Telefónica
Deutschland

TELEFÓNICA DEUTSCHLAND HOLDING AG

Reporting year 2020

MAGAZINE

Investor Relations

Financial calendar and contact

2021

19 January
Strategy Update for the Capital Market

24 February
Q4 2020 – Preliminary results

28 April
Q1 2021 – Quarterly statement

20 May
Annual General Meeting

28 July
Q2 2021 – Preliminary results

27 October
Q3 2021 – Quarterly statement

(Subject to change)

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Foreword by the Management Board

Dear Shareholders, Dear Ladies and Gentlemen,

We look back on a year that changed the world to an extent that no one could have imagined at the beginning of the year. The COVID-19 pandemic has presented us all with unusual challenges, while at the same time giving digitalization an enormous boost.

Telefónica Deutschland took immediate responsibility in the crisis and initiated comprehensive measures to meet the expectations of our millions of customers, to secure our network operations and to protect our employees during these unprecedented times.

At the same time, Telefónica Deutschland assumed social responsibility through a variety of initiatives also benefitting our customers. These included the provision of mobility analyses for the Robert Koch Institute, the passing on of the temporary VAT reduction, free app access for a limited period (e.g. O_2TV for 3 months), a series of live-streamed O_2 concerts or the partnership with "Germany Against Corona". For senior citizens, we stepped up digital training offers during the crisis. From the start of the COVID-19 pandemic in Germany, the surfing speed of Telefónica Deutschland customers was increased significantly to 384 Kbit/s after consumption of the included high-speed data volume – also for partner brands. Part of the company's premises in the "O_2 Tower" in Munich was also used by the crisis team of the Bavarian Red Cross as temporary headquarters.

In the interests of health and safety, the majority of our employees continue to work predominantly from their home offices, which has been working well from the outset thanks to the flexibility of our employees and our robust IT systems. As part of the roll-out of our '5 Bold Moves', we have already aligned our collaboration to the new normal of tomorrow's increasingly digital world of working, focusing more than ever on digital ways of working, individual flexibility and maximum productivity.

Our O_2 network successfully passed the pandemic stress test and successfully coped with the COVID-19-related changes in usage with an increase in voice and data volumes. Our customers could rely on highly reliable connectivity at all times. At the same time, Telefónica Deutschland is preparing itself well for the future with 5G and has set ambitious expansion targets. On the 30th anniversary of the German unification, the fifth generation of mobile communication was launched on the O_2 network, and by 2025 at the latest, we want to offer our customers nationwide coverage. At the same time, Telefónica Deutschland is a reliable partner when it comes to intelligent, secure and wireless real-time networking via 5G campus networks, for example in the "Factory 56" of Mercedes-Benz Cars in Sindelfingen.

With more than 11,000 new LTE elements in the O_2 network, our 4G expansion campaign laid the foundation for fast Internet to be increasingly available in rural areas, despite temporary disruptions due to the pandemic. By the end of 2020, an additional 7 million people had been provided with 4G and, with 98 percent household coverage in Germany now, Telefónica Deutschland successfully met the nationwide 4G coverage requirement of the Federal Network Agency. At the same time, the O_2 network achieved another breakthrough in network quality. In the test of the trade magazine 'connect'[1], the O_2 network was awarded the rating "very good" for the first time in the company's history, putting it on a par with competition.

But it was not just the network that scored points; our core brand O_2 also received several awards for its products and services, including a "very good" rating in the store test[2] conducted by 'connect' magazine and in the service apps test[3].

The innovative O_2 Free portfolio with its Unlimited portfolio with different surfing speeds and classic volume-based rates underscores Telefónica Deutschland's claim to be the leading provider in the German mobile communications market. Furthermore, with the expanded O_2 myHome fixed network products launched in November 2020, Telefónica Deutschland not only provides the German broadband market with a wide and unique technology mix of VDSL, cable, fiber

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

and the 4G/5G-based O_2 HomeSpot, but also has the largest fixed network footprint in the German market.

As a result, Telefónica Deutschland has coped well with the crisis year 2020, with the momentum of our core business fully intact in a dynamic and still rational environment. The solid customer development in 2020 with a net increase of 448 thousand mobile lines and 55 thousand fixed line customers was driven by the strong traction of the O_2 Free portfolio, historically low churn rates and the increase of the Net Promoter Score as a result of the continuous quality improvements of the O_2 network and all products and services.

Nevertheless, Telefónica Deutschland's business performance was not completely immune to the impact of the COVID-19 pandemic. Following the easing of the hard lockdown in spring 2020, new customer acquisition and momentum in the prepaid business recovered swiftly. Roaming business, on the other hand, remained impacted by the ongoing travel restrictions for the remainder of the year. We successfully achieved our pre-COVID-19 set outlook targets for the 2020 financial year, despite these financial drags and another hard lockdown at the end of the year.

