

Telefonica

Deutschland

ANNUAL FINANCIAL STATEMENTS



Telefónica Deutschland Holding AG
for the reporting year 2020

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REFERENCE TO THE COMBINED MANAGEMENT REPORT OF TELEFÓNICA DEUTSCHLAND HOLDING AG

The Management Report of Telefónica Deutschland Holding AG and the consolidated Management Report are combined in accordance with section 315(5) HGB in conjunction with section 298 (2) HGB and published in the Telefónica Deutschland Annual Report 2020. The annual financial statements and the Management Report of Telefónica Deutschland Holding AG combined with the consolidated Management Report for the financial year 2020 will be submitted to the operator of the Federal Gazette and published in the Federal Gazette. The annual financial statements of Telefónica Deutschland Holding AG and the annual report for the Group for the financial year 2020 are also available on the Internet at:

www.telefonica.de/investor-relations-en/annual-report

ANNUAL FINANCIAL STATEMENTS

for the financial year 2020

BALANCE SHEET

As of 31 December

(in EUR)	2020	2019
Assets		
A) Fixed assets		
Financial assets		
Investments in affiliated companies	8,041,567,073.64	8,547,241,422.45
	8,041,567,073.64	8,547,241,422.45
B) Current assets		
I. Receivables and other assets		
1. Receivables from affiliated companies	88,707,902.96	135,622,814.92
2. Other assets	0.00	14,280.00
	88,707,902.96	135,637,094.92
	88,707,902.96	135,637,094.92
C) Prepaid expenses	262,908.33	157,440.69
Total assets	8,130,537,884.93	8,683,035,958.06

As of 31 December

(in EUR)	2020	2019
Equity and Liabilities		
A) Equity		
I. Subscribed capital	2,974,554,993.00	2,974,554,993.00
II. Additional paid-in capital	4,544,791,729.62	4,832,539,244.82
III. Retained earnings	14,083.91	14,083.91
Legal reserve	14,083.91	14,083.91
IV. Balance sheet profit	535,419,898.74	737,379,114.26
	8,054,780,705.27	8,544,487,435.99
B) Provisions		
1. Provisions for pensions and similar obligations	3,328,880.00	2,902,683.00
3. Tax provisions	5,100,000.00	0.00
3. Other provisions	5,369,416.17	4,913,596.42
	13,798,296.17	7,816,279.42
C) Liabilities		
1. Trade payables	28,354.93	47,176.10
– thereof with a remaining term of up to one year EUR 28,354.93 (previous year: EUR 47,176.10)		
2. Liabilities to affiliated companies	24,405,386.03	54,305,455.61
– thereof with a remaining term of up to one year EUR 23,969,553.31 (previous year: EUR 53,690,992.72)		
– thereof with a remaining term of more than one year EUR 435,832.72 (previous year: EUR 614,462.89)		
3. Other liabilities	37,525,142.53	76,379,610.94
– thereof with a remaining term of up to one year EUR 37,525,142.53 (previous year: EUR 76,379,610.94)		
– thereof from taxes EUR 37,393,552.19 (previous year: EUR 76,159,349.29)		
	61,958,883.49	130,732,242.65
Total Equity and Liabilities	8,130,537,884.93	8,683,035,958.06

INCOME STATEMENT

1 January to 31 December

(in EUR)	2020	2019
1. Revenues	9,888,703.77	10,620,148.32
2. Other operating income	1,371,577.88	497,949.79
– thereof from currency conversion EUR 196.00 (previous year: EUR 146.12)		
3. Personnel expenses	(7,964,155.84)	(8,574,598.04)
a) Salaries and wages	(7,448,997.94)	(8,115,134.24)
b) Social security contributions and expenses for pensions and other benefits	(515,157.90)	(459,463.80)
– thereof for retirement pensions EUR -473,477.37 (previous year: EUR -399,224.54)		
4. Other operating expenses	(4,301,761.94)	(4,165,464.69)
– thereof from currency conversion EUR -439.09 (previous year: EUR -451.62)		
5. Income from investments	22,217,183.06	0.00
– thereof from affiliated companies EUR 22,217,183.06 (previous year: EUR 0.00)		
6. Other interest and similar income	339,259.43	0.00
– thereof from affiliated companies EUR 339,259.43 (previous year: EUR 0.00)		
7. Interest and similar expenses	(483,125.00)	(251,054.50)
– thereof from accumulation EUR -483,125.00 (previous year: EUR -249,205.00)		
8. Income taxes	(5,100,000.00)	0.00
9. Profit/(loss) after tax	15,967,681.36	(1,873,019.12)
10. Other taxes	(63.27)	(312.06)
11. Profit (loss) for the period (previous year: Loss for the period)	15,967,618.09	(1,873,331.18)
12. Profit carried forward from the previous year	231,704,765.45	739,252,445.44
13. Withdrawal from additional paid-in capital	287,747,515.20	0.00
14. Balance sheet profit	535,419,898.74	737,379,114.26

NOTES

for the financial year 2020

1. General Information on the Annual Financial Statements

The annual financial statements of Telefónica Deutschland Holding AG, Munich (hereinafter also "Telefónica Deutschland"), for the financial year 2020 have been prepared in accordance with the regulations of the German Stock Corporation Act (AktG) and the German Commercial Code (HGB).

