
thereof: investments in start-ups	0	–	–	–	0	0	–	–	n.a. (*)
thereof: net investment in the lease	–	–	–	6	6	–	–	–	n.a. (*)
thereof: other	–	–	63	–	63	–	–	–	n.a. (*)
Cash and cash equivalents (>Note 5.9)	–	–	1,020	–	1,020	–	–	–	n.a. (*)
Total	**3**	**1,054**	**1,948**	**247**	**3,253**	**0**	**1,358**	**3**	**575**

(*) The carrying amount of current financial assets corresponds to the fair value.
(**) These instruments are not included in the calculation of fair value.

The fair value of other non-current financial assets is determined by discounting future cash flows at current market interest rates.

In addition, EUR 3 million (2021: EUR 3 million) of other non-current financial assets and EUR 0 million (2021: EUR 0 million) of other 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 for the investments reported in other non-current financial assets and Level 1 for the investments reported in other current financial assets. The fair value measurement according to Level 3 is based on existing business plans with assumptions regarding future business development. The measurement at fair value according to Level 1 is based on primary market values observed on equity markets.

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. The main portion of the receivables is current, so the carrying amount approximates fair value. For non-current and current receivables, the fair value is therefore essentially determined by a risk discount based on the credit risk.

All other financial assets as of 31 December 2022 were categorised as financial assets measured at amortised cost.

As of 31 December 2022

(in EUR million)	Financial liabilities measured at amortised cost	Not in the scope of IFRS 7 (**)	Total carrying amount	Level 1 (Quoted prices)	Level 2 (Significant other observable input parameters)	Level 3 (Significant unobservable input parameters)	Total fair value
				Measurement hierarchy			Financial liabilities
Non-current interest-bearing debt (>Note 5.11)	1,510	–	1,510	569	821	–	1,390
Non-current trade and other payables (>Note 5.13)	7	2	10	–	7	–	7
Non-current payables - Spectrum (>Note 5.14)	891	–	891	–	764	–	764
Current interest-bearing debt (>Note 5.11)	128	–	128	–	–	–	n.a.(*)
Current trade and other payables (>Note 5.13)	2,345	316	2,661	–	–	–	n.a.(*)
Current payables - Spectrum (>Note 5.14)	107	–	107	–	–	–	n.a.(*)
Total	**4,989**	**318**	**5,307**	**569**	**1,593**	**–**	**2,162**

As of 31 December 2021

(in EUR million)	Financial liabilities measured at amortised cost	Not in the scope of IFRS 7 (**)	Total carrying amount	Level 1 (Quoted prices)	Level 2 (Significant other observable input parameters)	Level 3 (Significant unobservable input parameters)	Total fair value
				Measurement hierarchy			Financial liabilities
Non-current interest-bearing debt (>Note 5.11)	1,627	–	1,627	630	1,061	–	1,691
Non-current trade and other payables (>Note 5.13)	7	1	8	–	7	–	7
Non-current payables - Spectrum (>Note 5.14)	990	–	990	–	997	–	997
Current interest-bearing debt (>Note 5.11)	89	–	89	–	–	–	n.a.(*)
Current trade and other payables (>Note 5.13)	2,554	225	2,779	–	–	–	n.a.(*)
Current payables - Spectrum (>Note 5.14)	107	–	107	–	–	–	n.a.(*)
Total	**5,374**	**227**	**5,601**	**630**	**2,064**	**–**	**2,694**

(*) The carrying amount of current financial liabilities corresponds to the fair value.
(**) These instruments are not included in the calculation of fair value.

As of 31 December 2022, none of the current interest-bearing debt was included in a hedging relationship.

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 calculated by discounting the future cash flows using current market interest rates plus a credit spread. The credit spread is derived from the traded bonds of Telefónica Deutschland Group and is taken into account in discounting, matched to the duration.

In addition to bonds, non-current and current interest-bearing debt as of 31 December 2022 include promissory note loans and registered bonds with a total nominal value of EUR 397 million (2021: EUR 397 million), a loan from the European Investment Bank (EIB) of EUR 633 million (2021: EUR 708 million) and, as in the prior year, no short-term utilisation of credit lines.

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:

1 January to 31 December 2022 (in EUR million)	**Amortised cost**		**At fair value through profit or loss**	**At fair value through other comprehensive income**
	Financial assets	**Financial liabilities**	**Financial assets**	**Financial assets**
Net result from disposals	–	–	–	–
Currency gains/currency losses	0	0	–	–
Result from valuations	–	–	(0)	(28)
Impairment/reversal of impairment losses	(28)	–	–	(65)
Effective interest income	22	–	–	–
Effective interest expense	–	(39)	–	–
Total	**(6)**	**(38)**	**(0)**	**(93)**

1 January to 31 December 2021 (in EUR million)	**Amortised cost**		**At fair value through profit or loss**	**At fair value through other comprehensive income**
	Financial assets	**Financial liabilities**	**Financial assets**	**Financial assets**
Net result from disposals	–	–	–	–
Currency gains/currency losses	1	(1)	–	–
Result from valuations	–	–	2	–
Impairment/reversal of impairment losses	(19)	–	–	(52)
Effective interest income	6	–	–	–
Effective interest expense	(0)	(38)	–	–
Total	**(13)**	**(39)**	**2**	**(52)**

Offsetting

Financial assets and financial liabilities are offset, and the net amount is reported in the Consolidated Balance Sheet, 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 of 31 December 2022.

As of 31 December 2022

(in EUR million)	**Trade receivables**	**Trade payables**
Gross amounts	1,439	2,112
Amounts set off in the Consolidated Balance Sheet in accordance with IAS 32.42	(31)	(31)
Net amounts presented in the Balance Sheet	**1,408**	**2,081**

As of 31 December 2021

(in EUR million)	**Trade receivables**	**Trade payables**
Gross amounts	1,599	2,346
Amounts set off in the Consolidated Balance Sheet in accordance with IAS 32.42	(23)	(23)
Net amounts presented in the Balance Sheet	**1,576**	**2,323**

Offsetting is mainly applied for roaming fees and for receivables and payables in the sales business.

9. List of Shareholdings and Changes in the Group Structure

In accordance with sections 285 and 313 of the German Commercial Code (HGB), the following table lists the companies making up Telefónica Deutschland Group as of 31 December 2022.

For detailed information, please refer to the list of shareholdings published with the Annual Financial Statements of Telefónica Deutschland Holding AG in the company register.

As of 31 December 2022 Company name, registered office	Country	Consolidation	Share in %	Equity 31 December 2021 (in EUR millions)[5]	Result in FY 2021 (in EUR million)[5]
Parent company					
Telefónica Deutschland Holding AG, Munich, Germany	Germany	N/A	N/A	7,482	(37)
Subsidiaries					
Telefónica Germany Management GmbH, Munich[2]	Germany	Full financial year	100%	11	0
Telefónica Germany GmbH & Co. OHG, Munich[1]	Germany	Full financial year	100%	6,087	626
Telefónica Germany 1. Beteiligungsgesellschaft mbH, Munich[2,4,6]	Germany	Full financial year	100%	86	–*
TGCS Rostock GmbH, Munich[2,6]	Germany	Full financial year	100%	15	–*
Telefónica Germany Business Sales GmbH, Düsseldorf[6]	Germany	Full financial year	100%	4	–*
Telefónica Germany Retail GmbH, Düsseldorf[2,6]	Germany	Full financial year	100%	107	–*
Wayra Deutschland GmbH, Munich[2,6]	Germany	Full financial year	100%	2	–*
O2 Telefónica Deutschland Finanzierungs GmbH, Munich[6]	Germany	Full financial year	100%	0	–*
TGCS Bremen GmbH, Munich[2,6]	Germany	Full financial year	100%	2	–*
TGCS Hamburg GmbH, Munich[2,6]	Germany	Full financial year	100%	2	–*
TGCS Nürnberg GmbH, Munich[2,6]	Germany	Full financial year	100%	4	–*
E-Plus Service GmbH, Düsseldorf[2,6]	Germany	Full financial year	100%	78	–*
AY YILDIZ Communications GmbH, Düsseldorf[2,6]	Germany	Full financial year	100%	5	–*
Ortel Mobile GmbH, Düsseldorf[2,6]	Germany	Full financial year	100%	5	–*
TCFS Potsdam GmbH, Potsdam[2,6]	Germany	Full financial year	100%	0	–*
Joint Operations					
TCHIBO Mobilfunk Beteiligungs-GmbH, Hamburg[6]	Germany	Full financial year	50%	0	0
TCHIBO Mobilfunk GmbH & Co. KG, Hamburg[6]	Germany	Full financial year	50%	12	1
Associated companies					
UGG TopCo/HoldCo General Partner GmbH, Ismaning[6]	Germany	Full financial year	10%	0	(0)
UGG TopCo GmbH & Co. KG, Ismaning[6]	Germany	Full financial year	10%	57	(3)
Other investments[3]					
MNP Deutschland GbR, Düsseldorf[6]	Germany	Full financial year	33%	0	0
IZMF GbR, Bonn[6]	Germany	since July 2022	25%	–	–

[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] This company makes use of the exemption provision under section 291 HGB and does not prepare (sub-) consolidated financial statements
[5] Equity capital and result of the last financial year for which annual financial statements are available according to HGB
[6] Indirect participation in Telefónica Deutschland Holding AG
* After profit and loss transfer

10. Investments in Associated Companies

The Telefónica Deutschland Group holds 10% of the shares in each of UGG TopCo GmbH & Co. KG and UGG TopCo/HoldCo General Partner GmbH. The latter is the general partner of UGG TopCo GmbH & Co. KG. Both investments were classified as associated companies under application of IAS 28.6, taking into consideration the specific facts and circumstances. We have based our assessment that Telefónica Deutschland Group exercises significant influence on the business and financial policies on the fact that Telefónica Deutschland Group enters into material business transactions with the companies and is involved in the relevant decision-making processes. Both associated companies are accounted for using the equity method.

UGG TopCo/HoldCo General Partner GmbH is the general partner of UGG TopCo GmbH & Co. KG and is not operationally active. As a result, the investment is classified as immaterial. The carrying amount of the investment is EUR 2,500 and is unchanged compared to the previous year. No further disclosures will be made.

UGG TopCo GmbH & Co. KG is the holding company of a joint venture between Telefónica, S.A. Group/Telefónica Deutschland Group and the Allianz Group established in October 2020. Its purpose is to expand fibre-to-the-home (FTTH) connections for households in Germany.

The following tables present the summarised financial information of the significant shareholdings in UGG TopCoGmbH & Co. KG and its subsidiaries. The financial information is presented in consolidated form across all subsidiaries on a fully consolidated basis:

Consolidated Balance Sheet

(in EUR million)	UGG TopCo GmbH & Co. KG	
Assets	**As of 31 December 2022**	**As of 31 December 2021**
A) Non-current assets	443	71
B) Current assets	83	48
Total assets (A+B)	525	119

Equity and Liabilities	As of 31 December 2022	As of 31 December 2021
A) Equity	121	20
B) Non-current liabilities	332	46
C) Current liabilities	72	53
Total equity and liabilities (A+B+C)	525	119

Condensed Statement of Comprehensive Income

(in EUR million)	UGG TopCo GmbH & Co. KG	
	As of 31 December 2022	**As of 31 December 2021**
A) Revenues	9	–
B) Profit/(loss) for the period	(138)	(39)
C) Other comprehensive income/(loss)	138	–
D) Total comprehensive income/(loss)	0	(39)

Reconciliation to the carrying amount

(in EUR million)	UGG TopCo GmbH & Co. KG
Net assets as of 1 January 2022	20
Capital increases	100
Total comprehensive income/(loss)	0
Dividends paid	–
Net assets as of 31 December 2022	120
Group share of net assets	12
Group share in %	10%
Carrying amount as of 31 December 2022	12

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, on the one hand, reimburses the company for sales and marketing services provided by the latter and supplies the company with mobile communications devices, on the other.

12. Related Parties

Related parties within the meaning of IAS 24 are all companies of the Telefónica S.A. Group, as well as associated companies of Telefónica Deutschland Group and the Telefónica S.A. Group. Related parties within the meaning of IAS 24 are persons who have significant influence over Telefónica Deutschland Group as well as persons who hold a key position in the management of Telefónica Deutschland Group or the parent company of Telefónica Deutschland Group.

Transactions with related parties include transactions between Telefónica Deutschland Group and the Telefónica, S.A. Group.

Telefónica Deutschland Holding AG is the parent company of 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 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 Telefónica Deutschland Group.