Strengthened by its robust mobile and fixed network infrastructure, Telefónica Deutschland will continue to generate further revenue streams in 2021. We continue to have our sights clearly set on our goals: On the one hand, we want to win additional customers in rural areas and secure our market leadership in cities. Attractive convergent offers comprising mobile and fixed-network components target to achieve this goal. Secondly, we want to further increase customer loyalty and generate additional revenues through this. In addition, Telefónica Deutschland aims to achieve a fair market share in the business customer segment, where we have been underrepresented to date.

The basis for this development remains the growth-oriented investment program announced in December 2019. It secures additional revenue streams and long-term margin growth for Telefónica Deutschland. It is also the prerequisite for an attractive free cash flow profile in a competitive market environment and thus for continued attractive shareholder remuneration. In this context, we announced on 19 January 2021 that we intend to propose a dividend of 0.18 euros per share for the financial year 2020 to the Annual General Meeting of Telefónica Deutschland in May 2021. Compared to our previous medium-term dividend forecast, this represents an increase that also reflects the successful monetization of the business operations of a large part of its rooftop sites. The first tranche of around 6,000 sites has already been transferred to Telxius in September 2020, with the remaining sites to be transferred in summer 2021. In addition to the dividend participation for you, our shareholders, another part of the proceeds will flow, as announced, into the investment company founded by Telefónica Infra and the Allianz Group for the expansion of fiber optic connections in Germany. Telefónica Deutschland will invest up to 100 million euros in the company over a period of six years in return for a ten percent equity stake, thus benefiting from this attractive future field not only as an investor but also by marketing broadband offers on this network.

Telefónica Deutschland is taking responsibility for the sustainable digitalization of the economy and society. We have set ourselves the goal of becoming climate-neutral by 2025 – full five years earlier than originally planned. To this end, we will significantly increase the energy efficiency of the O_2 network in the course of the 5G roll-out and network modernization and use 100 percent green energy in all business areas. We also aim to reduce business travel by around 70 percent as part of the new normal of the increasingly digital world of working. With this ambitious climate strategy, Telefónica Deutschland supports the Paris Climate Agreement and contributes to the "1.5 degree target".

As you can see, our company has a clear strategy and is successfully implementing it. We would like to thank our customers, employees, business partners and you, our Shareholders, for the trust you have placed in us.

Yours sincerely
The Executive Board

[1] https://www.connect.de/vergleich/mobilfunk-netztest-2021-bestes-handy-netz-deutschland-3201325.html – Network test 2021: Very good (852 points); total score: three times very good (926, 876 and 852 points).
[2] https://www.connect.de/vergleich/mobilfunk-shops-test-2020-service-kundenberatung-3201031-8854.html
[3] https://www.connect.de/vergleich/service-app-test-2020-mobilfunk-netzbetreiber-deutschland-oesterreich-schweiz-3201171-8891.html

Vision and Strategy

A high-performance network and reliable IT –

A high-performance network and a reliable IT architecture form the basis of business success. Today, the mobile network is on par with competition[1]. Telefónica Deutschland is expanding the 4G network in such a way that perspectively everyone can enjoy fast mobile communications over a wide area and the regulatory expansion requirements are met. Customers have also been able to use the 5G network since October.

The entire country is to be covered by the new mobile technology by the end of 2025. At the same time, the company is continuously improving its IT systems to enable it to work more efficiently and in a more targeted manner.

It is increasing its focus on modernizing the system landscape at customer interfaces and on further digitalization of internal processes. To this end, significant investments will be made in new software and hardware and further standardization in the coming years, gradually replacing the previous multi-layered IT landscape. As a result, these future-proof solutions will enable the company to operate faster, more efficiently and more cost-effectively.

[1] https://www.connect.de/vergleich/mobilfunk-netztest-2021-bestes-handy-netz-deutschland-3201325.html – Network test 2021: Very good (852 points); total score: three times very good (926, 876 and 852 points).

We democratize high-tech

We democratise access to the sustainable digital future to create a better everyday for all.
In doing so, the company supports the mission of the global Telefónica S.A. Group to make our world more human by creating connectivity.

Telefónica Deutschland is a leading operator of telecommunications infrastructure in one of the Telefónica Group's global four core markets. Telefónica S.A. Group focuses its operations primarily in Latin America, the United Kingdom, Spain and Germany. As a provider of digital products and services for the mass market, Telefónica is ideally positioned in Germany to democratize highly innovative technological solutions.

The COVID-19 crisis has forcefully demonstrated that basic communications and access to digital services are socially indispensable. Conversations with friends and relatives, exchanges with colleagues and customers, access to current information – all this must be possible for people also during times of spatial separation. Telecommunication is thus systemically relevant for the economy and people alike. This is widely recognized, which is why the achievements of the entire industry are gaining more and more recognition in society.