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

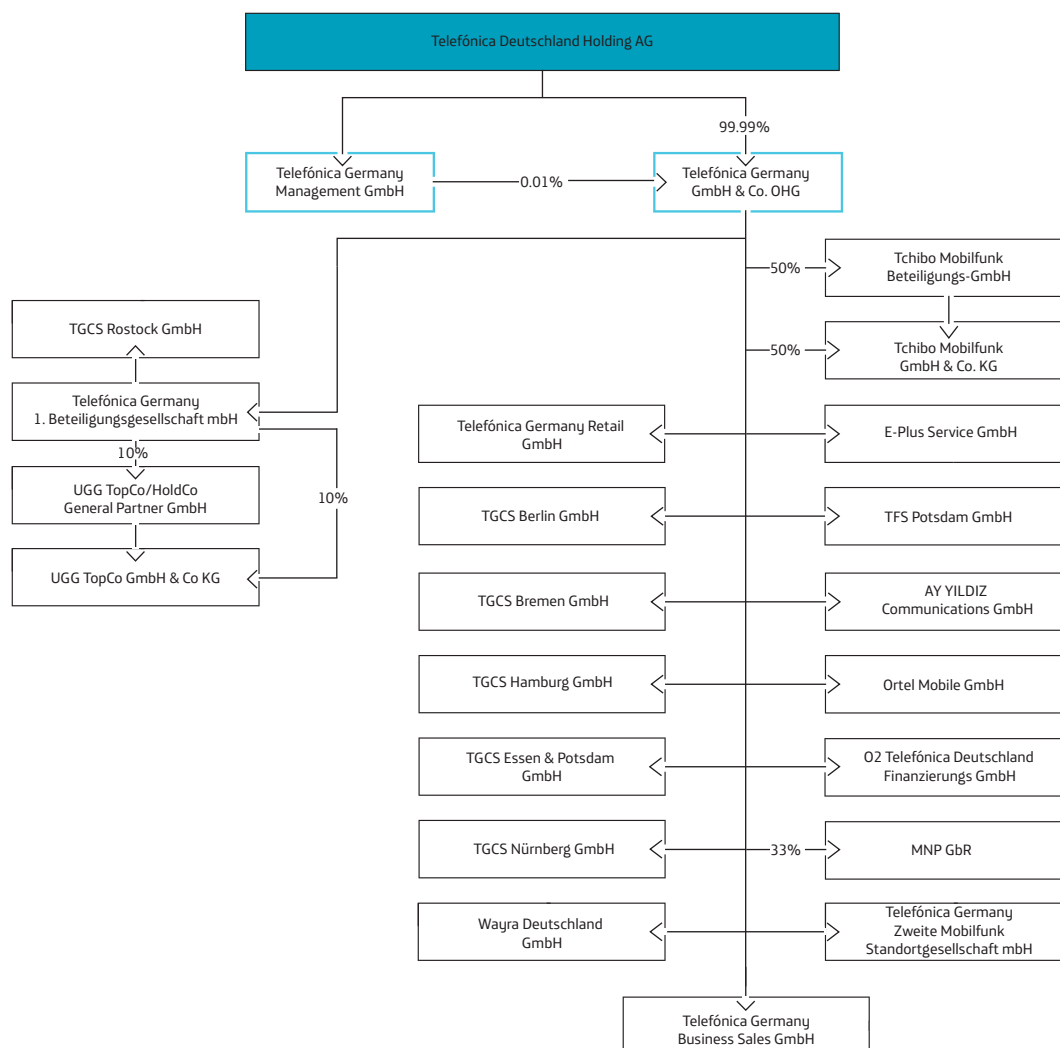
The company is registered with the Munich Local Court under HRB 201055 and is listed on the regulated market of the Frankfurt Stock Exchange. The German Securities Identification Number (WKN) is A1J5RX, the International Securities Identification Number (ISIN) is DE000A1J5RX9. The share capital of Telefónica Deutschland Holding AG as of 31 December 2020 is unchanged from the previous year at EUR 2,974,554,993. It is divided into 2,974,554,993 no-par value registered shares, each with a proportionate interest in the share capital of EUR 1.00. Each no-par value share grants one vote at the Annual General Meeting.

As of 31 December 2020, 30.8% of the shares were in free float. 69.2% were held by Telefónica Germany Holdings Limited, Slough, United Kingdom (Telefónica Germany Holdings Limited), an indirect wholly-owned subsidiary of Telefónica, S.A., Madrid, Spain (Telefónica, S.A.).

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

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

As of 31 December 2020, the companies included in the Telefónica Deutschland Group of companies were organised as shown in the following organisation chart:



Unless stated otherwise the ownership interests amount to 100%.

The Telefónica Germany Zweite Mobilfunk Standortgesellschaft mbH was founded in the second quarter of the financial year.

In the fourth quarter of the financial year, Minodes GmbH was merged into Telefónica Germany GmbH & Co. OHG with retroactive effect to 1 January 2020. The merger entered into force with the entry in the commercial register of Telefónica Germany GmbH & Co. OHG on 15 December 2020.

Furthermore, Telefónica Germany Next GmbH was renamed Telefónica Germany Business Sales GmbH and the location of its

place of business changed from Munich to Dusseldorf in the fourth quarter of the financial year.

Also, in the fourth quarter, Telefónica Germany 1. Beteiligungsgesellschaft mbH acquired 10% 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.

As of the reporting date, Telefónica Deutschland is classified as a large capital company within the meaning of section 267 (3) sentence 2 HGB.

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

Telefónica Deutschland Holding AG is the controlling company for a group of controlled companies of the Telefónica Deutschland Holding AG fiscal unity for value-added tax (VAT) purposes.

Telefónica Deutschland Holding AG, in its capacity as shareholder of Telefónica Germany GmbH & Co. OHG, constitutes the taxable entity for corporation tax purposes.

The figures in the following have been rounded in accordance with established commercial practice. Recalculations may therefore slightly differ from the values shown in the tables.

Annual General Meeting and dividend payment

On 20 May 2020, the virtual Annual General Meeting was held with respect to the 2019 financial year. In addition to the presentation of the annual and consolidated financial statements of Telefónica Deutschland, amongst other things, a dividend payment of EUR 0.17 for each eligible no-par-value share, in total EUR 505,674,348.81, was approved.

An amendment to the articles of association of section 20 on Supervisory Board remuneration was adopted by the Annual General Meeting on 20 May 2020 and entered in the commercial register on 26 June 2020. The change applies retroactively from 1 January 2020. Additional resolutions on changes to the articles of association were passed that were irrelevant for the annual financial statements.

Agreement on the remuneration of management services

Telefónica Deutschland Holding AG has an agreement in place with Telefónica Germany GmbH & Co. OHG, Munich (hereinafter also referred to as the OHG). This comprises an obligation to perform management services for Telefónica Germany GmbH & Co. OHG. Telefónica Germany GmbH & Co. OHG reimburses the costs of the remuneration of the members of the Management Board and additional administrative costs. Furthermore, Telefónica Germany GmbH & Co. OHG pays Telefónica Deutschland Holding AG a lump sum amount of EUR 43,500 (previous year: EUR 30,000) per quarter.

Telefónica Deutschland Holding AG additionally has an agreement in place with Telefónica Germany Management GmbH, Munich. This agreement comprises an obligation to perform management services for Telefónica Germany Management GmbH. In return, Telefónica Germany Management GmbH pays Telefónica Deutschland Holding AG a lump sum amount of EUR 30,000 (previous year: EUR 30,000) per quarter.

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

2. Accounting and valuation methods

The accounting and valuation methods applied for the preparation of the Annual Financial Statements as of 31 December 2020 are in accordance with the regulations of sections 242 to 256a and 264 to 288 of the HGB and the relevant provisions of the German Stock Corporation Act (AktG). The accounting and valuation methods are unchanged compared to the previous year.

Financial assets are measured at the historical acquisition costs less the required impairment losses in order to be recognised at the lower fair value as of the balance sheet date. If the reasons for the impairment losses no longer exist, the impairment losses are reversed in accordance with section 253 (5) sentence 1 HGB. Any withdrawals from reserve accounts of shareholdings in partnerships will have the effect of reducing the carrying amount of the shareholding in question by the same amount to the extent that the withdrawn reserves already existed at the time of the acquisition of the shareholding or were verifiably established out of injections of funds into the company.

Receivables, other assets and cash and cash equivalents are recognised at their nominal value. Appropriate allowances for bad debts have been made for all risk positions.

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

Provisions for pensions are measured on the basis of actuarial calculation using the projected unit credit method taking into account the 2018 G mortality tables of Prof. Dr. Heubeck. Provisions for pensions and similar obligations are discounted on a flat-rate basis using the average market interest rate of the past ten years published by the Deutsche Bundesbank, which is based on an assumed remaining term of 15 years (section 253 (2) sentence 2 HGB). This interest rate is 2.31% (2019: 2.71%). The provisions for pensions and similar obligations are calculated on the basis of annual pension increases of 1.75% (2019: 1.75%) and a fluctuation of 17.00% (2019: 17.00%) is assumed. Wage and salary increases did not need to be taken into consideration.