The Notes to Telefónica Deutschland Group provide an overview of the Group companies (>Note 9 LIST OF SHAREHOLDINGS AND CHANGES IN THE GROUP STRUCTURE). In 2021 and 2022, the following were related parties from the perspective of Telefónica Deutschland Group:

Telefónica, S.A. and its subsidiaries, and significant investments of Telefónica, S.A. Group and associated companies (>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 Telefónica Deutschland Group (>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. Unless separately disclosed for joint ventures or associates, the transactions relate exclusively to Telefónica, S.A. and its subsidiaries.

12.1. Transactions with the Telefónica, S.A. Group and associated companies

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 and associated companies:

(in EUR million)	As of 31 December 2022	As of 31 December 2021
Assets with the Telefónica, S.A. Group	1,052	1,297
that are recognised in the following items in the Consolidated Balance Sheet:		
Trade and other receivables	26	24
Other financial assets	262	261
Other non-financial assets	1	1
Cash and cash equivalents (cash pooling)	763	1,012
Assets with associated companies	**3**	**1**
that are recognised in the following items in the Consolidated Balance Sheet:		
Trade and other receivables	3	1

(in EUR million)	As of 31 December 2022	As of 31 December 2021
Liabilities to the Telefónica, S.A. Group	**60**	**58**
that are recognised in the following items in the Consolidated Balance Sheet:		
Trade and other payables	60	58
Liabilities to associated companies	**12**	**3**
that are recognised in the following items in the Consolidated Balance Sheet:		
Trade and other payables	12	3

Trade and other receivables

These receivables result from transactions in goods and services, such as roaming and commissions for insurance services, 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 0 million in 2022 (2021: EUR 0 million).

Other financial assets

Other financial assets include the share of the purchase price receivable that is not yet due as a result of the sale of major parts of the business operations of the rooftop sites to Telxius.

Other non-financial assets

Other non-financial assets comprise advance payments made to the Telefónica, S.A. Group. The item does not include any prepayments made to Telefónica, S.A. as at the balance sheet date of 31 December 2022.

Cash and cash equivalents (cash pooling)

The cash-pooling receivables from Telefónica, S.A. Group relate exclusively to the cash pooling agreement with Telfisa Global B.V., which also grants an overdraft facility of EUR 454 million, which was not utilised as of 31 December 2022. For further details, please refer to >Note 5.9 CASH AND CASH EQUIVALENTS.

Trade and other payables

As of 31 December 2022, the line item contains other payables to Telefónica, S.A. of EUR 2 million (2021: EUR 11 million). In addition, the item includes liabilities from licence agreements and social security benefits to the Telefónica, S.A. Group.

Revenues, other income, expenses, depreciation, amortisation and interest expenses relating to Telefónica, S.A. Group and associated companies

	Revenues, other income and interest income		Expenses, depreciation of right-of-use assets, interest expenses	
	1 January to 31 December		1 January to 31 December	
(in EUR million)	**2022**	**2021**	**2022**	**2021**
Telefónica, S.A. Group	49	296	118	179
Associated companies	14	7	2	(0)

Other income in the previous year includes the net gain on disposal of EUR 262 million from the second transaction step of the sale of major parts of the business operations of the rooftop sites to Telxius. Revenues and other income are also generated from goods and services such as roaming and mobile phone insurance, of which EUR 0 million in the financial year (EUR 0 million in 2021) is attributable to Telefónica, S.A.

Expenses include Group fees totalling EUR 35 million in 2022 (EUR 33 million in 2021), of which EUR 20 million (EUR 18 million in 2021) relate to Telefónica, S.A. In addition, EUR 83 million (EUR 97 million in 2021) result from expenses from the purchase of goods, services and other expenses, of which EUR 1 million (EUR 1 million in 2021) relates to Telefónica, S.A. Furthermore, there are no expenses from the depreciation of right-of-use assets in the financial year (previous year: EUR 50 million), of which none (previous year: EUR 0 million) relate to Telefónica S.A.

Dividend distribution to the Telefónica, S.A. Group

For the financial year 2021, a dividend of EUR 0.18 per dividend-entitled non-par value share, for a total of EUR 371 million, was distributed to Telefónica Germany Holdings Limited, an indirect wholly-owned subsidiary of Telefónica, S.A.

12.2. Transactions with Management Board and Supervisory Board

a) Management Board

In financial year 2022, key management personnel included the following members of the Management Board:

Markus Haas (CEO)

Markus Rolle (CFO)

Valentina Daiber

Nicole Gerhardt

Alfons Lösing

Wolfgang Metze (until 1 June 2022)

Mallik Rao (Yelamate Mallikarjuna Rao)

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

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

On 28 October 2022, the Supervisory Board of Telefónica Deutschland Holding AG concluded the contract with Andreas Laukenmann as future Management Board member and CCO (Chief Consumer Officer). He will take up his new role as soon as possible in 2023, however by September 2023 at the latest.

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

In the financial years to which the Consolidated Financial Statements relate, the members of the Management Board have not carried out any transactions with Telefónica Deutschland Group other than as part of the normal trading and business activities of 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 2022 amounted to EUR 7,797 thousand (2021: EUR 7,581 thousand). In the reporting year, the total remuneration includes share-based compensation with a fair value of EUR 1,561 thousand (2021: EUR 1,723 thousand at the grant date, for the number of 244,477 shares (2021: 286,610).

In addition to Telefónica Deutschland Performance Share Plan, which offers a choice between payment in cash and the issue of shares in Telefónica Deutschland Holding AG, the share-based payment programmes also include programmes of Telefónica, S.A. Under these programmes, the parent company Telefónica, S.A. Group grants own shares to the Management Board members of Telefónica Deutschland Holding AG. The expenses of Telefónica, S.A. are charged to Telefónica Deutschland Holding AG (see >Note 13 SHARE-BASED PAYMENTS for more information).

The Telefónica Deutschland Group has not currently granted the members of its Management Board any collateral or loans and has not assumed any guarantees for them.

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)	**2022**	**2021**
Total remuneration	**8,807**	**7,997**
thereof:		
Short-term employee benefits	5,499	5,858
Other long-term employee benefits	–	385
Termination benefits	891	–
Share-based payments	1,802	1,205
Service cost	615	549

The participation of the Management Board members in the Telefónica Deutschland Performance Share Plan does not confer any rights to the transfer of shares without consideration (bonus shares) of Telefónica Deutschland Holding AG, as the plan provides for an option between payment in cash and the issue of shares. Participation in the share-based payment programmes of Telefónica, S.A. has resulted in the following changes for the Management Board members with regard to the rights to the free transfer of shares (bonus shares) of Telefónica, S.A.:

(In units)	2022	2021
Share options as of 1 January	**543,787**	**360,449**
Forfeited share options	(80,337)	(51,636)
Change in composition of Management Board	(36,676)	–
Newly issued share options	244,477	286,610
Actual share assignment	(69,423)	(51,636)
Share options as of 31 December	**601,828**	**543,787**

The provisions for the share-based remuneration of the Management Board in the financial year amount to EUR 967 thousand (2021: EUR 1,545 thousand). Bonus provisions for the Management Board were formed in the amount of EUR 2,387 thousand (2021: EUR 3,279 thousand).

The pension obligations for the Management Board members in financial year 2022 amounted to EUR 6,418 thousand (2021: EUR 5,749 thousand).

As of 31 December 2022, the net pension obligations for members of the former management and their surviving dependants amounted to EUR 20,741 thousand (2021: EUR 20,030 thousand).

Further details of the pension obligations of Telefónica Deutschland Group can be found in >Note 5.15 PROVISIONS.

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

b) Supervisory Board

On 19 May 2022, the Annual General Meeting passed a resolution to adjust the remuneration regulation set out in section 20 of the articles of association, which was based on the remuneration system that was also presented. With retroactive effect from 1 January 2022, memberships in all committees of the Supervisory Board were therefore remunerated separately with a fixed remuneration. There were no meetings of the Mediation Committee, which is remunerated with an attendance fee.

Name	Member of the Supervisory Board	Remuneration (in EUR) 2022	Remuneration (in EUR) 2021
Peter Löscher	since 1 April 2020	119,000	100,000
Jaime Smith Basterra[1]	since 4 January 2022	31,619	–
Christoph Braun	since 1 July 2016	57,500	50,000
Martin Butz	since 17 May 2018	40,000	40,000
Peter Erskine	from 19 May 2016 to 31 December 2021	–	30,000
Pablo de Carvajal González	since 25 July 2018	–	–
María García-Legaz Ponce	since 7 June 2018	–	–
Ernesto Gardelliano	since 5 October 2020	–	–
Cansever Heil	since 3 April 2019	30,000	30,000
Christoph Heil	from 3 June 2013 to 17 May 2018; since 3 April 2019	30,000	30,000
Michael Hoffmann	since 5 October 2012	95,500	88,000
Julio Linares López	since 16 October 2017	30,000	30,000
Stefanie Oeschger[2]	since 3 October 2020	36,219	30,000
Thomas Pfeil	since 3 June 2013	47,500	40,000
Joachim Rieger[3]	since 31 October 2014	30,247	32,232
Dr. Jan-Erik Walter[4]	since 3 June 2013	43,719	37,500
Claudia Weber	since 3 June 2013	37,500	37,500

(1) Jaime Smith Basterra was elected as a member of the Nomination Committee on 19 May 2022 with immediate effect.
(2) Stefanie Oeschger was elected as a member of the Audit Committee on 19 May 2022 with immediate effect.
(3) 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 TCFS Potsdam GmbH an annual remuneration of EUR 4,500, which, however, was only granted on a pro rata basis from 12 December 2022 until 31 December 2022 and is already included in the table.
(4) Dr. Jan-Erik Walter was elected as a member of the Audit Committee on 19 May 2022 with immediate effect.

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 629 thousand in 2022 (2021: 575 thousand). Three members of the Supervisory Board waived the remuneration owed in full.

Members of the Supervisory Board who are also employees of 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)	2022	2021
Total remuneration	**802**	**735**
thereof:		
Short-term employee benefits	742	686
Share-based payments	34	26
Service cost	26	23

As of 31 December 2022, Telefónica Deutschland Group has not granted the members of its Supervisory Board any collateral or loans, and has not assumed any guarantees on their behalf.

13. Share-based payments

As of 31 December 2022, Telefónica Deutschland Group had concluded various agreements regarding share-based payments. The Company considers these payments to be equity-settled share-based payment transactions. The financial effects of the share-based remuneration systems are, however, of minor importance for Telefónica Deutschland Group:

In financial year 2022, personnel expenses resulting from share-based payment transactions amounting to EUR 5 million (2021: EUR 2 million) were recognised.

As of 31 December 2022, retained earnings resulting from equity-settled share-based payment transactions of EUR 2 million (2021: EUR 1 million) were recognised.

As of 31 December 2022, liabilities resulting from share-based payment transactions with the Telefónica, S.A. Group amounting to EUR 3 million (2021: EUR 4 million) were recognised. The Telefónica Deutschland Group occasionally receives a service from the employees without itself providing the share-based payment agreed for this purpose. The Telefónica S. A. Group grants own shares to employees of Telefónica Deutschland Group. The expenses of Telefónica, S.A. are charged to Telefónica Deutschland Group.

There are four share-based payment programmes. These include the Telefónica Deutschland Performance Share Plan, the Telefónica, S.A. Performance Share Plan, the Telefónica, S.A. Restricted Share Plan as a special remuneration instrument in individual situations and the possible participation in the Telefónica, S.A. employee share programme.

Telefónica Deutschland Performance Share Plan

The Telefónica Deutschland Performance Share Plan is a share-based plan for the members of the Management Board of Telefónica Deutschland Holding AG. An allocation cycle begins on 1 January of each financial year and has a performance period of at least three years. At the start of the performance period, the Supervisory Board determines the grant value equal to a percentage of the annual fixed salary for each member of the Management Board. The payout after the end of the performance period equals the product of the respective grant value, a TSR-factor (1+TSR) (total shareholder return (TSR)), which reflects the development of the share price of Telefónica Deutschland over the plan term, and a target achievement factor, which can range between 0% and a maximum value (cap). The payout is limited to 200% of the grant value (cap). However, the Supervisory Board reserves the right to alternatively settle the claims in shares. Because of this and as there is no current obligation to settle in cash, it is accounted for as equity-settled.

The performance period for the 2020 allocation cycle is three years. The target achievement factor may take on a maximum value of 100% and consists of two components: The first component is based on the relative total shareholder return of Telefónica Deutschland compared to a reference group consisting of the STOXX Europe 600 Telecommunications companies (with the exception 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 of Telefónica Deutschland (FCF target achievement factor) and also has a weighting of 50%. The fair value of the entire allocation at the grant date is EUR 970,970) and was determined based on a medium probability scenario for the TSR factor, TSR target achievement factor and FCF target achievement factor. The plan terms do not provide for the conversion of grant values into numbers of shares.