The basis for the digital participation of all people are high-performance telecommunication networks. As a full-range provider, Telefónica Deutschland offers both mobile and fixed-network solutions. The company uses its own mobile communications network throughout Germany. The provider makes fixed-network access available to its customers within the framework of cooperative partnerships. In this way, a total of more than 47 million customers in Germany are served with individual or bundled products at a first-class price/performance ratio in the market.

Around 44 million people – in other words, every second person in Germany – use the state-of-the-art mobile communications network. No other provider connects more people in German mobile communications. In the fixed network, customers receive the largest, most diverse and most modern access to fast broadband connections in Germany. To achieve this, Telefónica Deutschland utilises more access technologies than any competitor through strategic partnerships. In the future, the telecommunications full-service provider will increasingly focus on fiber-optic solutions and will also participate in the newly founded German fiber-optic company 'Unsere Grüne Glasfaser' ('Our Green Fiber'), which promotes the expansion of fiber-optic infrastructure in rural areas.

Beyond pure connectivity services, Telefónica Deutschland assumes responsibility and measures itself against ambitious sustainability targets. In order to contribute to the preservation of an environmentally balanced planet, the company aims to become climate-neutral no later than 2025. Today, the telecommunications provider already operates Germany's greenest network with 100 % green energy in our mobile network. In the future, the company also aims to further improve electricity efficiency, reduce unavoidable CO_2 emissions, and increase the quality of green energy used. The focus will be primarily on energy management and the use of more efficient network technologies. Through a nationwide hardware recycling program, Telefónica Deutschland is lightening the burden on the environment and reducing the consumption of valuable raw materials. At the same time, the provider is committed to ensuring that all people, whether young people or senior citizens, can use the opportunities offered by digitalization confidently and without risks.

Overall, the Group offers investors a reliable and attractive investment that is also robust in times of crisis. Telefónica Deutschland is an operationally profitable company in Europe's most attractive telecommunications market with a clear focus on sustainable business. It benefits from the innovative spirit and global network of one of the world's largest telecommunications companies with almost 350 million customers. Based on a large customer base and strong partnerships, Telefónica Deutschland achieves reliable revenue and earnings growth. Until the fiscal year 2023, the Group guarantees a minimum dividend of 0.18 euros per share annually, thus delivering a constant and attractive shareholder remuneration.

Consistent growth strategy for the future

The telecommunications provider is consistently pursuing a profitable growth strategy and has set itself the goal of achieving cumulative revenue growth of at least 5 % between 2020 and 2022. The dynamic is to outperform the rest of the market. A variety of measures have been defined to achieve this goal. The efforts are focused primarily in three areas.

The mobile communications business is to grow further. The company sees further potential here, especially in rural areas. The significant improvement in 4G network quality in the 2020 financial year, which the trade magazine 'connect'[1] rated as 'very good' for the first time in the company's history, forms the basis for commercial success. As a result of this 4G network quality, it is now also a real alternative in mobile communications for people in rural areas and is aiming for a fair share of the market there. The roll-out of 5G technology was launched in 2020. The network expansion will initially take place in cities in order to consolidate market leadership in metropolitan areas. By 2025, 5G will also be offered nationwide – and 5G will thus be rolled out faster than any network technology before.

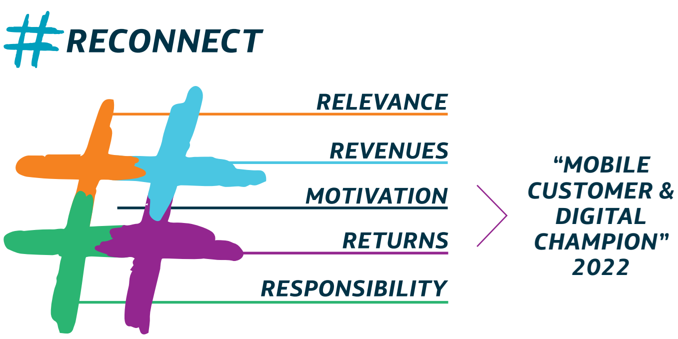
Telefónica Deutschland also sees great potential in the intelligent bundling of fixed-network and mobile products and other services. The DSL offering, access to a Germany-wide cable network, to fiber optics, and via the high-performance mobile communications network provides the most suitable offering for every customer. In this way, Telefónica Deutschland can increase revenue by selling more products and at the same time improve customer loyalty. Customer loyalty has reached an all-time high for the core brand O_2 already in 2020.

Thirdly, the provider is increasingly focusing on winning business customers on the basis of the significantly improved infrastructure. The aim here is to achieve a fair market share. The company already offers a first-class price/performance ratio in the market as well as an award winning service[2].