The assets serving solely to meet the pension obligations, which are excluded from access by all other creditors (plan assets within the meaning of section 246 (2) sentence 2 HGB) are offset against the provisions at their fair value. As no active market exists on the basis of which the market price can be determined, the acquisition costs are amortised in accordance with the strict lower of cost or market principle in accordance with section 253 (4) HGB (section 255 (4)

sentence 3 HGB). The amortised acquisition costs from reinsurance claims and thus the fair value within the meaning of section 255 (4) sentence 4 HGB correspond to the so-called actuarial reserve of the insurance contract specified in the business plan plus any existing credit balance from premium refunds (so-called irrevocably allocated surplus participation).

Effects on income from a change in the discount rate are recognised in the financial result.

In order to satisfy the indirect pension obligations, funds are invested and managed by the ProFund Unabhängige Gruppen-Unterstützungskasse e.V. provident fund. These plan assets are valued at fair value. Telefónica Deutschland Holding AG exercises the option not to recognise indirect pension obligations in the balance sheet in accordance with article 28 (1) sentence 2 of the Introductory Act to the German Commercial Code (EGHGB).

Tax provisions are recognised at the settlement amount, which is required according to reasonable commercial judgement. Discounting in accordance with section 253 (2) HGB is not necessary.

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

Liabilities are recognised at their settlement amount. Liability items that are denominated in currencies from countries outside of the European Monetary Union are translated at the mean spot exchange rate as of the balance sheet date in accordance with section 256a HGB.

Deferred taxes are calculated on the basis of temporary or quasi-permanent differences between the valuations of assets, liabilities and prepaid expenses under commercial law and their valuations for tax purposes, or on the basis of tax losses carried forward, the amounts of the resulting tax charge and relief are valued using the tax rates applicable to the individual companies at the time the differences are reduced, rather than discounting them. Deferred tax assets and liabilities are netted. Deferred taxes are not capitalised in exercising the existing recognition option in accordance with section 274 (1) sentence 2 HGB.

3. Notes to the Balance Sheet

Financial assets

Investments in affiliated companies in the amount of EUR 8,031,137 thousand (2019: EUR 8,536,811 thousand) relate to the shares in Telefónica Germany GmbH & Co. OHG, Munich, whose personally liable shareholder is the Company. The decrease in the carrying amount of the investment in Telefónica Germany GmbH & Co. OHG results from the withdrawal from reserves of in total EUR 505,674 thousand by Telefónica Deutschland on the basis of a shareholders' resolution dated 4 May 2020 in accordance with section 4 (3) of the shareholders' agreement.

As in the previous period, the carrying amount of the shares in Telefónica Germany Management GmbH, Munich was unchanged at EUR 10,430 thousand.

For further information, we refer to the attached presentation of the changes in fixed assets.

(in EUR thousand)	As of 1 January 2020	Additions	Disposals	Acquisition costs
				As of 31 December 2020
Financial assets				
Investments in affiliated companies	8,547,241	–	505,674	8,041,567
	8,547,241	–	505,674	8,041,567

(in EUR thousand)	As of 1 January 2020	Additions	Disposals	Accumulated depreciation
				As of 31 December 2020
Financial assets				
Investments in affiliated companies	–	–	–	–
	–	–	–	–

(in EUR thousand)	As of 1 January 2020	Carrying amount
		As of 31 December 2020
Financial assets		
Investments in affiliated companies	8,547,241	8,041,567
	8,547,241	8,041,567

List of shareholdings in accordance with section 285 no. 11 or no. 11a HGB

Name, legal form, registered office	Country	Share of capital in %	Equity capital 31/12/2019 in EUR thousand ⁽⁴⁾	Result of the financial year 2019 in EUR thousand ⁽⁴⁾
AY YILDIZ Communications GmbH, Dusseldorf ⁽³⁾	Germany	100	5,025	0 *
E-Plus Service GmbH, Dusseldorf ⁽³⁾	Germany	100	78,244	0 *
MNP GbR, Dusseldorf	Germany	33	192	147 –
O2 Telefónica Deutschland Finanzierungs GmbH, Munich	Germany	100	25	0 *
Ortel Mobile GmbH, Dusseldorf ⁽³⁾	Germany	100	5,441	0 *
TCHIBO Mobilfunk Beteiligungs-GmbH, Hamburg	Germany	50	44	1 –
TCHIBO Mobilfunk GmbH & Co. KG, Hamburg	Germany	50	11,517	832 –
Telefónica Germany 1. Beteiligungsgesellschaft mbH, Munich ⁽³⁾	Germany	100	85,778	0 *
Telefónica Germany GmbH & Co. OHG, Munich ⁽¹⁾⁽²⁾	Germany	100	5,723,666	22,219 –
Telefónica Germany Management GmbH, Munich ⁽³⁾	Germany	100	10,839	35 –
Telefónica Germany Sales GmbH, Dusseldorf ⁽³⁾	Germany	100	29,348	0 *
Telefónica Germany Retail GmbH, Dusseldorf ⁽³⁾	Germany	100	107,050	0 *
TFS Potsdam GmbH, Potsdam ⁽³⁾	Germany	100	25	0 *
TGCS Berlin GmbH, Dusseldorf ⁽³⁾	Germany	100	1,100	0 *
TGCS Bremen GmbH, Munich ⁽³⁾	Germany	100	1,525	0 *
TGCS Essen & Potsdam GmbH, Potsdam ⁽³⁾	Germany	100	3,025	0 *
TGCS Hamburg GmbH, Munich ⁽³⁾	Germany	100	1,775	0 *
TGCS Nürnberg GmbH, Munich ⁽³⁾	Germany	100	3,775	0 *
TGCS Rostock GmbH, Munich ⁽³⁾	Germany	100	15,342	0 *
Wayra Deutschland GmbH, Munich ⁽³⁾	Germany	100	2,393	0 *
Telefónica Germany Zweite Mobilfunk Standortgesellschaft mbH, Munich ⁽³⁾	Germany	100	-	-
UGG TopCo/HoldCoGeneral Partner GmbH, Ismaning	Germany	10	-	-
UGG TopCoGmbH & Co.KG, Ismaning	Germany	10	-	-

¹⁾ 99.99% Telefónica Deutschland Holding AG, as the personally liable shareholder; 0.01% Telefónica Germany Management GmbH

²⁾ Utilisation of exemption in accordance with section 264 b HGB

³⁾ Utilisation of exemption in accordance with section 264 Para. 3 HGB

⁴⁾ Equity capital and result of the last financial year, for which annual financial statements exist

* After profit/loss transfer

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

Receivables

The receivables from affiliated companies amount to EUR 88,708 thousand (2019 EUR 135,623 thousand). The receivables from affiliated companies in the financial year 2020 mainly comprise receivables from affiliated companies from the VAT Group in the amount of EUR 79,199 thousand (2019: EUR 78,921 thousand) and receivables from cash pooling from Telfisa Global B.V., Amsterdam, Netherlands in the amount of EUR 7,903 thousand (2019: EUR 54,365 thousand).

Furthermore, there are receivables in the amount of EUR 1,596 thousand (2019: EUR 2,327 thousand) for management services from Telefónica Germany GmbH & Co. OHG and in the amount of EUR 10 thousand (2019: EUR 10 thousand) due from Telefónica Germany Management GmbH.