The performance period for the 2021 and 2022 allocation cycles is also three years. The target achievement factor may take on a maximum value of 100% and consists of three components: The first component is based on the relative total shareholder return of Telefónica Deutschland compared to a reference group consisting of the STOXX Europe 600 Telecommunications companies (with the exception 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 of Telefónica Deutschland (FCF target achievement factor) and has a weighting of 40%. The third component is based on the achievement of targets for the neutralisation and reduction of CO_2 emissions of Telefónica Deutschland (CO_2 target achievement factor) and has a weighting of 10%.

The fair value of the entire allocation amounts to EUR 893,750 for each of the 2021 and 2022 allocation cycles and was determined based on a medium probability scenario for the TSR factor, TSR target achievement factor, FCF target achievement factor and CO_2 target achievement factor. The plan terms do not provide for the conversion of grant values into numbers of shares.

In 2022, Telefónica Deutschland Group also granted the Telefónica Deutschland Performance Share Plan with equivalent conditions to selected senior executives.

An allocation cycle begins on 1 January 2022 and has a performance period of at least three years. The Management Board determines the grant value equal to a percentage of the annual fixed salary for each senior executive. The calculation of the payout after the end of the performance period is adapted to the conditions of the Telefónica Deutschland Performance Share Plan for the members of the Management Board. The target achievement factor may take on a maximum value of 100% and consists of the same three components and weighting as for the members of the Management Board.

The fair value of the entire allocation amounts to EUR 846,691 at the grant date and was also determined based on a medium probability scenario for the TSR factor, TSR target achievement factor, FCF target achievement factor and CO_2 target achievement factor. The plan terms do not provide for the conversion of grant values into numbers of shares.

Telefónica, S.A. Performance Share Plan

The Telefónica, S.A. Performance Share Plan is a share-based plan for selected employees of Telefónica Deutschland Group, which is settled in own shares by Telefónica, S.A. (for nominated talents, the plan operates under the name "Talent for the Future Share Plan"). An allocation cycle begins on 1 January of each financial year and has a performance period of at least three years. The participant receives a certain number of Telefónica, S.A. virtual performance shares at the beginning of the performance period. For the calculation of the number of performance shares, the grant value is divided by the weighted average Telefónica, S.A. share price of the last 30 trading days prior to the start of the respective performance period. The number of real shares actually earned after the end of the plan term equals the product of the number of allocated performance shares and a target achievement factor, which can range between 0% and a maximum value (cap), depending on the achievement level of performance criteria of Telefónica, S.A. For employees who are also members of the Executive Committee of Telefónica, S.A., a holding period of a minimum of twelve months for at least 25% of the shares earned is provided for.

The performance period will be three years for each of the 2019 and 2020 allocation cycles. In each allocation cycle, the target achievement factor may take on a maximum value of 100% and comprises two components: The first component is based on the relative total shareholder return of Telefónica, S.A. compared to a reference group consisting of selected global telecommunications companies (TSR target achievement factor) and has a weighting of 50%. The second component is based on the achievement of free cash flow targets of Telefónica, S.A. (FCF target achievement factor) and also has a weighting of 50%.

The performance period for the 2021 and 2022 allocation cycles is also three years. The target achievement factor may take on a maximum value of 100% and consists of three components: The first component is based on the relative total shareholder return of Telefónica, S.A. compared to a reference group consisting of selected global telecommunications companies (TSR target achievement factor) and has a weighting of 50%. The second component is based on the achievement of free cash flow targets of Telefónica, S.A. (FCF target achievement factor) and has a weighting of 40%. The third component is based on the achievement of targets for the neutralisation and reduction of CO_2 emissions of Telefónica, S.A. (CO_2 target achievement factor) and has a weighting of 10%.

The 2019 - 2021 tranche was settled in the financial year 2022. Based on a target achievement factor of 50%, 200,094 real shares were earned.

Tranche 2019 – 2021	**Number of shares assigned**	**Shares outstanding as of 31/12/2022**	**Fair value per share (in euro)**
TSR - Target achievement factor:	287,990.5	0	4.44
FCF - Target achievement factor:	287,990.5	0	6.14

Tranche 2020 – 2022	**Number of shares assigned**	**Shares outstanding as of 31/12/2022**	**Fair value per share (in euro)**
TSR - Target achievement factor:	189,955	153,788	1.64
FCF - Target achievement factor:	189,955	153,788	3.21

Tranche 2021 – 2023	**Number of shares assigned**	**Shares outstanding as of 31/12/2022**	**Fair value per share (in euro)**
TSR - Target achievement factor:	579,443	523,380	2.65
FCF - Target achievement factor:	463,554	418,704	3.16
CO_2 - Target achievement factor	115,889	104,676	3.16

Tranche 2022 – 2024	Number of shares assigned	Shares outstanding as of 31/12/2022	Fair value per share (in euro)
TSR - Target achievement factor:	364,917	340,101	2.43
FCF - Target achievement factor:	291,934	272,081	2.95
CO_2 - Target achievement factor	72,983	68,020	2.95

Telefónica, S.A. Restricted Share Plan

In order to attract or retain qualified employees, there is an option to grant them an amount under the Restricted Share Plan on a one-time or recurring basis, for example, to compensate them for forfeited compensation claims at their previous employer. Therefore, this plan serves as a special compensation instrument.

The plan term according to the Restricted Share Plan is between one and five years. At the beginning of the term, the participant receives a certain number of virtual shares of Telefónica, S.A. at an amount, which corresponds to a certain proportion of the participant's annual base salary. At the end of the term, the participant receive a certain percentage of the virtual shares originally assigned in the form of real shares. The percentage corresponds to the proportion of the active employment period in the total plan term and is therefore between 0% and 100%, i.e. the participant can only be entitled to a maximum of 100% of the initially allocated virtual shares in the form of real shares (cap). The allocation of real shares requires an active employment relationship for at least twelve months during the plan term and an active relationship at the time of settlement by Telefónica, S.A.

The fair value of the entire allocation of 49,637 virtual shares in 2020 amounts to EUR 266,575 at the grant date and was determined on the basis of the average share price over 30 trading days prior to the respective grant date. The terms of the allocations extend over one, two and three years.

7,697 real shares were earned in the 2021 financial year and 29,950 real shares were earned in the financial year 2022. As of 31 December 2022, 11,990 virtual shares are outstanding.

There was no allocation from the plan in 2021.

In 2022 the fair value of the entire allocation of 51,351 virtual shares amounts to EUR 203,882 at the grant date and was determined on the basis of the average share price over 30 trading days prior to the respective grant date. The term of the allocation extends over three years.

Telefónica, S.A. Employee Participation Programme

The employees of Telefónica Deutschland Group have the opportunity to participate in the Telefónica, S.A. employee participation programme. The current tranche, which was issued in October 2022, has a term of 1.5 years. During the first twelve months, the participant invests a monthly sum of between EUR 25 and EUR 150 to buy shares in Telefónica, S.A. at the relevant market price. Subsequently, a holding period of six months is provided for. At the end of the holding period, the participants receive one additional share of Telefónica, S.A. free of charge for each share purchased. In addition to these free shares, the participants also receive 100 additional shares free of charge on the occasion of the 100th anniversary of Telefónica, S.A. 2,893 employees have opted to participate in the employee share ownership programme.

14. Information Regarding Employees

The following table presents the breakdown of Telefónica Deutschland Group's average headcount grouped with respect to their status under employment law:

Average headcount	2022	2021
Office staff	7,044	7,417
thereof from joint operations	13	12
Temporary staff	360	374
Total	**7,404**	**7,791**

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.

Further information on risks from financial instruments

Currency risk

The effects before taxes on the Consolidated Income Statement of a simultaneous, parallel increase (decrease) in the euro of 10% in the financial years 2022 and 2021 would have been as follows:

	1 January to 31 December 2022		1 January to 31 December 2021	
(in EUR million)	**Risk position**	**+/(-) 10%**	**Risk position**	**+/(-) 10%**
USD	(20)	1.8/(-2.2)	(11)	1.0/(1.2)
GBP	0	0.0/(0.0)	1	(0.1)/0.1

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

Interest rate risk

The effects before taxes on the Consolidated Income Statement of a change in the euro interest rates of variable interest-bearing financial instruments of +/-100 basis points as of the reporting dates 31 December 2022 and 2021 are shown below. This analysis assumes that all other variables remain unchanged.

1 January to 31 December

(in EUR million)	**2022**	**2021**
+100bp	8	10
-100bp	(8)	(10)

In addition, changes in euro interest rates affect trade receivables and other receivables recognised at fair value through other comprehensive income and therefore also affect other comprehensive income and equity. A change of +/-100 basis points at the balance sheet dates of 31 December 2022 and 2021, assuming all other variables remain unchanged, would have the following effect:

1 January to 31 December

(in EUR million)	**2022**	**2021**
+100bp	(8)	–
-100bp	8	–

Inflation risk

The effects before taxes on the Consolidated Income Statement of a change in the inflation rate of +/-100 basis points on non-current financial receivables as of the balance sheet dates 31 December 2022 and 2021 are disclosed below.

1 January to 31 December

(in EUR million)	**2022**	**2021**
+100bp	7	10
-100bp	(7)	(10)

Credit risk

Determining the default rate for the following assets is based on the general approach. The following tables show the gross carrying amounts of the assets, their classification in the general impairment model and the average expected credit loss: The maximum credit risk from these instruments corresponds to the carrying amount in the Balance Sheet.

As of 31 December 2022

(in EUR million)	Gross carrying amount	Impairment level 1	Impairment level 2	Impairment level 3	Credit rating	Average expected default rate
Silent factoring deposit	53	53	–	–	High	[0.33% - 0.19%]
Purchase price receivable from the sale of major parts of the business operations of the rooftop sites	263	263	–	–	High	0.60%
Loans	12	12	–	–	High	0.22%
Non-current financial assets	**328**	**328**				
Silent factoring deposit	29	29	–	–	High	[0.26% - 0.14%]
Current financial assets	**29**	**29**				
Other receivables	**73**	**73**	**–**	**–**	**High**	**0.11%**

As of 31 December 2021

(in EUR million)	Gross carrying amount	Impairment level 1	Impairment level 2	Impairment level 3	Credit rating	Average expected default rate
Silent factoring deposit	24	24	–	–	High	[0.12% - 0.08%]
Purchase price receivable from the sale of major parts of the business operations of the rooftop sites	246	246	–	–	High	0.21%
Loans	16	16	–	–	High	0.09%
Non-current financial assets	**286**	**286**				
Silent factoring deposit	47	47	–	–	High	[0.1% - 0.06%]
Purchase price receivable from the sale of major parts of the business operations of the rooftop sites	15	15	–	–	High	0.17%
Current financial assets	**62**	**62**				
Other receivables	**78**	**78**	**–**	**–**	**High**	**0.04%**

Information from external rating agencies is used to determine the probability of default and the loss rate under the general approach, although internal ratings from receivables management may be applied in exceptional cases. In order to determine impairment rates, Telefónica Deutschland Group uses CDS rates quoted on the market, which either directly represent the credit risk of the counterparty or are derived from the credit risk of a benchmark. These data are adjusted accordingly for financial assets with a remaining term of less than twelve months. The expected loss within the next twelve months is recognised as an impairment loss. This impairment is currently considered to be immaterial, therefore no impairment will be recognised.

Trade receivables are subject to the simplified approach. For more information, please see >NOTE 5.5 TRADE AND OTHER RECEIVABLES. Receivables from leases also follow the simplified approach. The impairment is to be determined in the amount of the credit loss expected over the total term. For individual receivables (including leases), Telefónica Deutschland Group holds certain collateral that mitigates the loss in the event of counterparty default; this collateral is taken into account in the calculation of expected credit losses in the form of the LGD. Collateral is provided for the sale of mobile devices as part of O_2 My Handy transactions. The Telefónica Deutschland Group retains the title to the mobile devices until the end customer has paid the final instalment. In addition, there is commercial credit insurance against bad debts with sales partners with a deductible of 10%.

All cash holdings include a daily maturity and are therefore subject to a one-day probability of default.

As all of them are rated investment grade (including Telefónica, S.A. Group), this leads to only very minor impairments, which are not recorded by Telefónica Deutschland Group.

(in EUR million)	As of 31 December 2022 Net book value	Ratings of cash and cash equivalents	As of 31 December 2021 Net book value	Ratings of cash and cash equivalents
Cash at bank and in hand	13	[A-1 - A-2]	9	[A-1 - A-2]
Cash pooling	763	A-3	1,012	A-3
Cash and cash equivalents	**777**		**1,020**	

Liquidity risk

On the balance sheet date on 31 December 2022, Telefónica Deutschland Group had unused credit lines from current overdraft facilities, loans and revolving credit facilities with a total volume of EUR 1,404 million. As of 31 December 2021, the unused credit lines amounted to EUR 1,454 million.