Telefónica's global "Reconnect" strategy program

The growth strategy is closely interlinked with the global #RECONNECT strategy program of the globally operating Telefónica S.A. Group. The program aims to further develop the market position and technology deployment in the four core markets of Spain, Brazil, the UK and Germany. In particular, this includes a steady improvement in customer loyalty and recommendation rates as well as investments in strategic growth areas in the areas of technology, service and range of offerings. In this context, Telefónica Deutschland has announced record investments in network and technology for the period 2020 to 2022 and is participating in promising fiber-optic initiatives, the use of cloud solutions and innovations such as Open RAN in mobile communications.

In addition, the company recorded historic lows in the churn rate among O_2 customers in the past fiscal year, as well as an improvement in the recommendation rate NPS of more than 20 points over the past three years. All these innovations and investments ultimately benefit customers and follow the Group's global ambition to focus on customers and the connection between people and technology. Because that is the central prerequisite for sustainable growth.



[1] https://www.connect.de/vergleich/mobilfunk-netztest-2021-bestes-handy-netz-deutschland-3201325.html – Network test 2021: Very good (852 points); total score: three times very good (926, 876 and 852 points).
[2] https://www.connect.de/vergleich/mobilfunk-shops-test-2020-service-kundenberatung-3201031-8854.html

Strong brands and strong partners –

The proven multi-brand strategy will be continued. This way, all customers are touched in their day-to-day lives and receive the offer that is right for them. O_2 has successfully established itself as the price/performance leader in the mass market.

At the same time, secondary brands such as Blau, Fonic, Ay Yildiz and Ortel are successfully positioned in the discount and ethnic segments. With the O_2 and Telefónica brands, business customers receive an attractively priced portfolio of IoT connections, security solutions, customer-oriented network configurations and, since fall 2020, also 5G campus networks, in addition to traditional telecommunications services.

For further services, target groups and sales channels, the company consistently relies on partnerships. With its mobile network, Telefónica Deutschland is the largest partner of resellers such as Tchibo, Aldi and Netto in Germany. For additional services in the areas of TV, music, gaming and security, well-established partners with attractively priced services are also used in the market.

Sustainable business and digital participation –

Telefónica Deutschland's defined claim and practice for many years is to assume responsibility for society and the environment in its actions. All people should be able to benefit from the advantages of digitalization.

To this end, the company is involved in campaigns and workshops for young people so that they can safely and confidently surf the Internet. It is also targeting older people with free offers to familiarize them with the tools of the digital world.

To conserve our planet's resources and reduce pollution, the network operator relies on recycling for terminal equipment, old network technology, and recycling of its own company hardware. In order to become climate-neutral no later than 2025, Telefónica Deutschland aims to achieve concrete measures and interim targets every year and will present a new Responsible Business Plan for this purpose in the first quarter of 2021, valid until 2025.

Innovative further training and a new everyday working life –

To successfully implement its corporate goals, the company needs motivated and well-trained employees. It gives everyone the opportunity to continuously and self-directedly build up valuable new skills via internal transfers, job rotations or even course offerings.

The in-house platform BEYOND enables significantly more efficient personnel development by using AI technologies to automatically match employees' skills with requirements of open positions.

The company is taking the impact of the COVID-19 pandemic on everyday working life as an opportunity to reshape the world of work with five key initiatives: It is focusing much more on results-based leadership, virtual interaction, flexible work hours and locations, and an around 70 % reduction in internal air travel in the future. The company is investing the bulk of the travel savings in employee development.

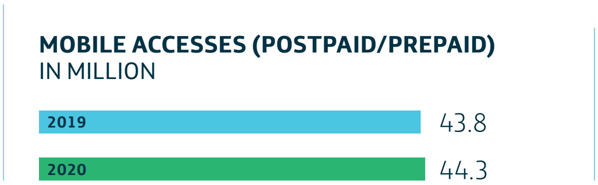
Data-driven corporate management –

Few companies in Germany generate more data every day than Telefónica Deutschland. Around 5 billion data points are generated every day by customers and in the network. In order to make better decisions, the provider is consistently implementing data-driven corporate management. Software and data structures are being standardized, artificial intelligence is being used, and employees are receiving further training so that in the future each and every one of them will be able to produce analyses and act in accordance with the results.

At the same time, the company is working with start-ups via the Wayra innovation lab to develop more efficient solutions for everyday processes and new business models, particularly in the fields of 5G and artificial intelligence.