Deferred taxes

In exercising the recognition option, no deferred tax assets were recognised as of 31 December 2020. Circumstances that lead to the recognition of deferred tax assets essentially mainly result from existing corporate income tax and trade income tax loss carryforwards and from temporary differences at the level of Telefónica Germany GmbH & Co. OHG. As a shareholder of Telefónica Germany GmbH & Co. OHG, Telefónica Deutschland Holding AG is the taxable entity for corporate income tax purposes. The tax rate for the deferred tax assets for corporate income tax and the solidarity surcharge is unchanged at 15.825%, the trade income tax rate is 17.15%.

Equity

Subscribed capital

The registered share capital of Telefónica Deutschland Holding AG as of 31 December 2020 is EUR 2,974,555 thousand (2019: EUR 2,974,555 thousand). The share capital is divided into no-par value registered shares, each with a proportionate interest in the share capital of EUR 1.00 (shares). The registered share capital is fully paid.

As of 31 December 2020, Telefónica Deutschland Holding AG did not hold any of its own shares.

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

Authorised capital

Telefónica Deutschland Holding AG had authorised capital 2016/I of EUR 1,487,277,496 as of 31 December 2020.

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 no par value registered shares (Conditional Capital 2019/I). Conditional Capital 2019/I was approved by resolution of the Annual General Meeting on 21 May 2019 – with Conditional Capital 2014/I being cancelled.

Additional paid-in capital

The additional paid-in capital as of 31 December 2020 amounts to EUR 4,544,792 thousand (2019: EUR 4,832,539 thousand).

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

An amount of EUR 287,748 thousand was withdrawn during the financial year from the (free) additional paid-in capital and allocated to the net earnings.

Retained earnings

Retained earnings contain a legal reserve in accordance with section 150 (2) of the German Stock Corporation Act (AktG) in the amount of EUR 14 thousand (2019: EUR 14 thousand).

Appropriation of profits

The virtual Annual General Meeting of Telefónica Deutschland Holding AG was held on 20 May 2020, at which a resolution was passed to distribute a dividend of EUR 0.17 per dividend-entitled share from the balance sheet profit for 2019, totalling EUR 505,674,348.81. The dividend was paid to shareholders by 26 May 2020.

Pension provisions

The provision for pensions relates to pension obligations in the amount of EUR 3,329 thousand (2019: EUR 2,903 thousand). At the same time, these pension provisions include EUR 1,929 thousand of pension provisions due to former Members of the Management Board.

On the basis of a valuation as of 31 December 2020 in accordance with section 253 (1) sentence 2 and (2) sentence 2 HGB and after netting with plan assets of EUR 1,727 thousand (2019: EUR 1,619 thousand) in accordance with section 246 (2) sentence 2 HGB, this results in a total present value for netted pension obligations of EUR 3,329 thousand (previous year: EUR 2,903 thousand). The difference in accordance with section 253 (6) sentence 1 HGB amounts to EUR 757 thousand (previous year: EUR 747 thousand) and is blocked for distribution.

The plan assets are comprised of purpose-exclusive, pledged and insolvency-protected reinsurance policies. The fair value of the netted reinsurance claims corresponds to the amortised costs (actuarial reserve plus profit participation) according to actuarial reports or notifications from the insurers.

Telefónica Deutschland Holding AG exercises the option not to recognise indirect pension obligations in the balance sheet in accordance with article 28 (1) and (2) EGHGB in the amount of EUR 2,347 thousand (2019: EUR 1,153 thousand), which are secured by the "Unterstützungskasse, ProFund Unabhängige Gruppen- und Unterstützungskasse e.V." provident fund. To cover this obligation, EUR 1,807 thousand is held in trust for Telefónica Deutschland Holding AG as of 31 December 2020 (2019: EUR 1,734 thousand).

Interest income from plan assets of EUR 15 thousand is netted with interest expenses from the change in the discounting of the pension provisions in the amount of EUR 375 thousand.

Tax provisions

The tax provisions include provisions for corporate income tax including solidarity surcharge of EUR 5,100 thousand (2019: EUR 0 thousand), which were formed in connection with the results of Telefónica Germany GmbH & Co. OHG and the companies within the taxable entity. As a shareholder of Telefónica Germany GmbH & Co. OHG, Telefónica Deutschland Holding AG is the taxable entity for corporate income tax purposes.

Other provisions

Other provisions in the amount of EUR 5,369 thousand (2019: EUR 4,914 thousand) mainly relate to material obligations from the remuneration of the Management Board of EUR 4,155 thousand (2019: EUR 3,974 thousand). Furthermore, provisions for outstanding incoming invoices, mainly for consulting services, are included in the amount of EUR 1,214 thousand (2019: EUR 939 thousand).

Liabilities

Trade payables amount to EUR 28 thousand (2019: EUR 47 thousand) and primarily relate to liabilities from leases.

Liabilities to affiliated companies amount to EUR 24,405 thousand (2019: EUR 54,305 thousand) and EUR 20,000 thousand relate to liabilities from a loan granted to Telefónica Germany GmbH & Co. OHG. In addition, there are liabilities to affiliated companies from the VAT Group amounting to EUR 2,638 thousand.

Other liabilities of EUR 37,525 thousand (2019: EUR 76,380 thousand) essentially include EUR 37,394 thousand of value-added tax liabilities, which the Company must pay to the tax authorities as the controlling company of the VAT Group.

4. Notes to the Income Statement

Revenues

Revenues amount to EUR 9,889 thousand (2019: EUR 10,620 thousand) and include the reimbursement of EUR 9,595 thousand in the year under review (2019: EUR 10,380 thousand) of costs for the remuneration of members of the Management Board and other administration costs, which are taken over in accordance with the agreements on reimbursement for management services (as stated under "I. General information on the Annual Financial Statements - Agreement on the remuneration for management services") by Telefónica Germany GmbH & Co. OHG.

Furthermore, invoiced management services are included in the amount of EUR 294 thousand (2019: EUR 240 thousand, which Telefónica Deutschland Holding AG provides for Telefónica Germany GmbH & Co. OHG and Telefónica Germany Management GmbH.

Other operating income

Other operating income of EUR 1,372 thousand (2019: EUR 498 thousand) mainly results from the release of provisions.

Personnel expenses

Personnel expenses of EUR 7,964 thousand (2019: EUR 8,575 thousand) include the expense from the remuneration of the Management Board, including social security contributions.

Other operating expenses

Other operating expenses for the financial year of EUR 4,302 thousand (2019: EUR 4,165 thousand) mainly include costs for legal and consulting fees from external service providers.

Income from investments

Income from investments includes income in the amount of EUR 22,217 thousand (2019: EUR 0 thousand) on the basis of the distribution of the finalised annual result for 2019 of Telefónica Germany GmbH & Co. OHG made in the reporting year.

Interest and similar expenses

Other interest and similar expenses of EUR 483 thousand (2019: EUR 251 thousand) essentially include interest expenses from the change in the accumulation of pension provisions.

Income taxes

The income tax expenses of EUR 5,100 thousand (2019: EUR 0 thousand) are comprised of the current corporate income tax expense, including solidarity surcharge.