Cash and cash equivalents amounted to EUR 777 million as of 31 December 2022 and EUR 1,020 million as of 31 December 2021.

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

Maturities of financial liabilities

As of 31 December 2022

(in EUR million)	Total carrying amount	Gross cash outflow	Remaining term < 1 year	1-5 years	> 5 years
Non-current interest-bearing debt	1,510	1,572	–	1,247	324
Non-current lease liabilities	2,663	2,719	–	1,807	913
Non-current trade and other payables	10	10	–	10	–
Non-current payables - Spectrum	891	927	–	500	426
Current interest-bearing debt	128	137	137	–	–
Current lease liabilities	597	616	616	–	–
Current trade and other payables	2,661	2,661	2,661	–	–
Current payables - Spectrum	107	108	108	–	–
Financial liabilities	**8,567**	**8,749**	**2,850**	**1,818**	**751**

As of 31 December 2021

(in EUR million)	Total carrying amount	Gross cash outflow	Remaining term < 1 year	1-5 years	> 5 years
Non-current interest-bearing debt	1,627	1,708	–	1,302	407
Non-current lease liabilities	2,781	2,809	–	1,709	1,100
Non-current trade and other payables	8	8	–	8	–
Non-current payables - Spectrum	990	1,035	–	466	568
Current interest-bearing debt	89	95	95	–	–
Current lease liabilities	548	559	559	–	–
Current trade and other payables	2,779	2,779	2,779	–	–
Current payables - Spectrum	107	108	108	–	–
Financial liabilities	**8,929**	**9,101**	**3,541**	**3,485**	**2,075**

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 in addition to its most important management performance indicators.

The Telefónica Deutschland Group uses the net leverage ratio to monitor its capital structure.

The net leverage ratio compares the net financial debt level with an operational success parameter (OIBDA adjusted for exceptional effects for the last twelve months) and provides management with information about the Company's debt reduction ability. The maximum leverage ratio defined within the framework of our financing policy applicable since 1 January 2019 remains unchanged at 2.5x (>Management Report MANAGEMENT SYSTEM).

17. Contingent Assets and Liabilities

The Telefónica Deutschland Group is 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.

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.

Legal actions challenging the rules governing the award and the auction of frequencies in the 2 GHz and 3.6 GHz ranges from the 2019 auction ("PKE 3 + 4") could result in stricter regulations, in particular with regard to the service provider obligation (obligation of Telefónica Deutschland Group to negotiate with suitable service providers on the shared use of radio capacities). Three actions filed by service providers were dismissed in the court of last instance. It is not known whether a constitutional complaint has been lodged in this regard, but this cannot be ruled out. Another action by a service provider has not yet been decided in the court of first instance. The action of another service provider was dismissed. The appeal of the ruling to the Federal Administrative Court was accepted and heard by the Federal Administrative Court on 20 October 2021. The Federal Administrative Court (BVerwG) has ruled that additional findings by the Administrative Court of Cologne are needed to clarify whether the method used by the BNetzA to decide on the 2019 award and auction rules was free of procedural and deliberation errors. Consequently, the case was referred back to the Cologne Administrative Court. The outcome of this clarification, which has yet to be conducted by the Administrative Court, could lead to the repeal of PKEs 3 + 4, at the end of which the supply obligations/negotiation obligations could be made stricter. In addition, the actions of the Telekom Deutschland Group and the Vodafone Group were dismissed in the court of last instance by the Federal Administrative Court. It is not known whether a constitutional complaint has been lodged in this regard, but this cannot be ruled out. The Telefónica Deutschland Group's appeal was accepted but then dismissed at the hearing on 20 October 2021. The 1&1 Group proceedings are still pending before the court of first instance. If the 1&1 Group succeeds, the obligation to allow the 1&1 Group to participate in the Telefónica Deutschland Group network (e.g. roaming) could lead to a tightening of currently existing negotiation obligations.

In relation to frequency allocations at 3.6 GHz, a objection by EWE TEL GmbH against Telefónica Deutschland Group's 3,540 MHz - 3,610 MHz frequency allocation of 24 September 2020 is pending. If the appeal is successful, this could result in the reassignment of the frequencies for 3.6 GHz 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 (EUR).

Estimates, assumptions and discretionary judgments are used to determine contingent assets and liabilities. 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.

18. Purchase and other contractual obligations

The following expected maturities apply to purchase and other contractual obligations:

(in EUR million)	As of 31 December 2022	As of 31 December 2021
Less than 1 year	1,837	2,009
1 to 5 years	1,744	2,668
Over 5 years	1,040	877
Purchase and other contractual obligations	**4,621**	**5,554**

The purchase and other contractual obligations also include short-term leases and leases of assets of low value.

As of 31 December 2022, EUR 620 million (2021: EUR 601 million) of property, plant and equipment and EUR 32 million (2021: EUR 33 million) of intangible assets are included in purchase and other contractual obligations.

The investment in UGG TopCo GmbH & Co. KG resulted in an investment obligation in the amount of EUR 85 million as of 31 December 2022 (2021: EUR 95 million).

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 amount to EUR 126 million as of 31 December 2022 (2021: EUR 126 million).

For contractual obligations arising from further leases, please refer to >Note 19 LEASES.

19. Leases

Leases

The Consolidated Income Statement presents the following income and expenses related to leases:

1 January to 31 December

(in EUR million)	2022	2021
Income from operating leases	3	1
Income/expenses from finance leases	1	1
Expenses relating to short-term leases	(3)	(12)
Expenses relating to leases of low-value assets	(3)	(2)
Depreciation of right-of-use assets	(637)	(585)
Interest expenses on lease liabilities	(15)	(26)

The total cash outflows for leases in financial year 2022 amounted to EUR 662 million (2021: EUR 642 million).

For additions to right-of-use assets in financial year 2022 and the carrying amount of the right-of-use assets as of 31 December 2022 by class of underlying assets, please refer to >Note 5.4 RIGHT-OF-USE ASSETS.

Telefónica Deutschland Group has a large number of leases that include cancellation options, extension options and automatic extension options. The different contractual agreements are included in the calculation of the potential future payment obligations resulting from the options which are not taken into account in the lease liability recognised as of 31 December 2022 as follows.

- If contracts provide for extension options that have not yet expired or have already been drawn on, the value of the potential payment obligations is taken into account for the entire period of all future extension options, which usually range from one month to five years.

- For all contracts where there are no future extension options, but instead automatic extensions have been agreed, these extensions are included in the calculation with the first period of automatic extension that is not already included in the lease liability.
- Independently of extension options and automatic extensions, the remaining period until the expiry of the minimum term is taken into account in the calculation for contracts whose expected expiry is less than the minimum term due to sufficiently probable unilateral termination options.

This results in potential future payment obligations for Telefónica Deutschland Group of EUR 1,600 million as of 31 December 2022 (EUR 1,554 million as of 31 December 2021).

The Telefónica Deutschland Group has various lease contracts that have not yet commenced. The future possible cash outflows for those lease contracts are EUR 1,569 million as of 31 December 2022 (EUR 1,307 million as of 31 December 2021).

Lessor

As lessor, Telefónica Deutschland Group has entered into several sublease agreements for shops and cell sites with antenna towers.

Where a 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 2022

(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	12	0	12
Due in more than 5 years	0	–	0
Total net investment in lease	**17**	**0**	**18**

As of 31 December 2021

(in EUR million)	Future minimum lease payments	Unearned finance income	Present value of the minimum lease payments
Due within 1 year	6	0	6
Due between 1 and 5 years	13	0	13
Due in more than 5 years	1	–	1
Total net investment in lease	**20**	**0**	**20**

Where a lease is classified as an operating lease, the Group, as lessor, recognises the right-of-use asset in the Consolidated Balance Sheet. The lease payments received are recognised in profit or loss. Future income from operating leases is comprised as follows:

(in EUR million)	As of 31 December 2022	As of 31 December 2021
Due within 1 year	2	3
Due between 1 and 5 years	3	4
Due in more than 5 years	1	2
Future minimum lease payments receivables from operating leases	**6**	**8**

As lessor, Telefónica Deutschland Group has entered into several sublease agreements for cell sites with antenna towers and shops.

As a rule, only parts of the antenna towers that are also used by the company itself are leased to third parties. The shops are primarily leased spaces that are accounted for as right-of-use assets. Where a lease is classified as an operating lease, Telefónica Deutschland Group continues to recognise the leased assets in its Balance Sheet. The lease payments received are recognised in profit or loss.

The following table shows the historical cost, accumulated depreciation and residual value of the corresponding assets in the Consolidated Balance Sheet as of 31 December 2022, which are subject to sublease in the form of an operating lease agreement:

(in EUR million)	Cost	Accumulated depreciation	Residual book value as of 31 December 2022
Property, plant and equipment	59	(39)	20
Right-of-Use Assets	39	(19)	20
Total	98	(58)	40

(in EUR million)	Cost	Accumulated depreciation	Residual book value as of 31 December 2021
Property, plant and equipment	63	(38)	24
Right-of-Use Assets	35	(16)	18
Total	98	(54)	42

20. Total Auditor's Fees

In the financial years 2022 and 2021, the services listed below provided by the Group's auditors, PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, are recognised in the Consolidated Income Statement.

Because 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)	2022	2021
Types of fee:		
Audit services	2.6	2.2
Other certification services	0.2	0.1
Other services	0.0	0.0
Total fee	**2.8**	**2.3**

The auditor's fees include 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 certification services, primarily in connection with sustainability reporting, and the audit of the content of the remuneration report. Other audit-related services and other services were performed in financial years 2022 and 2021 only to a minor extent.

21. Subsequent Events

The Management Board of Telefónica Deutschland decided on 9 February 2023 that a total cash dividend in the amount of ca. EUR 535 million or EUR 0.18 per share will be proposed at the next Annual General Meeting, which is scheduled for 17 May 2023.

In February 2023, Telefónica Deutschland Group concluded a further Power Purchase Agreement (PPA) with an energy supplier, which provides long-term energy security and energy supply with renewable energies from an offshore wind farm over the period from 2025 to 2040.

No additional events subject to disclosure requirements occurred after the end of financial year 2022.

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 27 / 28 October 2022. The complete wording of the declaration of compliance is available on Telefónica Deutschland's website at https://www.telefonica.de/investor-relations-en/corporate-governance/declarations-reports-and-articles.html.

Munich, 16 February 2023

Telefónica Deutschland Holding AG

The Management Board

Markus Haas

Markus Rolle

Valentina Daiber

Nicole Gerhardt

Alfons Lösing

Mallik Rao

Further Information

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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, 16 February 2023

Telefónica Deutschland Holding AG

The Management Board

Markus Haas

Markus Rolle

Valentina Daiber

Nicole Gerhardt

Alfons Lösing

Mallik Rao

Independent Auditor’s Report

To Telefónica Deutschland Holding AG, Munich

REPORT ON THE AUDIT OF THE 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 31 December 2022, and the consolidated statement of comprehensive income, consolidated statement of profit or loss, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from January 1 to December 31, 2022, 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 1 January to 31 December 2022. 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 31 December 2022, and of its financial performance for the financial year from 1 January to 31 December 2022, 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 1 January to 31 December 2022. 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 matter of most significance in our audit was as follows:

❶ Appropriateness of revenue recognition

Our presentation of this key audit matter 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 matter:

❶ Appropriateness of revenue recognition

① In the Company’s consolidated financial statements, revenue of EUR 8.2 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 business), revenues from the sale of hardware, 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 sections “4.2 Significant accounting policies / revenues from contracts with customers” as well as “6.1 Revenues” 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
- section “Internal control system” of the group management report.

The other information comprises further

- The separate consolidated non-financial group report to comply with §§ 315b to 315c HGB of
- all 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 mentioned above and, in so doing, to consider whether the other information

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

Responsibilities of the Executive Directors and the Supervisory Board for the 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 controls as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud (i.e.,fraudulent financial reporting and misappropriation of assets) or error.

In preparing the 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, wether due to fraud or errorserror, design and perform audit procedures responsive to to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

- Obtain an understanding of internal control relevant to the audit of the 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 actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the 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

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

Assurance Opinion

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

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

Basis for the Assurance Opinion

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

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

The executive directors of the Company are responsible for the preparation of the ESEF documents including the electronic renderings of the consolidated financial statements and the group management report in accordance with § 328 Abs. 1 Satz 4 Nr. [number] 1 HGB and for the tagging of the consolidated financial statements in accordance with § 328 Abs. 1 Satz 4 Nr. 2 HGB.