Highlights of the 2020 financial year

G 01



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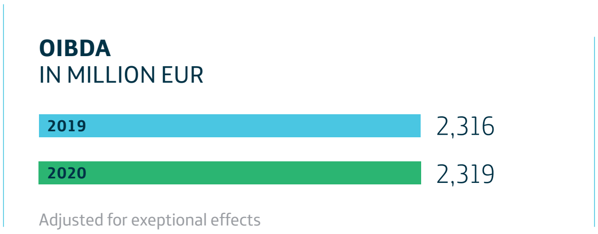

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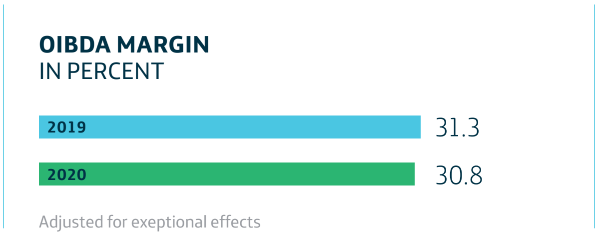

In a dynamic market environment that continues to be rational, Telefónica Deutschland posted a good operating performance in 2020. This development was driven by the strong traction of the O_2 Free portfolio, historically low churn rates and the increase of the NPS as a result of continuous quality improvements not only of the O_2 network but also of the company's products and services.

O_2 was awarded with the rating 'very good' in the network test of the 'connect'[1] magazine as well as in the service apps test[2] and the store test[3]. As part of the largest network offensive in the company's history, O_2 further expanded its 4G network in 2020 and now supplies 98 % of all households in Germany with 4G. Telefónica Deutschland's 5G network went live on 03 October 2020 and is already operational in 15 German cities. Telefónica Deutschland is aiming for a population coverage of more than 30 % by the end of 2021. Around 50 % of the population is expected to be covered by 5G by the end of 2022, and nearly full coverage is expected to be achieved by the end of 2025.

On 08 June 2020, Telefónica Deutschland announced a comprehensive agreement with Telxius to spin off and sell the business operations of a large part of its rooftop sites for a total purchase price of EUR 1.5 billion. The active radio technology at the transferred sites will remain the property of Telefónica Deutschland and will continue to be used to operate the mobile network. With this transaction, Telefónica Deutschland took advantage of the attractive valuations for built network infrastructure, maximizing shareholder value and further strengthening its financial flexibility. At the same time, Telefónica Deutschland secured access to key sites for the roll-out of the 5G network through long-term lease agreements. Telxius thus remains a competent partner for the further expansion of the network infrastructure. The first tranche of approximately 6,000 sites was transferred as of 01 September 2020. The remaining approximately 40 % will be transferred to Telxius as planned in August 2021.

[1] https://www.connect.de/vergleich/mobilfunk-netztest-2021-bestes-handy-netz-deutschland-3201325.html – Network test 2021: Very good (852 points); total score: three times very good (926, 876 and 852 points).
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[3] https://www.connect.de/vergleich/mobilfunk-shops-test-2020-service-kundenberatung-3201031-8854.html

On 21 October 2020, Telefónica Deutschland announced its goal to become climate neutral no later than 2025. To this end, the company will significantly increase the energy efficiency of its network in the course of the 5G rollout and network modernization and use 100 % green energy in all business areas. The company also aims to reduce business travel by around 70 % as part of the new normal of the increasingly digital workplace. With its ambitious climate strategy, Telefónica Deutschland supports the Paris Climate Agreement and contributes to the "1.5 degree target".

Operating performance

Mobile postpaid[1] grew +4.6 % year-on-year to 23.6 million customers, reflecting historically low churn rates in the COVID-19 environment and continued strong demand for the O_2 Free portfolio, as well as robust performance of partner brands. At the end of December, postpaid mobile lines accounted for 53.3 % of the total mobile subscriber base, up +1.8 percentage points year-on-year. M2M achieved year-on-year growth of 18.3 % to 1.4 million lines.

The churn rate in the postpaid area improved by +0.1 percentage points to 1.4 %. The churn rate for the O_2 brand was at an even lower level, improving by +0.2 percentage points year-on-year to a historic low of 1.1 %. This positive loyalty development was mainly driven by the company's focus on customer retention, supported by continued improvements in network quality and tailwinds from COVID-19-induced lower churn. The O_2 brand's implied annualized churn rate improved to 13.1 % in 2020 from 15.5 % in the prior year, clearly demonstrating sustained quality improvements and an excellent customer experience on the O_2 network.

The customer base in the mobile prepaid segment amounted to 19.3 million customers at the end of the year. This represents a year-on-year decrease of -4.0 %, reflecting the ongoing prepaid-to-postpaid migration trend in the market.

As a result, the number of Telefónica Deutschland mobile customer lines amounted to 44.3 million at year-end 2020. This corresponds to an increase of +1.0 % year-on-year.

The 2020 ARPU trends mainly reflect the decline in roaming revenue due to COVID-19-related travel restrictions. These counteracted the positive ARPU contributions from the successful marketing of the O_2 Free portfolio and value-added services. Total ARPU in the mobile business was EUR 9.9 in 2020, a decrease of -1.2 % year-on-year. Own brand postpaid ARPU decreased by -1.1 %. Excluding the COVID-19-related loss of roaming revenues, however, it increased by +0.1 %.