Out-of-period income and expenses

In total, the financial year 2020 includes out-of-period income of EUR 1,311 thousand. This relates to income from the release of provisions included in other operating income. Other operating expenses include out-of-period expenses of EUR 115 thousand. These include expenses for consulting services for the previous year.

5. Supplementary Disclosures to the Notes

Additional information about the Supervisory Board and Management Board

Remuneration of the Management Board

The presentation of the remuneration system of the Management Board and the mandatory disclosures in accordance with section

285 no. 9 a) sentences 5-8 HGB are an integral part of the Combined Management Report.

The total remuneration of the members of the Management Board for the financial year ended on 31 December 2020 amount to EUR 7,122 thousand (2019: EUR 6,628 thousand).

In financial year 2020, the total expense for the remuneration of the former members of management and their surviving dependants amounted to EUR 367 thousand (2019: EUR 485 thousand).

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

In the reporting year, the total remuneration includes share-based compensation on the free transfer of shares with a fair value of EUR 1,517 thousand (2019: EUR 707 thousand) at the grant date for 161,454 (2019: 132,620) shares.

Remuneration of the Supervisory Board

The principles of the remuneration system and the disclosures of the individual remuneration of the members of the Supervisory Board are part of the Combined Management Report.

The members of the Supervisory Board received remuneration for their work on the Supervisory Board of Telefónica Deutschland Holding AG of EUR 554 thousand in 2020 compared to EUR 311 thousand in 2019.

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

Management Board

There were no changes in the composition of the Management Board in financial year 2020. Markus Haas was reappointed as a member of the Company's Management Board and as the new Chief Executive Officer (CEO) of Telefónica Deutschland Holding AG with effect from 1 January 2017 until the end of 31 December 2019. At its meeting on 18 February 2019, the Supervisory Board resolved the further appointment of Markus Haas as CEO with effect from 1 January 2020 until the end of 31 December 2022.

Markus Rolle, Wolfgang Metze, Alfons Lösing, Valentina Daiber and Nicole Gerhardt were appointed as Management Board members of the Company with effect from 1 August 2017 until the end of 31 July 2020. At its meeting on 30 September 2019, the Supervisory Board resolved their further appointment with effect from 1 August 2020 until the end of 31 July 2023. New service contracts were concluded for the duration of their respective new appointment.

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

The members of the Management Board of Telefónica Deutschland Holding AG as of 31 December 2020 are listed below:

Name	Role	Membership of Supervisory Boards
Markus Haas	Chief Executive Officer (CEO) Chairman of the Management Board	
Markus Rolle	Chief Financial Officer (CFO) Management Board member	Telefónica Germany Retail GmbH, Dusseldorf TGCS Rostock GmbH, Munich TGCS Nürnberg GmbH, Munich
Valentina Daiber	Chief Officer for Legal and Corporate Affairs Management Board member	TGCS Nürnberg GmbH, Munich Telefónica Germany Retail GmbH, Dusseldorf TGCS Essen & Potsdam GmbH, Potsdam
Nicole Gerhardt	Chief Human Resources Officer (CHRO) Management Board member	TGCS Essen & Potsdam GmbH, Potsdam Telefónica Germany Retail GmbH, Dusseldorf TGCS Rostock GmbH, Munich TGCS Nürnberg GmbH, Munich
Alfons Lösing	Chief Partner & Wholesale Officer (CPWO) Management Board member	TGCS Essen & Potsdam GmbH, Potsdam TGCS Rostock GmbH, Munich
Wolfgang Metze	Chief Consumer Officer (CCO) Management Board member	TGCS Essen & Potsdam GmbH, Potsdam (Chairman) Telefónica Germany Retail GmbH, Dusseldorf (Chairman) TGCS Rostock GmbH, Munich (Chairman) TGCS Nürnberg GmbH, Munich (Chairman)
Mallik Rao (Yelamate Mallikarjuna Rao)	Chief Technology & Information Officer (CTIO) Management Board member	

Supervisory Board

Laura Abasolo García de Baquedano informed the Management Board and Supervisory Board of the Company on 3 February 2020 of her resignation as member and chairperson of the Supervisory Board with effect from 31 March 2020.

Peter Löscher has been appointed as a member of the Supervisory Board of the Company since 1 April 2020 by means of a court appointment. The Supervisory Board of Telefónica Deutschland Holding AG elected Peter Löscher as the new chairman of the Supervisory Board on 2 April 2020.

At the virtual Annual General Meeting, Peter Löscher was confirmed as member of the Supervisory Board and afterwards confirmed by the Supervisory Board as chairperson of the Supervisory Board.

Sally Anne Ashford and Patricia Cobián González both resigned from the Supervisory Board with effect from the end of the Supervisory Board meeting on 25 September 2020.

Stefanie Oeschger and Ernesto Gardelliano were appointed by a court with effect from 3 October 2020 and 5 October 2020, respectively, as representatives of the shareholders on the Supervisory Board.

The members of the Supervisory Board of Telefónica Deutschland Holding AG as of 31 December 2020 are listed below:

Name	Role
Peter Löscher*	Chairman of the Supervisory Board Occupation: Chairman of the Supervisory Board (non-executive), Sulzer AG, Winterthur, Switzerland Current mandates: Independent non-executive member of the Board of Directors, Telefónica, S.A., Madrid Member of the Supervisory Board, Koninklijke Philips N.V., Amsterdam, Netherlands Non-executive member of the Board of Directors, Thyssen-Bornemisza Group AG, Zurich Non-executive Director of Doha Venture Capital LLC, Doha, Qatar
Laura Abasolo García de Baquedano (until 31 March 2020)	Chairperson of the Supervisory Board Occupation: Chief Finance and Control Officer, Telefónica, S.A. Current mandates: Member of the Board of Directors (Trustee), Telefónica Foundation
Christoph Braun**	Deputy Chairperson of the Supervisory Board Occupation: Full-time member of the Works Council of Telefónica Germany GmbH & Co. OHG Chairman of the European Works Council of Telefónica Europe Deputy Chairman of the General Works Council of Telefónica Germany GmbH & Co. OHG Deputy Chairman of the Works Council Region North-East of Telefónica Germany GmbH & Co. OHG
Sally Anne Ashford (until 25 September 2020)	Member of the Supervisory Board Occupation: Chief HR Officer, Royal Mail Group plc.
Martin Butz**	Member of the Supervisory Board Occupation: Director Carrier Management & Roaming, Telefónica Germany GmbH & Co. OHG
Pablo de Carvajal González	Member of the Supervisory Board Occupation: General Counsel & Global Head Regulatory Affairs, Telefónica, S.A.
Patricia Cobián González (until 25 September 2020)	Member of the Supervisory Board Occupation: Chief Financial Officer, Telefónica UK Ltd. Current mandates: Member of the Board of Directors, Telefónica Europe, plc. Advisory Board Member, Lumia Capital
Peter Erskine	Member of the Supervisory Board Current mandates: Non-Executive Director, Telefónica, S.A. Chairman of the Strategy and Innovation Committee of Telefónica, S.A.
María García-Legaz Ponce	Member of the Supervisory Board Occupation: Chief of Staff, Telefónica, S.A.
Ernesto Gardelliano***	Member of the Supervisory Board; Occupation: Group Controller & Planning Director, Telefónica, S.A.