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

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

Group Auditor’s Responsibilities for the Assurance Work on the ESEF Documents

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

- Identify and assess the risks of material non-compliance with the requirements of § 328 Abs. 1 HGB, whether due to fraud or error, design and perform assurance procedures responsive to those risks, and obtain assurance evidence that is sufficient and appropriate to provide a basis for our assurance opinion.
- Obtain an understanding of internal control relevant to the assurance work on the ESEF documents in order to design assurance procedures that are appropriate in the circumstances, but not for the purpose of expressing an assurance opinion on the effectiveness of these controls.
- Evaluate the technical validity of the ESEF documents, i.e., whether the electronic file containing the ESEF documents meets the requirements of the Delegated Regulation (EU) 2019/815 in the version in force at the date of the consolidated financial statements on the technical specification for this electronic file.
- Evaluate whether the ESEF documents provide an XHTML rendering with content equivalent to the audited consolidated financial statements and to the audited group management report.
- Evaluate whether the tagging of the ESEF documents with Inline XBRL technology (iXBRL) in accordance with the requirements of Articles 4 and 6 of the Delegated Regulation (EU) 2019/815, in the version in force at the date of the consolidated financial statements, enables an appropriate and complete machine-readable XBRL copy of the XHTML rendering.

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the annual general meeting on 19 May 2022. We were engaged by the supervisory board on 24 November 2022. We have been the 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).

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

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

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

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

Munich, 16 February 2023

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

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

Supervisory Board Report for the Financial Year 2022

Dear Shareholders,

We look back on a year that presented companies in Germany and around the world with major unexpected challenges. The war in Ukraine, some dramatic increases in energy and living costs for business and society, and the consequences of the Corona pandemic influenced the global economic situation. They complemented to long-term developments such as the fight against climate change and the digital transformation, and against this backdrop took on a new dynamic. At the same time, we are seeing global supply chains and trade relations reorganize.

In this difficult macroeconomic environment, Telefónica Deutschland completed an extraordinarily successful financial year 2022. The team successfully implemented the three-year "Investment for Growth" strategy program. The investments in network and service are paying off and translating into continued operational momentum and very good financial numbers. With around 1.2 million additional mobile contract customers, the company has gained further market share.

Telefónica Deutschland made significant progress in network expansion: The Federal Network Agency could be informed that the roll-out obligations were met to the extent legally and factually possible and the roll-out of the 5G network was advanced significantly faster than originally planned. By the end of 2022, Telefónica Deutschland will supply more than 80 percent of the German population with the very fast mobile communications standard. The magazine connect[39] has awarded the "very good" rating to Telefónica Deutschland's network at the end of 2022 for the third time in a row. The progress made in network expansion in combination with a leading price-performance offering is convincing many customers in Germany. Customer satisfaction remains high and customers' willingness to switch remains low.

This operational development is reflected in the financial figures. With an increase of around 6 percent, revenue rose above the EUR 8 billion mark for the first time in the company's history, with a further improvement in adjusted operating profit OIBDA. Telefónica Deutschland is fully committed to sustainability as a success factor in its business, even in a volatile market environment. The commitment to improving environmental,

Peter Löscher

Chairman of the Supervisory Board of
Telefónica Deutschland Holding AG

social and governance (ESG) criteria remains a top priority for the company.

In the spirit of good corporate governance, the Supervisory Board collaborated well with the Management Board with regard to all significant topics on the basis of trustful cooperation, advised it in managing the company and fulfilled its controlling responsibilities in the reporting period.

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

The company's **Supervisory Board** consists of 16 members, of which eight are shareholder representatives and eight are employee representatives.

At the beginning of the financial year 2022, the Supervisory Board consisted of the following members: Peter Löscher (Chairman), Christoph Braun (Deputy Chairperson) as well as

[39] Connect mobile communications network test, issue 1/2023: "very good" (894 points); in total, one "outstanding" rating and two "very good" ratings were awarded (915 and 894 points)

the Supervisory Board members Martin Butz, Pablo de Carvajal González, María García-Legaz Ponce, Ernesto Gardelliano, Cansever Heil, Christoph Heil, Michael Hoffmann, Julio Linares López, Stefanie Oeschger, Thomas Pfeil, Joachim Rieger, Dr. Jan-Erik Walter and Claudia Weber.

Following the resignation of Peter Erskine as of 31 December 2021, Jaime Smith Basterra was appointed by the court as a member of the Supervisory Board and shareholder representative with effect from 4 January 2022. He has expertise in the fields of accounting and auditing and is independent of the Company and its Management Board as well as of the controlling shareholder. At the Annual General Meeting on 19 May 2022, all shareholder representatives on the Supervisory Board were re-elected.

Further information, including curricula vitae of the members of the Supervisory Board, can be found on the Company's website at www.telefonica.de/supervisory-board.

In accordance with the recommendation of C.10 of the German Corporate Governance Code, the member Michael Hoffmann, who is independent of the controlling shareholder as well as of the Company and the Management Board, is the Chairman of the Audit Committee.

In accordance with section 100 para. 5 of the German Stock Corporation Act (AktG), the Supervisory Board included at least one member with expertise in the field of accounting and auditing, Michael Hoffmann, and at least one further member with expertise in the field of accounting and auditing, Ernesto Gardelliano, in the reporting period. In addition, Thomas Pfeil as a long-standing member of the Audit Committee and Jaime Smith Basterra also have corresponding expertise. The members of the Supervisory Board as a whole were familiar with the sector in which the Company operates.

Composition of the Management Board

At the beginning of the financial year 2022, the **Management Board** of Telefónica Deutschland Holding AG consisted of seven members: Markus Haas, Chief Executive Officer (CEO), Markus Rolle, Chief Financial Officer (CFO), Valentina Daiber (Chief Officer Legal and Corporate Affairs), Nicole Gerhardt (Chief Human Resources Officer and Labour Director ("Arbeitsdirektorin"), Alfons Lösing (Chief Partner & Wholesale Officer), Wolfgang Metze (Chief Consumer Officer) and Mallik Rao (Yelamate Mallikarjuna Rao; Chief Technology & Information Officer).

The Supervisory Board of Telefónica Deutschland Holding AG has agreed with Chief Consumer Officer Wolfgang Metze on an early resignation from office on 2 June 2022. Until the end of the reporting period and at the beginning of the new financial year, the Chief Executive Officer Markus Haas led and continues to lead the division on an interim basis.

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 and in the interest of the company.

In the reporting period, the Supervisory Board advised and monitored the Management Board in accordance with legal requirements.

The Management Board involved the Supervisory Board in all material decisions in a timely manner, submitted reports to the Supervisory Board in oral and written form and provided additional information when required, if necessary also by means of an expert opinion from external advisors. Where approval by the Supervisory Board was required by law, the articles of association or the by-laws, this was given after intensive consultation, examination and discussion in the Supervisory Board and – where relevant – in the committees set up by the Supervisory Board for this purpose.

In addition, the Management Board provided the Supervisory Board monthly with a written report, which covered, in particular, relevant financial key performance indicators (KPIs).

During the reporting period, the Chairman of the Supervisory Board regularly exchanged information with the Management Board, in particular with the CEO. Thus, regular alignment meetings took place between the Chairperson of the Supervisory Board and the CEO. They discussed the current status and future development of the company, the progress of ongoing important projects, such as on the digital transformation of the IT architecture, strategy, business policy, corporate planning, risks and opportunities and its management, as well as compliance, governance and sustainability (ESG) - topics. Furthermore, there is a lively exchange between the Chairperson of the Supervisory Board and the CEO outside of regular meetings. The Chairman of the Supervisory Board informed the other members of the Supervisory Board about important topics discussed.

In addition to the meeting activities, pre-alignment meetings for the respective meetings and other information provided to the Supervisory Board by the Management Board during the year, an annual strategy workshop was again held in which the strategy of the company was analysed in the light of current developments and for each Management Board department and discussed and coordinated in an informal setting. In that context, it was discussed how corporate responsibility and ESG (Environmental, Social, Governance) are included in the Company's operations and strategy and the strategy and its implementation were reflected.

Meetings of the Supervisory Board

In 2022, the Supervisory Board held five regular meetings and two extraordinary meetings. Also in view of the ongoing pandemic situation, two meetings were held in person, with the option of virtual participation via video conference if members were unable to attend. Five meetings were held as virtual meetings by video conference. The regular discussions of the Supervisory Board focused in particular on the presentation of the current situation of the Company, including in the individual business areas, and key strategic issues. The Supervisory Board also met regularly without the Management Board, at least at each regular meeting. These meetings dealt with internal Supervisory Board issues such as the effectivity survey and training of the Supervisory Board, the composition and composition of its committees, and also issues relating to the Management Board.

In 2023, there has been one regular Supervisory Board meeting so far. The meeting on the financial statements for the financial year 2022 was held on 17 February 2023. In addition to financial topics, the meeting on the financial statements also dealt in particular with the preparation of the 2023 Annual General Meeting, as well as the remuneration report for the financial year 2022. In the internal part of the meeting the Supervisory Board dealt, among other things, with the Supervisory Board's report on the financial year 2022.

Material topics dealt with by the Supervisory Board

The first regular meeting of the Supervisory Board in the financial year 2022 was the balance sheet meeting on financial year 2021. It took place on **21 February 2022**. The focus of this meeting was the review and approval of the annual and consolidated financial statements and the combined management report for the financial year 2021 as well as the treatment of the dependency report and the non-financial report and proposals for the distribution of profit. In addition to these topics, the Supervisory Board dealt in particular with the strategic priorities for 2022 in general and in particular in the areas of Legal & Corporate Affairs, B2C, CTIO, HR and business partner business. The agenda for the Annual General Meeting on 19 May 2022 and the draft version of the remuneration report were also discussed. In the **internal** part of the meeting, the Supervisory Board dealt in particular with the extension of the Management Board service contract of CEO Markus Haas and the Supervisory Board compensation system. Furthermore, the Supervisory Board dealt with the report of the Supervisory Board on the financial year 2021.

At the Supervisory Board meeting on **9 May 2022**, the agenda included in particular the position of the Company in the first quarter, financial topics (in particular the results for Q1 and the financial statements of the direct subsidiaries), an update on the areas B2C, CTIO, HR, and Legal & Corporate Affairs. The Supervisory Board also dealt with the Corporate Responsibility Report. In the **internal** part of the meeting, topics included the extension of the Management Board service agreement of CTIO Mallik Rao, the upcoming 2022 Annual General Meeting, and the Supervisory Board's annual training plan.

The terms of office of the shareholder representatives on the Supervisory Board ended at the end of the Annual General Meeting on 19 May 2022. All of them were re-elected at the Annual General Meeting. Immediately after the Annual General Meeting, a Supervisory Board meeting was held on **19 May 2022**. At this meeting, Peter Löscher was re-elected Chairman of the Supervisory Board. The Supervisory Board resolved amendments to the by-laws for the Supervisory Board. In addition, the Supervisory Board elected the shareholder representatives on the committees after the end of their respective terms of office at the end of the Annual General Meeting and resolved to update the compliance declaration in accordance with section 161 of the German Stock Corporation Act (AktG).

At the extraordinary Supervisory Board meeting on **31 May 2022**, the Supervisory Board dealt in particular with the agreement in connection with the resignation of Management Board member and CCO Wolfgang Metze.

At the meeting on **20 July 2022**, the Management Board reported, among other things, on the situation of the Company in the second quarter and the impact of the war in Ukraine, particularly also in connection with energy supply. Topics of the meeting also included opportunities in the business area, status and development of the retail and partner business, financial topics including Q2 results and guidance options in view of the successful financial year. Furthermore, risk management and the annual audit plan were topics of the meeting. In the **internal** part of the meeting, the Supervisory Board dealt in particular with compensation and corporate governance issues, such as the amendments to the German Corporate Governance Code in the reporting year, an addition of sustainability expertise to the Supervisory Board competence profile, and the upcoming annual Supervisory Board effectivity survey. In addition, the succession planning for the Management Board was discussed.

At the meeting on **28 October 2022**, the Supervisory Board focused in particular on the Company's situation in the third quarter, the energy procurement strategy, and, as at every meeting, the status of roll-out obligations until the end of the year. In addition, the Management Board presented status and developments of the retail and partner business, gave an update on CTIO topics, HR topics and financial topics, in particular Q3 results, guidance options in view of the successful financial year and the Long Term Business Plan. Furthermore, the Legal & Corporate Affairs Update covered in particular frequency topics and key non-financial reporting issues. The **internal** part of the meeting dealt, among other things, with Management Board topics such as the engagement of the new Chief Commercial Officer Andreas Laukenmann and the contract extensions for ordinary Management Board members Alfons Lösing, Markus Rolle, Valentina Daiber and Nicole Gerhardt. In addition, the

Compliance Declaration 2022 was resolved and the upcoming preparation of the qualification matrix for the Supervisory Board was discussed.