In the fixed-network business, the DSL retail customer base reached a total of 2.3 million lines, an increase of +2.5 % year-on-year, driven by strong demand for VDSL. The VDSL customer base increased by +8.8 % year-on-year to 1.8 million lines, representing 80 % of the retail fixed-network customer base.

The fixed-network churn rate improved by a further 0.1 percentage points to 0.9 % in 2020.

ARPU in the fixed-network residential business amounted to EUR 23.8 in 2020 (+2.3 % year-on-year), reflecting the higher customer base year-on-year and the steadily growing share of VDSL customers.

Financial performance

Revenues were up +1.8 % year-on-year at EUR 7,532 million, reflecting the strong performance of mobile services revenues, fixed-network business, and strong demand for mobile handsets. Excluding negative COVID-19 effects of around EUR -72 million, revenue would have grown by +2.8 % year-on-year.

Revenue from mobile services[2] (MSR) was slightly higher than in the previous year at EUR 5,307 million (+0.1 %). Own brand performance was positive. COVID-19 effects amounting to approximately EUR -63 million had a negative impact. Excluding the COVID-19 impact, MSR would have grown by +1.3 %.

At EUR 1,423 million, mobile hardware revenue was up +5.7 % year-on-year, reflecting strong demand for high-end cell phones. It was supported to a large extent by the good development of the online channels.

Fixed-network revenues continued their upward trend and recorded strong growth of +6.0 % to EUR 785 million, driven by continued growth of the retail base due to strong VDSL demand. For example, revenue from retail fixed-network business recorded even stronger growth of +7.3 % year-on-year.

Other income amounted to EUR 542 million, mainly due to a capital gain of EUR 407 million in connection with the completed transfer of the first tranche of around 6,000 mobile sites to Telxius in September last year.

OIBDA[3] was +0.2 % higher year-on-year at EUR 2,319 million in 2020. The revenue mix and improved cost efficiency had a positive impact on the OIBDA margin. However, roaming impacted by COVID-19 dampened profitability. The COVID-19 impact amounted to approximately EUR -58 million. The OIBDA margin was at 30.8 %, down -0.5 percentage points year-on-year, reflecting the aforementioned effects and the growth trends in lower-margin mobile hardware. Excluding the COVID-19 impact, OIBDA would have grown by +2.7 %.

Capital expenditure (CapEx) amounted to EUR 1,094 million in 2020 with an investment ratio of 14.5 %. Mainly due to COVID-19, some investments are postponed within the current investment program, while the total amount of investments remains unchanged.

[1] As of 1 January 2020, M2M is separately reported from postpaid; for comparability this change has also been applied to 2019, retroactively.
[2] 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.
[3] Adjusted for exceptional effects. Exceptional effects totalled EUR +364 million including EUR +401 million net gains on disposal of assets and EUR -38 million restructuring costs. In prior year, exceptional effects were restructuring cost of EUR -22 million and other expenses of EUR -1 million.

Our share

The Investor Relations department of Telefónica Deutschland forms the interface between the company and the capital market. Especially in turbulent times on the stock exchange, the capital market participants' need for information is particularly high. Our goal is therefore to provide the public with relevant information regularly, quickly and effectively, and to provide easily understandable and transparent information about the strategic and operational development of the company. This gives investors the opportunity to make realistic assumptions to value the company and, hence, make their investment decision.

Economic situation and capital market environment

The COVID-19 pandemic plunged the global economy into a deep recession in the first half of 2020. Measures to contain the infection led to unprecedented sales declines in many sectors. As the measures were gradually eased, an initial economic recovery began in the summer, which has been given further support since the end of the year by the now available vaccines. However, the start of another hard lockdown in Germany in mid December, also indicates a full recovery of the global economy will take time and requires the vaccine to be widely available.

In the first half of the year, also the German economy experienced the by far deepest recession in its post-war history. Following a 2.0 % decline in the first quarter of 2020, gross domestic product contracted by a further 9.7 % in the second quarter. As a result of the drop in new infections, measures were relaxed or even lifted altogether for some sectors of the economy. For this reason in particular, the business performance of German companies has improved significantly since its low point in April. However, the pace of recovery slowed noticeably as the year progressed. The main contributing factor was that the supply of services related to social consumer spending remained limited. Underutilization in these sectors of the economy is likely to continue for the time being until effective vaccination protection is in place for large parts of the population. By contrast, the demand for goods and services was supported by numerous fiscal policy measures which stabilized consumers' incomes and strengthened their purchasing power.