Name	Role
Cansever Heil**	Member of the Supervisory Board Occupation: Full time member of the company-wide Works Council of Telefónica Germany Retail GmbH
Christoph Heil**	Member of the Supervisory Board Occupation: Representative, Vereinte Dienstleistungsgewerkschaft ver.di Current mandate: Member of the Supervisory Board, Capgemini Deutschland GmbH
Michael Hoffmann	Member of the Supervisory Board Chairman of the Audit Committee, Telefónica Deutschland Holding AG Occupation: Master's degree in Business Administration, self-employed Current mandate: Member of the Supervisory Board and Chairman of the Audit Committee of Westwing Group AG
Julio Linares López	Member of the Supervisory Board Current mandates: Member of the Board of Directors and Chairman of the Strategy Committee, Telefónica Brazil S.A. Non-Executive Director, Telefónica de España, S.A.U. Non-Executive Director, Telefónica Móviles España, S.A.U. Member of the Board of Directors (Trustee), Telefónica Foundation
Stefanie Oeschger****	Member of the Supervisory Board; Occupation: Strategic Consultant, self-employed
Thomas Pfeil**	Member of the Supervisory Board Occupation: Full time Works Council representative of Telefónica Germany GmbH & Co. OHG Chairman of the Munich Works Council, Telefónica Germany GmbH & Co. OHG
Joachim Rieger**	Member of the Supervisory Board Occupation: Full time Works Council representative of TGCS Essen & Potsdam GmbH Deputy Chairman of the General Works Council of TGCS Essen & Potsdam GmbH Current mandate: Deputy Chairman of the Supervisory Board of TGCS Essen & Potsdam GmbH
Dr. Jan-Erik Walter**	Member of the Supervisory Board Occupation: Full time Works Council representative of Telefónica Germany GmbH & Co. OHG Deputy Chairman of the Munich Works Council of Telefónica Germany GmbH & Co. OHG Chairman of the Group Works Council of Telefónica Deutschland Holding AG
Claudia Weber**	Member of the Supervisory Board Occupation: Deputy Managing Director, ver.di Munich district Current mandate: Member of the Supervisory Board, SWM Services GmbH

* New Member of the Supervisory Board by court order with effect from 1 April 2020

** Employee representative

*** New Member of the Supervisory Board by court order with effect from 5 October 2020

**** New Member of the Supervisory Board by court order with effect from 3 October 2020

Auditor's fee

The disclosure of the total fee of the auditor of Telefónica Deutschland Holding AG is omitted in accordance with section 285 no.17 HGB, as the Company prepares the consolidated financial statements of Telefónica Deutschland Holding AG ("Telefónica Deutschland Group") and the corresponding information is contained in these consolidated financial statements.

Number of employees

In the financial year 2020 – as well as in 2019 – the Company had no employees.

Contingent liabilities and other financial commitments

Contingent liabilities

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

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

Telefónica Deutschland Holding AG issued a letter of comfort, respectively, to Telefónica Germany GmbH & Co. OHG and Telefónica Germany Management GmbH in financial year 2016. 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.

The letters of comfort do not significantly change the economic substance of the opportunities and risks. The risk of claims arising from contingent liabilities is considered to be low.

Parent company/consolidated financial statements

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

Notification of voting rights in accordance with section 40 (1) WpHG:

On 31 May 2019, BlackRock Inc., Wilmington, Delaware, United States of America, notified us in accordance with section 33 (1) WpHG that its share of voting rights in Telefónica Deutschland Holding AG, Munich, Germany, exceeded the threshold of 3% of the voting rights on 28 May 2019 and amounted to 3.30% on this date.

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

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

On 8 October 2014, Telefónica, S.A., Madrid, Spain, notified us in accordance with section 21 (1) WpHG that its share of voting rights in Telefónica Deutschland Holding AG, Munich, Germany, fell below the threshold of 75% of the voting rights on 7 October 2014 and amounted to 62.10% (corresponding to 1,847,271,219 voting rights) on this date. 57.70% of the voting rights (corresponding to 1,716,390,800 voting rights) are attributable to the Company in accordance with section 22 (1), sentence 1, no. 1 WpHG. Attributed voting rights are held via the following company controlled by it, whose share of voting rights in Telefónica Deutschland Holding AG amounts to 3% or more, in each case: O₂ (Europe) Limited, Telefónica Germany Holdings Limited. 4.40% of the voting rights (corresponding to 130,880,419 voting rights) are attributable to the Company in accordance with section 22 (1), sentence 1, no. 2 WpHG in conjunction with sentence 2 WpHG. Attributed voting

rights are held by the following shareholders, whose share of voting rights in Telefónica Deutschland Holding AG amounts to 3% or more, respectively: KPN Mobile Germany GmbH & Co. KG.

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

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

An overview of notifications of all voting rights is also available at www.telefonica.de/voting-rights-announcement

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

The Management Board and the Supervisory Board last submitted a declaration of compliance in accordance with section 161 of the German Stock Corporation Act (AktG) on 25 September 2020. The full wording of the declaration of compliance can be found on the website of Telefónica Deutschland at

<https://www.telefonica.de/investor-relations-en/corporate-governance/declarations-and-articles.html>

Subsequent Events

On 19 January 2021, the Management Board of Telefónica Deutschland resolved to propose a total cash dividend in the amount of approximately EUR 535 million or EUR 0.18 per share to the next Annual General Meeting, which is scheduled for 20 May 2021. An annual dividend floor of 0.18 EUR per share is planned until 2023.

On 10 February 2021, O₂ Telefónica Deutschland Finanzierungs GmbH repaid in full, as scheduled, a seven-year senior unsecured bond issued on the regulated market of the Luxembourg Stock Exchange with a nominal amount of EUR 500 million. As a result, the unconditional and irrevocable guarantee given by Telefónica Deutschland Holding AG for the proper and timely payment of all amounts payable by the issuer on the bond in accordance with the terms of the bond expired.

No additional events subject to disclosure requirements occurred after the end of the financial year 2020.


Munich, 18 February 2021

Telefónica Deutschland Holding AG

- The Management Board -



Markus Haas



Markus Rolle



Valentina Daiber



Nicole Gerhardt



Wolfgang Metzger



Alfons Lösing



Mallik Rao

TELEFÓNICA DEUTSCHLAND HOLDING AG DECLARATION OF THE LEGAL REPRESENTATIVES

To the best of our knowledge, and in accordance with the applicable reporting principles, the annual financial statements give a true and fair view of the net assets, financial position and results of operation of the Company, and the Management Report of Telefónica Deutschland Holding AG, which is combined with the Group

Management Report, includes a fair review of the development and performance of the business and the position of the Company, together with a description of the material opportunities and risks associated with the expected development of the Company.