At the Supervisory Board meeting on **15 December 2022**, the topics discussed included among other things a review of the very successful year 2022 for the company, the priorities for 2023, financial topics and the implementation of the energy strategy. The meeting focused on the Long Term Business Plan 2023-2024 and the resolution on the 2023 budget. Furthermore, an update was given on the CTIO area – including on the very good network test results and roll-out obligations – and business partner area, and on the agenda for the 2023 Annual General Meeting. The **internal** part of the meeting of the Supervisory Board dealt with Management Board succession planning and Management Board remuneration topics. The Supervisory Board dealt in particular with the extension of the Management Board service agreements of Management Board members Valentina Daiber (Chief Officer Legal and Corporate Affairs), Alfons Lösing (Chief Partner & Wholesale Officer), Markus Rolle (Chief Financial Officer) and Nicole Gerhardt (Chief Human Resources Officer). The results of the Supervisory Board's effectivity survey were discussed and appropriate measures identified. The Supervisory Board also dealt with its qualification matrix.

Where necessary, the Supervisory Board also passed resolutions outside of meetings, in particular by e-mail. For example, the Management Declaration, the final agenda for the 2022 Annual General Meeting and its implementation as a virtual meeting and various Management Board topics were passed in this way after respective pre-dealing in meetings held in person or in virtual meetings and in committees (where relevant).

Committees of the Supervisory Board

As of 31 December 2022, the Supervisory Board has installed five committees: an Audit Committee, a Remuneration Committee, a Nomination Committee, a Related Party Transactions Committee and a Mediation Committee. The Audit Committee, the Remuneration Committee, the Related Party Transactions Committee and the Nomination Committee meet regularly, the Mediation Committee meets only as required and did not meet in the reporting year.

The **Audit Committee** is inter alia responsible for preparing the resolution of the Supervisory Board regarding the approval of the financial statements and the non-financial report, discusses the quarterly information and half-year reports with the Management Board, monitors the accounting processes and the audit of the financial statements, compliance (including data protection and information security) and the effectivity of the internal control system, the risk management system and internal audit systems. It furthermore is responsible for the coordination with and selection of the auditor as well as assessing its independence and evaluation of the quality of the audit work.

The Audit Committee was enlarged from four to six members on 19 May 2022. During the reporting year, the audit committee consisted of the following members:

- Michael Hoffmann (chairman; independent financial expert)
- Martin Butz
- Ernesto Gardelliano (financial expert)
- Thomas Pfeil (financial expert)
- Stefanie Oeschger (independent) (from 19 May 2022) and
- Dr. Jan-Erik Walter (from 19 May 2022).

In 2022, the Audit Committee met four times, on 21 February, 9 May, 20 July and 28 October 2022. Two meetings were held as in-person meetings and two meetings were held as virtual meetings via videoconference. The topics discussed included, among other things, financial and non-financial reporting including sustainability issues (ESG), the financial results, other finance topics, internal audit, risk management, compliance, data protection, cyber security and business continuity management, and the assessment of quality of the auditor's work. Furthermore, the Supervisory Board's meeting on financial statements and corresponding recommendations to the full board were prepared.

In 2023, the Audit Committee met once, on 17 February 2023, with the focus on preparing the Supervisory Board's balance sheet meeting and recommending the auditor for resolution by the Annual General Meeting, which is scheduled for 17 May 2023.

During the reporting year, the Chairman of the Audit Committee maintained close contact with the auditors and internal (especially finance) departments as well as the Management Board also outside of meetings and informed the other members of the Audit Committee about important topics arising from this exchange. Furthermore, the Chairman of the audit committee regularly reports to the Supervisory Board on the activities of the audit committee.

During the reporting year, the **Remuneration Committee** consisted of the following members:

- Michael Hoffmann (chairman; independent)
- María García-Legaz Ponce
- Dr. Jan-Erik Walter and
- Claudia Weber.

The Remuneration Committee is entrusted with the preparation of topics relating to the remuneration of the Management Board and Supervisory Board. Insofar as Supervisory Board compensation is concerned, this applies only to the extent that it falls within the remit of the Supervisory Board, particularly in the context of the "say on pay" requirements. The Remuneration Committee makes recommendations to the full Supervisory Board in this regard.

The Remuneration Committee met six times in 2022, on 28 January, 25 March, 31 May, 1 July, 11 October and 25 November 2022. All meetings were conducted as virtual meetings via videoconference. The Remuneration Committee dealt intensively, among other things, with preparations for resolutions of the Supervisory Board on Management Board remuneration issues, the adjustment of the Supervisory Board remuneration system, and the remuneration report. The prepared resolutions also related in particular to the service agreements of the Management Board members, the termination agreement on the Management Board service agreement of Wolfgang Metze, and the implementation of the elements of the remuneration systems in remuneration components, including the proposal of concrete targets and review of the respective target achievement.

Furthermore, the Remuneration Committee also passed resolutions by e-mail outside of meetings during the reporting period.

The Chairman of the Remuneration Committee reported regularly on the activities of the Remuneration Committee at the internal part of the meetings of the Supervisory Board.

The **Nomination Committee** proposes suitable candidates to the Supervisory Board for election proposals to the Annual General Meeting. As of 31 December 2022, the Nomination Committee consisted of the following members:

- Peter Löscher (Chairman; independent)
- Pablo de Carvajal González
- Ernesto Gardelliano and
- Jaime Smith Basterra (independent) (from 19 May 2022).

The Nomination Committee met once in the reporting year 2022 on 21 February 2022 in the form of a virtual meeting via video conference. At this meeting it dealt with succession issues on the Supervisory Board. The composition criteria and requirements for members of the Supervisory Board, also in the context of the upcoming election of all shareholder representatives at the Annual General Meeting in 2022, were discussed. In this respect, it recommended Peter Löscher, Pablo de Carvajal González, María García-Legaz Ponce, Ernesto Gardelliano, Michael Hoffmann, Julio Linares López, Stefanie Oeschger and Jaime Smith Basterra to the full Supervisory Board as suitable candidates for the Supervisory Board's election proposal to the Annual General Meeting.

The Chairman of the Nomination Committee reports regularly on the activities of the Nomination Committee at the internal meetings of the Supervisory Board.

The **Related Party Transactions Committee** monitors and resolves on certain transactions with affiliated companies, in particular transactions with affiliated companies pursuant to sections 111a, b German Stock Corporation Act (AktG), instead of the full Supervisory Board. As a rule, the majority of its members have no conflicts of interest with regard to the controlling shareholder.

The Related Party Transactions Committee consists of the following five members:

- Peter Löscher (Chairman)
- Christoph Braun
- Pablo de Carvajal González
- Michael Hoffmann and
- Thomas Pfeil.

The Related Party Transactions Committee met three times in 2022, on 21 February 2022, 20 July 2022 and 15 December 2022. All meetings were held in the form of virtual meetings via video conference. At these meetings, the Related Party Transactions Committee dealt with the quarterly monitoring of transactions with affiliated companies and dealt with transactions with affiliated companies that did not trigger any disclosure obligations under section 111c of the German Stock Corporation Act (AktG).

The Chairman of the Related Party Transactions Committee reports regularly on the activities of the Related Party Transactions Committee at the meetings of the Supervisory Board.

As of 31 December 2022, the **Mediation Committee** with the responsibilities as defined in section 31 Co-Determination Act (Mitbestimmungsgesetz) consisted of the following members:

- Peter Löscher (Chairman)
- Christoph Braun
- Christoph Heil and
- Julio Linares López.

There was no need for the Mediation Committee to convene in the reported year.

Attendance at Meetings

Insofar as members could not attend meetings of the Supervisory Board or relevant committee meetings in isolated cases, they were excused. They participated then in the passing of resolutions by written vote.

The individual meeting attendance during the financial year 2022 was as follows:

Member of the Supervisory Board	Number of Meetings*	Attendance	Non-Attendance	Attendance Quota
Peter Löscher	11	11	0	100%
Christoph Braun	10	10	0	100%
Martin Butz	11	11	0	100%
Pablo de Carvajal González	11	11	0	100%
María García-Legaz Ponce	13	11	2	85%
Ernesto Gardelliano	12	11	1	92%
Cansever Heil	7	7	0	100%
Christoph Heil	7	7	0	100%
Michael Hoffmann	20	18	2	90%
Julio Linares López	7	7	0	100%
Stefanie Oeschger	9	9	0	100%
Thomas Pfeil	14	14	0	100%
Joachim Rieger	7	7	0	100%
Jaime Smith Basterra	7	7	0	100%
Dr. Jan-Erik Walter	15	15	0	100%
Claudia Weber	13	13	0	100%
Total	**174**	**169**	**5**	**97%**

* 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 meetings of the full Supervisory Board with the Management Board and the internal meetings of the full Supervisory Board were counted separately in last year's report for the financial year 2021 because of separate invitations and agendas. For the financial year 2022, they are now counted jointly as two parts of one meeting.

The meetings of the Supervisory Board and its committees in the reporting year were held either as in-person meetings or as virtual meetings by video conference. Video conferences always included the option of dialling in by telephone. No meeting was held as a telephone conference. In the case of in-person meetings, it was possible to participate via video or telephone dial-in if someone was otherwise unable to attend.

The overview on the individual meeting attendance is also available on the Company´s website at www.telefonica.de/supervisory-board/members-attendance-at-meetings.

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 http://www.telefonica.de/management-declaration-2022.

On 27 / 28 October 2022, the Management Board and the Supervisory Board approved a new Compliance Declaration pursuant to section 161 German Stock Corporation Act (AktG). The Compliance Declaration was published on the company's website at www.telefonica.de/compliance-declaration-October-2022. Previous versions of the Compliance Declaration can be also found on the website.

Five of the 16 members of the Supervisory Board in the reporting year held positions in the administrative, management or 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 2022, the Supervisory Board comprised four female and twelve male members. Thus the Supervisory Board continues to fulfil the requirements of section 96 para. 2 German Stock Corporation Act (AktG) which the Supervisory also adopted for itself (a gender diversity quota of at least 30 %), which shall be fulfilled separately by shareholder and employee representatives side following a shareholder representative resolution. This quota was fulfilled during the entire financial year with two female members on the employee representative side and two female members on the shareholder representative side.

The minimum gender diversity quota for the Management Board to be fulfilled by 30 June 2022 is 25%. It was met throughout the whole financial year 2022 (two of seven, or as of 31 December six members are female). With more than one member, the requirements of the Second Management Positions Act (FüPoG II) are also (over-) achieved.

Support of Members of the Supervisory Board

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 with legal advisors explain the practical and legal principles and also highlight specific issues relating to stock corporation law. Training and further development requirements of the Supervisory Board are regularly assessed during the course of its work. In the reporting year, general information was presented, in particular on corporate governance issues and new legal framework. Relevant individual legal topics (e.g. the new regulations on the virtual Annual General Meeting and the amendments to the German Corporate Governance Code in 2022) were also presented here. In conjunction with the strategy workshop, the company organized training sessions on new topics related to the Company's strategy, in particular on new requirements for corporate sustainability and ESG (Environmental, Social, Governance) reporting. Furthermore, the Supervisory Board was informed also interactively about new types of technical developments (future technologies), particularly in the network and 5G technology areas.

Review of the Financial Statements 2022

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 2022 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 Group report for Telefónica Deutschland Holding AG for the financial year 2022 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 2023 ("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 non-financial Group report, 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 2023. 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 besides the annual financial statement of Telefónica Deutschland Holding AG and the Group, the combined management report for Telefónica Deutschland Holding AG and the Group and the separate non-financial Group report. 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 2023, 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 financial year 2022; 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"):

"On the basis of our statutory audit and assessment, we confirm that

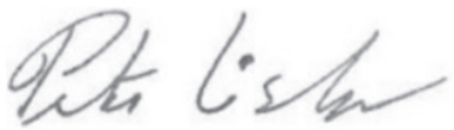
1. the factual disclosures provided in the report are correct,
2. the Company's consideration concerning legal transactions referred to in the report was not unduly high,
3. there are no circumstances indicating a materially different assessment of the measures referred to in the report than the assessment reached by the management board. "

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 in detail in the meeting on 17 February 2023 also with the auditor. Having reviewed the dependency report and the corresponding audit report, the Supervisory Board agreed with the 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 would like to thank the entire management board for their outstanding performance in the once again challenging financial year 2022 and for their cooperation, which has always been based on trust. We are particularly pleased that we were able to extend the contracts of all current Management Board members ahead of schedule during the financial year and have now been able to open the next chapter together. With Andreas Laukenmann, we will complete the excellent management team in the coming year. The Supervisory Board would also like to take this opportunity to thank Wolfgang Metze, who has played a key role in shaping the success story of Telefónica Deutschland in recent years. Furthermore, the Supervisory Board would also like to thank all Telefónica Deutschland Group employees, who once again showed outstanding commitment during this special period and made a very significant contribution to the success of the company.