On average for the year, the German economic output was 5.0 % lower than in 2019. The corona crisis also left deep scars on the labour market. The seasonally adjusted number of unemployed rose from 2.3 million people in March to 2.9 million in June, the highest level since the Euro crisis. Since then, unemployment has been declining only slowly and stood at 2.7 million people at the end of December. This corresponds to an unemployment rate of 5.9 %.

Despite the COVID-19 pandemic, the uncertainties with regards to the US election and Brexit, as well as ongoing uncertainties related to the US trade war, the global stock markets were able to close the year successfully and recorded new highs towards the end of the year.

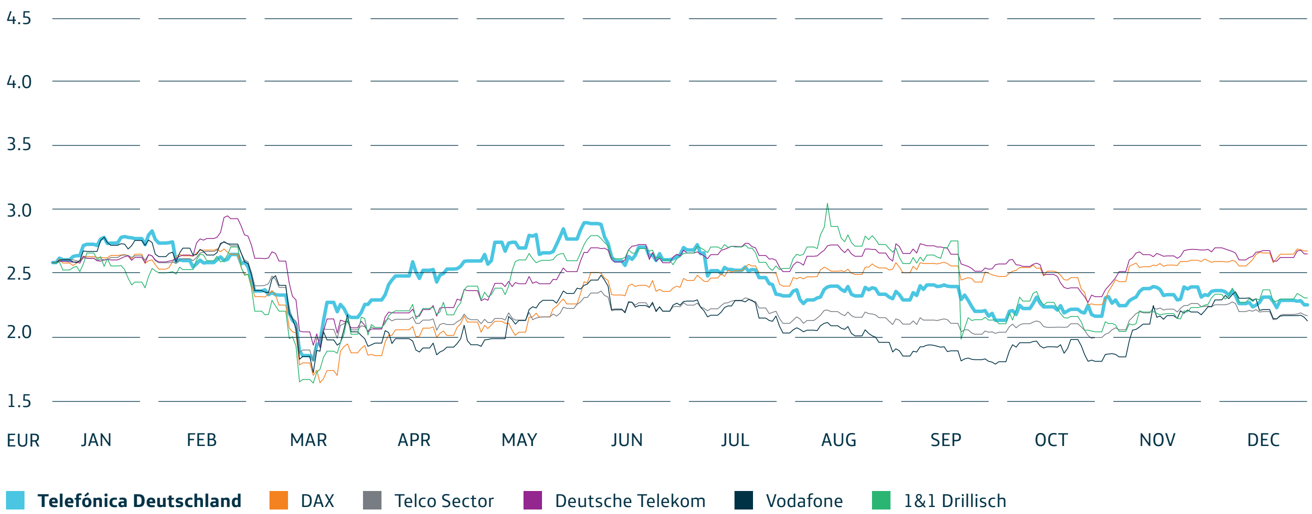
In the first five months of the past year, the two leading indices DAX and the European STOXX 600 showed an almost analogue development. As the year progressed, the DAX performed better and recorded a gain of +3.5 %, while the Euro STOXX 600 ended the year with a loss of -4.0 %. Lows for both indices were recorded in March in the wake of the Corona crash.

The European telecommunications sector developed more stable than the DAX and the Euro STOXX 600 benchmark indices in the first quarter of the year. During the subsequent upward movement until the end of May, the performance of the European telecommunications sector was largely in line with these indices. As the year progressed, however, it could not keep-up with the global upward trend in conjunction with the risk-on trade and ended the year down -16.1 %.

The Telefónica Deutschland share recorded smaller losses than the broader indices during the Corona crash in March 2020 and recovered much faster in the following weeks. As a result, the share recorded its high for the year of EUR 2.91 during trading on 04 June 2020. Despite good operating and financial results, it suffered share price losses in the further course of the year and fell behind the market development. The negative trend reflected, among other things, ongoing speculation about the development of wholesale revenues in connection with a potential fourth mobile network in Germany. The negative trend was broken at the beginning of October and a recovery set in. The Telefónica Deutschland share ended the year with a loss of -12.7 % and a closing price of EUR 2.26. Thus, the Telefónica Deutschland share outperformed the European telecommunications sector by +3.3 %.

G 05

SHARE PRICE PERFORMANCE 2020
1 JANUARY TO 31 DECEMBER, REBASED



Shareholder remuneration at Telefónica Deutschland

Telefónica Deutschland's management confirmed the company's growth trajectory in its strategy update on 19 January 2021. Having successfully met the nationwide coverage obligations for LTE rollout by the end of 2020, Telefónica Deutschland is now focusing on the rapid rollout of a high-performance 5G infrastructure, particularly in cities. The temporary investment program is the basis for further profitable revenue and margin growth and 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 maintains its conservative financial policy. At its core is a strong balance sheet with low debt and sufficient financial flexibility. The target leverage ratio (net financial debt / OIBDA) remains unchanged at less than or equal to 2.5x. Telefónica Deutschland thus continues to have significant headroom 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 lease payments, special effects and spectrum payments (FCF aL). As communicated on 19 January 2021, Telefónica Deutschland's management intends to propose an increased dividend of 0.18 euros per share for the financial year 2020 to the Annual General Meeting in May 2021. Based on the share price at the end of 2020, this would correspond to a dividend yield of 8.0 %. A dividend of 0.18 euros per share will also be the increased lower limit for the years 2021 to 2023, extending the previous dividend lower limit period by one year.