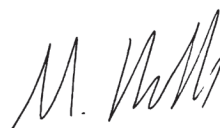
Munich, 18 February 2021

Telefónica Deutschland Holding AG

The Management Board



Markus Haas



Markus Rolle



Valentina Daiber



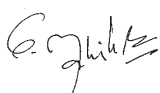
Nicole Gerhardt



Wolfgang Metze



Alfons Lösing



Mallik Rao

The following copy of the auditor's report also includes a „Report on the audit of the electronic renderings of the annual financial statements and the management report prepared for disclosure purposes in accordance with § 317 Abs. 3b HGB“ („Separate report on ESEF conformity“). The subject matter (ESEF documents) to which the Separate report on ESEF conformity relates is not attached. The audited ESEF documents can be inspected in or retrieved from the Federal Gazette.

INDEPENDENT AUDITOR'S REPORT

To Telefónica Deutschland Holding AG, Munich

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

Audit Opinions

We have audited the annual financial statements of Telefónica Deutschland Holding AG, Munich, which comprise the balance sheet as at 31 December 2020, the statement of profit and loss for the financial year from 1 January to 31 December 2020 and notes to the financial statements, including the presentation of the recognition and measurement policies. In addition, we have audited the management report of Telefónica Deutschland Holding AG, which is combined with the group management report, for the financial year from 1 January to 31 December 2020. In accordance with the German legal requirements, we have not audited the content of those parts of the management report listed in the "Other Information" section of our auditor's report.

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

- the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law and give a true and fair view of the assets, liabilities and financial position of the Company as at 31 December 2020 and of its financial performance for the financial year from 1 January to 31 December 2020 in compliance with German Legally Required Accounting Principles, and
- the accompanying management report as a whole provides an appropriate view of the Company's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the management report does not cover the content of those parts of the management report listed in the "Other Information" section of our auditor's report.

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

Basis for the Audit Opinions

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

Key Audit Matters in the Audit of the Annual Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual financial statements for the financial year from 1 January to 31 December 2020. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

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

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

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

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

Hereinafter we present the key audit matter:

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

- ① In the Company's annual financial statements shares in affiliated companies amounting to € 8.04 billion (98.9% of total assets) are reported under the "Financial assets" balance sheet item. The shares in affiliated companies principally comprise the shareholding in Telefónica Germany GmbH & Co. OHG, Munich which holds further shareholdings in turn. Shares in affiliated companies are measured in accordance with German commercial law at the lower of cost and fair value. The impairment test performed in relation to the value of the shares in Telefónica Germany GmbH & Co. OHG takes into account the operations of Telefónica Germany GmbH & Co. OHG as well as the fair values of its direct and indirect shareholdings, as these may have a significant influence on the fair value of the shares in Telefónica Germany GmbH & Co. OHG. In financial year 2020, the fair value of the significant shareholdings of Telefónica Germany GmbH & Co. OHG was calculated using a discounted cash flow model as the present value of the expected future cash flows resulting from the financial projections prepared. Expectations relating to future market developments and assumptions about the development of macroeconomic factors were also taken into account. The discount rate used was the individually determined cost of capital. With respect to Telefónica Deutschland Holding AG's other indirect and direct shareholdings, testing focused on whether there were indications that result in an impairment of the shareholding in Telefónica Germany GmbH & Co. OHG that could be expected to be permanent. Based on the values calculated and other documentation, there was no need to recognize impairment losses in the financial year. The result of the impairment test depends particularly on the assessments of the Company's executive directors regarding the future cash flows, growth rates, the discount rate used as well as the future development of the operations of Telefónica Germany GmbH & Co. OHG and its direct and indirect shareholdings. Due to the assessment relating to the numerous valuation parameters, the impairment test is subject to considerable uncertainty. Against this background and in view of its material significance for the net assets and results of operations of the Company, this matter was of particular importance for our audit.
- ② As part of our audit, we evaluated the recoverability of the shareholding of Telefónica Deutschland Holding AG in Telefónica Germany GmbH & Co. OHG also under consideration of the recoverability of the significant shareholdings of Telefónica Germany GmbH & Co. OHG. In this context, we assessed the methodology employed for the purposes of the valuations, among other things. We assessed whether the fair value of this material shareholdings had been properly determined using a discounted cash flow model in compliance with the relevant measurement standards. We based our assessment, among other things, on a comparison with general and sector-specific market expectations as well as on the executive directors' detailed explanations regarding the key planning value drivers underlying the expected cash flows. In the knowledge that even relatively small changes in the discount rates applied and the growth rates can have a material impact on the

values of the entities calculated in this way, we focused our testing in particular on the parameters used to determine the discount rates applied, and evaluated the measurement models. Furthermore, on the basis of financial information and other documentation we evaluated the executive directors' conclusion that there were no indications that the shareholding in Telefónica Germany GmbH & Co. OHG was impaired, also taking into account the market capitalization of Telefónica Deutschland Holding AG for this purpose. In this context, we assessed the expected future income from the operating business activities in the light of the business plan of Telefónica Germany GmbH & Co. OHG prepared by the executive directors. For this purpose, we assessed the appropriateness of the assumptions and expectations underlying the business plan, including with respect to the further implementation of planned measures and the anticipated growth rate, and considered whether the business plan was drawn up properly on this basis.

In our view, the assumptions and expectations underlying the executive directors' impairment testing of the shareholding in Telefónica Germany GmbH & Co. OHG have been properly derived and are within reasonable ranges.

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

Other Information

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

- the statement on corporate governance pursuant to § 289f HGB and § 315d HGB included in section "**Management Declaration**" of the management report
- the separate non-financial report pursuant to § 289b Abs. 3 HGB and § 315b Abs. 3 HGB

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

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

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

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the annual financial statements and of the management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal control relevant to the audit of the annual financial statements and of arrangements and measures (systems) relevant to the audit of the management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems of the Company.
- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the annual financial statements and in the management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles.
- Evaluate the consistency of the management report with the annual financial statements, its conformity with German law, and the view of the Company's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

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

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

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

OTHER LEGAL AND REGULATORY REQUIREMENTS

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

Reasonable Assurance Conclusion

We have performed an assurance engagement in accordance with § 317 Abs. 3b HGB to obtain reasonable assurance about whether the reproduction of the annual financial statements and the management report (hereinafter the "ESEF documents") contained in the attached electronic file [TelefonicaDeutschlandHolding_AG_JA+LB_ESEF-2020-12-31.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 engagement only extends to the conversion of the information contained in the annual financial statements and the management report into the ESEF format and therefore relates neither to the information contained within this reproduction nor to any other information contained in the above-mentioned electronic file.

In our opinion, the reproduction of the annual financial statements and the management report contained in the above-mentioned attached electronic file and prepared for publication purposes complies in all material respects with the requirements of § 328 Abs. 1 HGB for the electronic reporting format. We do not express any opinion on the information contained in this reproduction nor on any other information contained in the above-mentioned electronic file beyond this reasonable assurance conclusion and our audit opinion on the accompanying annual financial statements and the accompanying management report for the financial year from 1 January to 31 December 2020 contained in the "Report on the Audit of the Annual Financial Statements and on the Management Report" above.

Basis for the Reasonable Assurance Conclusion

We conducted our assurance engagement on the reproduction of the annual financial statements and the management report contained in the above mentioned attached electronic file in accordance with § 317 Abs. 3b HGB and the Exposure Draft of IDW Assurance Standard: Assurance in Accordance with § 317 Abs. 3b HGB on the Electronic Reproduction of Financial Statements and Management Reports Prepared for Publication Purposes (ED IDW AsS 4.10) and the International Standard on Assurance Engagements 3000 (Revised). Accordingly, our responsibilities are further described below in the "Auditor's Responsibilities for the Assurance Engagement on the ESEF Documents" section. Our audit firm has applied the IDW Standard on Quality Management: 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 reproduction of the annual financial statements and the management report in accordance with § 328 Abs. 1 Satz 4 Nr. 1 HGB.