Munich, 17 February 2023

On behalf of the Supervisory Board



Peter Löscher
Chairman of the Supervisory Board of
Telefónica Deutschland Holding AG

Management Declaration in accordance with Sections 289f in connection with 315d of the German Commercial Code (HGB)

This Management Declaration of Telefónica Deutschland Holding AG ("Company") is based on sections 289f, 315d of the German Commercial Code (HGB) in the version applicable at the time the statement was issued, as well as the German Corporate Governance Code in the version dated 28 April 2022, published in the Federal Gazette on 27 June 2022.

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" (GCGC), 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 made permanently available on the company's website.

On 27/28 October 2022, the Management Board and Supervisory Board of Telefónica Deutschland Holding AG issued the following declaration of compliance pursuant to section 161 para. 1 German Stock Corporation Act (AktG):

"Compliance Declaration

The Management Board and the Supervisory Board of Telefónica Deutschland Holding AG (the "Company") last issued a compliance declaration pursuant to section 161 (1) of the German Stock Corporation Act (Aktiengesetz) on 25/27 October 2021, updated on 19/24 May 2022.

The following compliance declaration refers to the "German Corporate Governance Code" ("GCGC") as amended on 16 December 2019, published in the Bundesanzeiger (Federal Gazette) on 20 March 2020, for the period up to 26 June 2022, and to the GCGC as amended on 28 April 2022, published in the Bundesanzeiger on 27 June 2022, for the period from 27 June 2022.

The Management Board and Supervisory Board of the Company hereby declare that the recommendations of the GCGC will be complied with in the future and have been complied with – to the extent required by the GCGC – since the update to the compliance declaration with the following exceptions.

1. The Supervisory Board establishes the performance criteria for all variable remuneration components at the beginning of a financial year, as the completion of the previous year is awaited in order to be able to adjust performance criteria accordingly if necessary. G.7, which recommends a determination in the respective previous year for the upcoming financial year, was and will be deviated from with regard to the time component.

2. The Company complies with the statutory obligations (in particular section 162 of the German Stock Corporation Act (AktG)) with regard to the publication of the comprehensibility of the achievement of targets and does not provide any additional information, as in the case of strategically important targets this may conflict with the Company's confidentiality interests. In this respect, the Company has deviated and continues to deviate in part from G.9, which recommends that the rationale and the amount should be comprehensible.

3. Mostly, it is possible to dispose of long-term variable grant amounts after three years. This is considered appropriate, as the Company operates in an extremely volatile and innovative market environment. In this respect, we have deviated and will deviate from G.10, which recommends a period of four years.

4. The Supervisory Board is of the opinion that it strategically reasonable for the members of the Management Board to participate in share-based programs of Telefónica, S.A. These provide that in the event of termination of a Management Board contract, payment is made upon exit. In this respect, deviations from G.12, which recommends payment according to the due dates or holding periods specified in the contract, have been and will be made.

Since the last compliance declaration until the update, the following deviation from GCGC existed in addition to the deviations described above:

Members and chairmen of the committees with regular meetings (Audit Committee and Remuneration Committee) received additional remuneration until 31 December 2021. The Company was of the opinion that a distinction from the other committees, which are only active occasionally, was appropriate. In this respect, there was a partial deviation from G.17, which is based exclusively on the higher time commitment.

The Annual General Meeting adjusted the remuneration of the Supervisory Board on 19 May 2022. With effect from 1 January 2022 the members of all Supervisory Board committees – and not just the members of the two main committees as previously – receive additional remuneration. This is to take appropriate account of the importance and time involved in committee work. A deviation from G.17 no longer applies as of 1 January 2022. Insofar, the GCGC has been and will be complied with as of this date.

27 October 2022	28 October 2022
The Management Board	The Supervisory Board"

The current Compliance Declaration is available on the Company's website at www.telefonica.de/compliance-declaration-october-2022. Previous Declarations of Compliance are also available on the Company´s website.

2. Relevant disclosures of management practices

Telefónica Deutschland Holding AG and its governing 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 conduct called "Our Business Principles for responsible corporate governance". 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 web site of Telefónica Deutschland Holding AG 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).

Sustainability (ESG)

In the spirit of responsible corporate governance, the Company also keeps an eye on the impact on people and the environment in all its business activities. Sustainability is firmly anchored in the Company. The Management Board ensures that the risks and opportunities associated with social and environmental factors, as well as the ecological and social impacts of the Company's activities are identified systematically and assessed. In addition to long-term economic objectives, the corporate strategy also gives appropriate consideration to ecological and social objectives. Corporate planning includes corresponding financial and sustainability-related objectives.

The Company manages implementation and target achievement via the Responsible Business Plan 2025 (see https://www.telefonica.de/sustainability/responsible-business-plan-2025.html). In the Corporate Responsibility Report, the Company reports transparently and comprehensively on the progress of its sustainability activities (see https://www.telefonica.de/sustainability/reporting.html).

Risk Management and Internal Control System

For the Management Board and Supervisory Board of Telefónica Deutschland Holding AG, internal control and risk management are fundamental. The handling of risks is of great importance for the Company´s success and for a professional management. At Telefónica Deutschland Holding AG, an internal control system (ICS) to ensure the effectiveness and economic validity of business activities, lawful financial reporting and compliance with the relevant legal regulations, as well as a risk management system to detect, assess, control, manage and monitor risks have therefore been implemented as integral components of corporate governance. The internal control system and the risk management system, which also cover sustainability-related objectives, are monitored by the Management Board. The appropriateness and effectiveness of the internal control system and the risk management system are monitored in particular by the Audit Committee.

You may find further details in the sections “Report on Risks and Opportunities” respectively “Accounting-Related Internal Control and Risk Management System” and “Internal control system” within the Annual Report.

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 possible violations of the law e.g. via an external whistleblower system (www.telefonica.de/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 their job responsibilities. Clear guidelines and policies were established for the most important compliance matters. In the financial year 2021, the audit company BDO AG Wirtschaftsprüfungsgesellschaft audited and certified the adequacy of the Company’s compliance management system in the area of anti-corruption in accordance with the IDW PS 980 standard. This confirmed that the Compliance Management System insofar has all the relevant elements for detecting compliance violations, that these have been implemented and are regularly monitored.

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. Both the Management Board and the Supervisory Board regularly address the topic of compliance. The Compliance Officer reports directly to the Management Board.

In this overall context, the Company has also a Capital Market Law department in the General Counsel area which, among other things, ensures compliance with the Market Abuse Regulation (EU) № 596/2014, e.g. with insider rules (including trainings and maintaining insider lists recording persons in accordance with the Market Abuse Regulation who act for the Company and have authorised access to inside information).

The Company’s Data Protection Officer monitors compliance with data protection legislation. This is a top priority for the Company. Data Protection and Security, including Business Continuity, report directly to the Corporate & Legal Affairs Management Board department.

3. Composition and working procedures of the Management Board, Supervisory Board and the Supervisory Board’s Committees

As a German stock corporation, Telefónica Deutschland Holding AG has a dual management system consisting of a Management Board and a Supervisory Board, in which corporate management and corporate control are separated and, accordingly, the tasks and responsibilities are clearly divided between the Company’s Management Board and Supervisory Board.

Management Board
At the beginning of the financial year 2022, the Management Board of Telefónica Deutschland Holding AG comprised 7 members: Markus Haas, Chief Executive Officer (“CEO”), Markus Rolle, Chief Financial Officer (“CFO”), 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 & Information Officer). Wolfgang Metze resigned as Management Board member and Chief Consumer Officer effective 2 June 2022. Markus Haas led the division on an interim basis until and at the end of the reporting period.

Further information on the members of Management Board and their respective office periods are available at www.telefonica.de/management-board. Initial appointments of Management Board members are in principle not for longer than three years.

The Supervisory Board ensures together with the Management Board that there is long-term succession planning. In this context, the Supervisory Board draws up a requirement profile for each role on the Board of Management, taking into account not only the statutory requirements and the recommendations of the German Corporate Governance Code, but also the diversity concept adopted by the Supervisory Board for the Board of Management and the specific criteria relating to skills, experience and knowledge. These requirement profiles are reviewed on an ongoing basis and adjusted as necessary, in particular with regard to legal changes. The Supervisory

Board also makes use of external expertise, if necessary, in the preparation and further development of the profiles. On the basis of the requirement profiles, the Supervisory Board regularly exchanges views with the Management Board on suitable successor candidates from the Telefónica Deutschland Group for Management Board positions and, also considers short- and medium-term succession. Based on the requirement profiles, individual development needs are also identified and addressed, if necessary, with the involvement of external expertise. External candidates are also included in the consideration.

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 section 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 para. 5 German Stock Corporation Act (AktG) (in the version applicable at the time) 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 2022 (two of regularly seven – at the end of the reporting period, six members of the Management Board are female). The Second Management Positions Act (FüPoG II) stipulates a representation requirement of at least one woman and at least one man on the Management Board for companies such as Telefónica Deutschland Holding AG that are listed on the stock exchange, have equal codetermination and have a Management Board with more than three members. This minimum representation requirement applies from 1 August 2022. Telefónica Deutschland Holding AG has complied with or exceeded this requirement in the financial year 2022 and since the Company's IPO.

Also considering the abovementioned minimum gender quota or the minimum requirement of participation in the Management Board 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 boards.

Such objectives were and shall be 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, the Management Board has voluntarily set targets for the female quota of the management level below the Management Board, reporting level 1 (Berichtsebene 1), of Telefónica Deutschland Group. The target of 30% to be met by 30 June 2022 was to be achieved via the Company's diversity strategy. As of 31 December 2021, the share of female members of reporting level 1 was 28.9%. Due to changes in the relevant management level, the target could not be achieved with 25% as of the reference date. In order to further increase the proportion of women in management positions, the target for the proportion of women in senior leadership positions (highest management level including the Management Board) was set at 31%, to be achieved by 31 December 2022. This target was achieved and exceeded at 32%. By 31 December 2024, the share of female members of the relevant group shall increase to at least 33%.

The Management Board manages the Company's business in its own responsibility 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 her or him, 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 organisation, Corporate policy, investment and financial planning as well as all investments significantly exceeding the annual budget approved by the Supervisory Board have to be resolved by the entire Management Board. Furthermore, every Management Board member may 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 or hybrid. 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 inform the Supervisory Board about 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 meets these requirements as defined by law.

Supervisory Board

The Supervisory Board comprises sixteen members, eight shareholder and eight employee representatives.

During the financial year 2022, the Supervisory Board comprised the following members: Peter Löscher (Chairman), Christoph Braun* (Vice Chairman), Martin Butz*, Pablo de Carvajal González, María García-Legaz Ponce, Ernesto Gardelliano, Cansever Heil*, Christoph Heil*, Michael Hoffmann, Julio Linares López, Stefanie Oeschger, Thomas Pfeil*, Joachim Rieger*, Jaime Smith Basterra (since 4 January 2022), Dr. Jan-Erik Walter* and Claudia Weber*.

Further information, including the curricula vitae of the members of the Supervisory Board, can be found on the Company's website at www.telefonica.de/supervisory-board.

As of 31 December 2022, the Supervisory Board consisted of four female and twelve male members. Therewith Supervisory Board continued to fulfill the requirements of section 96 para. 2 German Stock Corporation Act (AktG) (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 met with two female members on the employee representative side and two female members on the shareholder representative side throughout the whole financial year.

The members of the Supervisory Board as a whole are familiar with the sector in which the Company operates. According to the German Stock Corporation Act (AktG), at least one member of the Supervisory Board must have expertise in the field of accounting and at least one other member of the Supervisory Board must have expertise in the field of auditing. The Supervisory Board includes Michael Hoffmann, Ernesto Gardelliano, Jaime Smith Basterra and Thomas Pfeil as members each with expertise in the fields of accounting and auditing.

The criteria of the diversity concept of the Supervisory Board consist of the competence profile and the composition objectives of the Supervisory Board, which ensure in the opinion of the Supervisory Board diversity in the Supervisory Board which serves the Company's best interest. Taking into account the German Corporate Governance Code, 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.

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 members of the Supervisory Board as a whole should have expertise regarding sustainability issues relevant to the company.

The Supervisory Board has specified concrete objectives regarding its composition 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 shall have at least two independent members within the meaning of no. C.6 of the German Corporate Governance Code on the shareholder side. Independence within such meaning is given if the Supervisory Board member is independent of Telefónica Deutschland Holding AG and its Management Board and independent of the controlling shareholder.
- The Supervisory Board 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.

* Employee representative

- In accordance with legal requirements, 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 Board members should regularly end with the Annual General Meeting following the Supervisory Board member 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 the Supervisory Board's (shareholder side) opinion, taking into account the stipulations of C.7 and C.9 of the German Corporate Governance Code concerning independency, a number of at least two members of the shareholder side independent of the controlling shareholder and a number of at least five independent of Telefónica Deutschland Holding AG and the Management Board is appropriate.

A Supervisory Board member is independent of the controlling shareholder if he or she or a close family member is neither a controlling shareholder nor a member of the controlling shareholder's executive governing body or has a personal or business relationship with the controlling shareholder that could give rise to a material and not merely temporary conflict of interest. A Supervisory Board member is independent of the Company and its Management Board if he or she has no personal or business relationship with the Company or its Management Board that could give rise to a material and not merely temporary conflict of interest.

As of 31 December 2022, in the opinion of the Supervisory Board (shareholder side), all eight members of the shareholder side were independent of Telefónica Deutschland Holding AG and its Management Board. In addition, according to the assessment of the Supervisory Board (shareholder side), the following four members of the shareholder representatives on the Supervisory Board were also independent of the controlling shareholder: Peter Löscher, Michael Hoffmann, Stefanie Oeschger and Jaime Smith Basterra.

According to the recommendations of the German Corporate Governance Code, the Chairman of the Supervisory Board, the Chairman of the Audit Committee and the Chairman of the committee dealing with Management Board remuneration should be independent of the Company and the Management Board. The Chairman of the Audit Committee should also be independent of the controlling shareholder. These requirements are met. The Supervisory Board is convinced that the aforementioned objectives also reflect the shareholder structure appropriately. Supervisory Board currently considers these concrete objectives and the requirements of the competence profile to have been met.

The abovementioned competence profile and the concrete composition objectives form the requirements of the diversity concept to be met by the Supervisory Board.

The Nomination Committee and the Supervisory Board as a whole consider competence profile and composition criteria 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. Furthermore, the respective office duration to each member is published there.

The status of the implementation of the competence profile is disclosed as follows:

	Internationality	Leadership	Familiarity Telecommunications Sector	Finance	M&A/Strategy	Marketing & Sales
Peter Löscher	x	x	x	x	x	x
Pablo de Carvajal González	x	x	x		x	
María García-Legaz Ponce	x	x	x	x	x	
Ernesto Gardelliano*	x	x	x	x	x	
Michael Hoffmann*	x	x	x	x	x	x
Julio Linares López	x	x	x		x	x
Stefanie Oeschger	x	x	x	x	x	x
Jaime Smith Basterra*	x	x	x	x	x	x
Christoph Braun**, ***	x		x			
Martin Butz**	x	x	x	x		x
Cansever Heil**		x	x			x
Christoph Heil**			x			
Thomas Pfeil*, **			x	x		
Joachim Rieger**			x			x
Dr. Jan-Erik Walter**			x	x		
Claudia Weber**		x	x			

	Legal/Regulatory	HR	Network/Technology	Sustainability/ESG	Digital Transformation/ Cyber Security/ Innovation
Peter Löscher		x	x	x	x
Pablo de Carvajal González	x	x		x	
María García-Legaz Ponce		x		x	
Ernesto Gardelliano*		x		x	
Michael Hoffmann*		x		x	
Julio Linares López	x	x	x		x
Stefanie Oeschger		x		x	x
Jaime Smith Basterra*		x	x		x
Christoph Braun**, ***		x	x		
Martin Butz**		x	x		
Cansever Heil**		x			
Christoph Heil**	x	x	x		x
Thomas Pfeil*, **		x	x	x	
Joachim Rieger**		x			
Dr. Jan-Erik Walter**		x		x	
Claudia Weber**		x	x	x	

* Financial Expert
** Employee representative, HR experience as member of works council or trade union
*** Internationality: in particular intercultural cooperation as long-standing Chairman of the European Works Council

The Supervisory Board advises and monitors the Management Board in the management of the Company on an ongoing basis. The monitoring and advice provided by the Supervisory Board also include sustainability topics. The Supervisory Board is 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 Chairman 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 published at the website of the Company 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 or hybrid, 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 2022. The results are analysed and discussed extensively with the members of the Supervisory Board also with a view to potential optimization of the activities.

Composition and work of the committees of the Supervisory Board

As of 31 December 2022 there were five 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. Details on these committees are also published at the Company´s website, www.telefonica.de/supervisory-board/committees.

The **Audit Committee** is inter alia responsible for preparing the decision of the Supervisory Board regarding the approval of the financial statements and the non-financial report (including sustainability reporting), discusses the quarterly information and half-year reports with the Management Board, monitors the accounting processes and auditing, compliance (including data privacy and information security) and the effectiveness of the internal control system, the risk management system and internal audit systems. It furthermore is responsible for the coordination with and selection and independence of the auditor as well as the evaluation of the quality of the audit work.

As of 31 December 2022, the Audit Committee consisted of the following members:

- Michael Hoffmann (Chairman) (independent, financial expert with expertise in accounting and auditing)
- Martin Butz
- Ernesto Gardelliano (financial expert with expertise in accounting and auditing)
- Stefanie Oeschger (independent) (since 19 May 2022)
- Thomas Pfeil (financial expert with expertise in accounting and auditing) and
- Dr. Jan-Erik Walter (since 19 May 2022).

The members of the Audit Committee as a whole are familiar with the sector in which the Company operates. According to the German Stock Corporation Act (AktG), at least one member of the Audit Committee must have expertise in the field of accounting and at least one other member of the Audit Committee must have expertise in the field of auditing. According to the German Corporate Governance Code (DCGK) the expertise in the field of accounting shall consist of special knowledge and experience in the application of accounting principles and internal control and risk management systems, and the expertise in the field of auditing shall consist of special knowledge and experience in the auditing of financial statements. Accounting and auditing shall also include sustainability reporting and its audit and assurance. The chairman of the audit committee shall have appropriate expertise in at least one of the two areas. The Audit Committee in its current composition meets all these requirements with its members Michael Hoffmann, Ernesto Gardelliano and Thomas Pfeil individually.

Michael Hoffmann was long-standing Chairman of the Management Board of Lekkerland AG & Co. KG and Chairman of the Management Board of Carl Zeiss Vision International GmbH. He has also been Chairman of the Audit Committee of Telefónica Deutschland Holding AG for around 10 years now, Chairman of the Audit Committee of also listed Westwing Group SE for over four years and holds a degree in business administration. Thus, he has special knowledge and experience in the application of accounting principles and internal control and risk management systems including sustainability reporting, and special knowledge and experience in the auditing of financial statements including the audit of sustainability reporting. Michael Hoffmann follows current developments in the field of sustainability reporting and its auditing and contributes related insights to the Supervisory Board and the Audit Committee of Telefónica Deutschland Holding AG.

Ernesto Gardelliano is the Group Controller & Planning Director of Telefónica, S.A. since July 2017, a listed multinational telecommunications company headquartered in Madrid, Spain. His areas of responsibilities cover Operating Businesses and Global Areas control, budgets and strategic planning. Before that he was Chief Financial Officer of Telefonica Latinoamérica in São Paulo. He held multiple other finance positions in different companies, inter alia as a longstanding CFO at Movicom

BellSouth in Argentina. He is a Certified Public Accountant and holds a degree in Business Administration & Management. Thus, he has special knowledge and experience in the application of accounting principles and internal control and risk management systems including sustainability reporting, and special knowledge and experience in the auditing of financial statements including the audit of sustainability reporting. Ernesto Gardelliano follows current developments in the field of sustainability reporting and its auditing and contributes related insights to the Supervisory Board and the Audit Committee of Telefónica Deutschland Holding AG.

Thomas Pfeil in the Audit Committee and Jaime Smith Basterra in the Supervisory Board also have respective financial expertise.

The **Remuneration Committee** is mainly responsible for the preparation of all board remuneration topics and gives recommendations to the Supervisory Board in this regard.

As of 31 December 2022, the members of the Remuneration Committee were:

- Michael Hoffmann (Chairman) (independent)
- María García-Legaz Ponce
- Dr. Jan-Erik Walter and
- Claudia Weber.

The **Nomination Committee** proposes suitable candidates to the Supervisory Board for election proposals for members of the Supervisory Board to the Annual General Meeting.

The Nomination Committee is composed exclusively of shareholder representatives and consisted of the members as of 31 December 2022:

- Peter Löscher (Chairman) (independent)
- Ernesto Gardelliano
- Pablo de Carvajal González and
- Jaime Smith Basterra (independent) (since 19 May 2022).

As of 31 December 2022, the **Mediation Committee** with the responsibilities as defined in section 31 Co-Determination Act (MitbestG) consisted of the following members:

- Peter Löscher (Chairman) (independent)
- Christoph Braun
- Christoph Heil and
- Julio Linares López.

The **Related Party Transactions Committee** was implemented by the Supervisory Board in accordance with section 107 para. 3 sentences 4 to 6 of the German Stock Corporation Act (AktG). It monitors and resolves on certain transactions with related enterprises instead of the Supervisory Board as whole, especially on transactions with related parties pursuant to sections 111a, b of the German Stock Corporation Act (AktG).

As of 31 December 2022, the Related Party Transactions Committee consisted of the following members:

- Peter Löscher (Chairman)
- Christoph Braun
- Pablo de Carvajal González
- Michael Hoffmann and
- Thomas Pfeil.

Further details on composition and activities of the committees of the Supervisory Board are available in the Supervisory Board Report.

4. Remuneration systems and Remuneration Report

The current remuneration system for the members of the Management Board of Telefónica Deutschland Holding AG was finally resolved by the Supervisory Board with effect from 30 March 2021 and submitted to the Annual General Meeting on 20 May 2021 for approval. The Annual General Meeting approved the remuneration system for the Management Board with a majority of 84.72 %.

The Annual General Meeting on 19 May 2022 also adjusted the remuneration of the Supervisory Board set out in Article 20 of the Articles of Association and approved the underlying remuneration system with a majority of 99.82 %.

The applicable remuneration system for the Board of Management pursuant to Section 87a para. 1 and 2 sentence 1 of the German Stock Corporation Act (AktG), the latest resolution on the compensation of the Supervisory Board pursuant to Section 113 para. 3 of the German Stock Corporation Act (AktG) and the remuneration report and the auditor’s report pursuant to Section 162 of the German Stock Corporation Act (AktG) are available on the Company’s website www.telefonica.de/remuneration-systems-and-remuneration-reports publicly accessible.

5. 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 a board holds options on shares of Telefónica Deutschland Holding AG.

As per 31 December 2022, the Management Board held approximately 0.018 % of the shares of Telefónica Deutschland Holding AG. The acquisition of these shares by the Management Board took place via the stock market or outside a trading venue and was published in each case – if applicable – as managers' transactions.

As per 31 December 2022, the Supervisory Board held approximately 0.0001 % of the shares of Telefónica Deutschland Holding AG. The acquisition of these shares by the Supervisory Board took place via the stock market and was published – if applicable – as managers' transactions.

6. 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 (http://www.telefonica.de/investor-relations-en) especially the financial calendar. Furthermore, analyst conferences, roadshows and meetings with analysts take place, including on ESG (Environmental, Social, Governance) issues, some of which are also attended by the Chairman of the Supervisory Board.

Other information relevant for shareholders such as ad hoc notifications, information on transactions of managers and their closely related parties, voting rights notifications and corporate news as well as the Company's Articles of Association is also available at this site: www.telefonica.de/investor-relations-en.

The shareholders exercise their rights according to the law and the Articles of Association before and during the General Meeting, especially by asking questions to the Management Board and exercising their voting rights (amongst others on profit distribution, discharge and the election of the auditor). In order to facilitate shareholders personally exercising their rights in connection with the Annual General Meeting, Telefónica Deutschland Holding AG makes the relevant documents and information available on its website in advance of each Annual General Meeting.

In the interest of the environment, the Company no longer provides printed information or annual financial statement documents to the extent permitted by law.

15 February 2023

Management Board

15 February 2023

Supervisory Board

Glossary

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

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

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

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In case of doubt, please refer to the German version which is the binding version.

The annual financial statements are available online at
www.telefonica.de/geschaeftsbericht

Concept and Design
Telefónica Deutschland Corporate Communications, Munich
RWS Group