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

The executive directors of the Company are also responsible for the submission of the ESEF documents together with the auditor's report and the attached audited annual financial statements and audited management report as well as other documents to be published to the operator of the German Federal Gazette [Bundesanzeiger].

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

Auditor's Responsibilities for the Assurance Engagement 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 engagement. 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 conclusion.
- Obtain an understanding of internal control relevant to the assurance engagement 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 conclusion 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 applicable as at the balance sheet date on the technical specification for this electronic file.
- Evaluate whether the ESEF documents enables a XHTML reproduction with content equivalent to the audited annual financial statements and to the audited management report.

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as auditor by the annual general meeting on 20 May 2020. We were engaged by the supervisory board on 23 December 2020. We have been the auditor of the Telefónica Deutschland Holding AG, Munich without interruption since the financial year 2017.

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

We have provided the following services in addition to the audit of the annual financial statements to the audited entity and its controlled undertakings, which have not been disclosed in the annual financial statements or the management report: We have audited the consolidated financial statements of the company and performed several financial statement audits of subsidiaries. We also provided other assurance services, primarily in connection with sustainability reporting, and other services in connection with a contractual agreement.

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

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

Munich, February 18, 2021

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

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

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

GLOSSARY

The glossary also includes abbreviations as used in the Group Management Report

ADA	Advanced Data Analytics
AktG	Aktiengesetz (German Stock Corporation Act)
ARPU	Average Revenue per User
Art	Article
Augmented Reality	Augmented reality: computer-aided augmentation of reality
GDP	Gross domestic product
Bitkom	German Federal Association for Information Technology, Telecommunications and New Media, Berlin
BMWi	German Federal Ministry for Economic Affairs and Energy
BNetzA	Bundesnetzagentur (German federal network agency)
BOLO	Contribution-based benefit regulations of the Essen Association
bp	Basis points
Broadband	Refers to telecommunication in which a wide band of frequencies is available to transmit information
Brexit	British Exit – the act of the United Kingdom leaving the European Union
CAP	Capping limit
CapEx	Capital Expenditure: Investments in property, plant and equipment and intangible assets excluding investments in mobile frequency licences and business combinations
CapEx/Sales ratio	Investment ratio - reflects the percentage share of investments in revenues
Carrier	Telecommunication network operator authorised by the German federal network agency
Churn	Loss of customers
Cloud services	Dynamic infrastructures, software and platform services, which are available online
CSI	Customer Satisfaction Index
DAX	German Stock Index
DBO	Defined Benefit Obligation
GCGC	German Corporate Governance Code
DRS	German Accounting Standard
DSL	Digital Subscriber Line: technology to transmit data in the local loop to private end-customers
EIB	European Investment Bank
EV	Essen Association
EU	European Union
EURIBOR	Euro Interbank Offered Rate
ExComm	Executive Committee
FCF	Free cash flow
FDD	Frequency division duplex
FTE	Full-time equivalent
FTR	Fixed network Termination Rates
FttB	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	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
GfK	Gesellschaft für Konsumforschung (consumer research association)
GHz	Gigahertz

Handset	Mobile phone
HGB	Handelsgesetzbuch (German Commercial Code)
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IDW	Institut der Wirtschaftsprüfer in Deutschland e.V. (Institute of Auditors in Germany), Dusseldorf
IFRS	International Financial Reporting Standards
ICS	Internal control system
IoT	Internet of Things
ISIN	International Securities Identification Number
IT	Information Technology
Joint Venture	A joint agreement under which the parties having joint control have rights to the net assets of the agreement
SME	Small and medium-sized enterprises
KPI	Key Performance Indicator
KPN	Koninklijke KPN N.V., The Hague, Netherlands
LTM	Last Twelve Months
LTE	Long Term Evolution: further development of the UMTS/SPA mobile communications standard
M2M	Machine-to-Machine communication: automatic exchange of information between machines
MBA	Mobile Bitstream Access
Mbit	Megabit
MHz	Megahertz
ms	Milliseconds
MSR	Mobile service revenue
MTR	Mobile network termination rates
MVNO	Mobile Virtual Network Operator: Virtual network operator
Net Adds	Net new customers: New customers for the period less those leaving are designated as net additional customers
NPS	Net Promoter Score
O ₂ (Europe) Limited	O ₂ (Europe) Limited, Slough, United Kingdom
O ₂ My Handy	Monthly payment model for mobile phones and other devices
O ₂ Free	The O ₂ Free data plan allows customers to remain online with speeds of up to 1 Mbit/s even after they have used all of their high-speed data
OIBDA	Operating Income before Depreciation and Amortisation
OpCF	Operating Cash Flow
OTT	Over The Top – Ip-based and platform-independent services and applications (WhatsApp, Facebook, etc.)
PIP	Performance and Investment Plan
Prepaid/Postpaid	In contrast to postpaid contracts, prepaid contracts purchase the credit balance in advance without a fixed contractual commitment
PSP	Performance Share Plan
Roaming	Using a communication device or subscriber identity in a different network other than one's home network
RCF	Revolving Credit Facility
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 functions
Smart watch	Electronic watch ("wearable") that has additional sensors, actuators and computer functionalities and connectivities.
SMS	Short Message Service
SoHo	Small office/Home office
SOX	Sarbanes-Oxley-Act: US federal law on improving the reliability of reporting

Tablet	A wireless, portable personal computer with a touch screen
TDD	Time division duplex operation
Telefónica Deutschland	Telefónica Deutschland Holding AG, Munich, Germany
Telefónica, S.A.	Telefónica S.A., Madrid, Spain
Telefónica Deutschland Group	The companies included in the Consolidated Financial Statements of Telefónica Deutschland
TKG	Telekommunikationsgesetz (Telecommunications Act)
TSR	Total Shareholder Return (return on shares)
Translation risk	The risk arising from the translation of accounting items at a later reporting date
ULL	Unbundled Local Loop: bridges the distance between the local exchange and the termination point on the customer's premises or in their home, so it is also known as the "last mile"
UMTS	Universal Mobile Telecommunications Service: international mobile communications standard of the third generation which unites mobile multimedia and telematics service under the frequency spectrum of 2 GHz
VATM	Association of Telecommunications and Value-Added Service Providers, Berlin
VDSL	Very High Data Rate Digital Subscriber Line - DSL technology with significantly higher data transmission rights (see also DSL)
Vectoring	Vectoring is a noise-cancelling technology that removes the electro-magnetic interference between lines, enabling higher bit rates.
Virtual Reality	Virtual reality: computer generated representation of a world (in real time)
VZBV	Federation of German Consumer Organisations, Berlin
Wearables	Wearable computers (abbreviated wearables) are computer systems that are attached to the user's body during use
Wholesale	Selling services to third parties who sell them to their own end customers either directly or after further processing

IMPRINT



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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

Concept and Design

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SDL plc

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