Activities of the Investor Relations department of Telefónica Deutschland

Open, timely and transparent communication forms the core of the work of the Telefónica Deutschland Investor Relations department. The regular and active exchange with shareholders, analysts, potential investors and other national and international capital market participants is at the center of the daily work. The objective here is to communicate Telefónica Deutschland's business model and strategy in a transparent and easily understandable way. In 2020, this approach was maintained and consistently applied. Due to the COVID-19 pandemic and the associated measures, face-to-face meetings were no longer possible from March onwards. These were subsequently replaced by virtual conferences, roadshows and meetings. As a result, the Management Board and the Investor Relations team held more than 330 investor meetings in fiscal year 2020 (2019: 305).

Telefónica Deutschland's share performance was monitored by 24 analysts. The brokers' share price targets were widely spread between EUR 1.50 and EUR 4.50. At year-end 2020, the median price target of all analysts' estimates was EUR 2.87, corresponding to a premium of +27.3 % on the year-end price of EUR 2.26. More than 50 % of the analysts recommend buying the Telefónica Deutschland share, around one-third recommend holding it and only around 10 % recommend selling it.

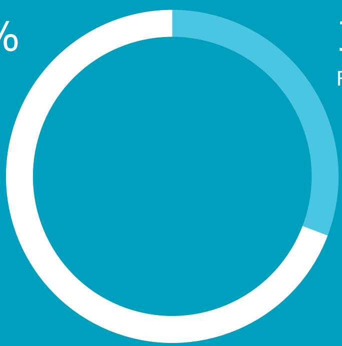
Rating	**Number**
Buy/Outperform/Overweight	13
Hold/Neutral/Equal weight	8
Sell/Underperform/Underweight	3

Telefónica Deutschland holds a conference call on the occasion of the publication of each of its fiscal year and quarterly results. Here, investors and analysts have the opportunity to address their questions directly to Management. Recordings of these conference calls are subsequently available on the company's website for one year.

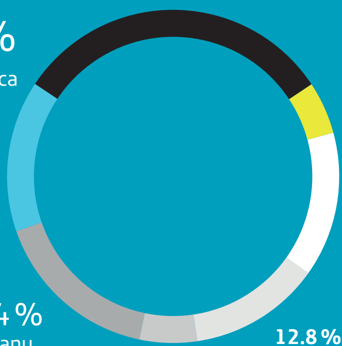
For further information on the company and the Telefónica Deutschland share, please use the contact details provided on page 2.

G 06 / G 07

SHAREHOLDER STRUCTURE OF TELEFÓNICA DEUTSCHLAND



GEOGRAPHICAL DISTRIBUTION OF THE FREE FLOAT [2]



[1] Telefónica Germany Holdings Limited is an indirect 100 percent-owned subsidiary of Telefonica S.A.; Status: According to share register on 31/12/2020
[2] Source: NASDAQ, September 2020

T 01

TELEFÓNICA DEUTSCHLAND BONDS

Issue date	Currency	Volume	Tenor	Coupon	Instrument rating	Listing
10 February 2014[1]	EUR	500,000,000	7 years	2.38 %	BBB	Regulated market of the Luxembourg Stock Exchange
05 July 2018	EUR	600,000,000	7 years	1.75 %	BBB	Regulated market of the Luxembourg Stock Exchange

Issuer Rating of Fitch: BBB, Outlook: stable
[1] Repaid on time on 10 February 2021

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Serviceplan Public Relations & Content GmbH & Co. KG

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Management photo, page 04: Telefónica Deutschland

Telefónica Deutschland

ANNUAL REPORT

Telefónica Deutschland Holding AG
for the reporting year 2020

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COMBINED MANAGEMENT REPORT

For the financial year 2020

Combined Management Report
P. 03–68

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.

TELEFÓNICA DEUTSCHLAND GROUP AT A GLANCE

Financial Overview

1 January to 31 December (in EUR million)	2020	2019	% Change
Revenues	**7,532**	**7,399**	**1.8**
Mobile service revenues	5,307	5,301	0.1
Operating income before depreciation and amortisation (OIBDA), adjusted for exceptional effects[1]	**2,319**	**2,316**	**0.2**
OIBDA margin, adjusted for exceptional effects[1]	*30.8%*	*31.3%*	*(0.5%-p.)*
Operating income before depreciation and amortisation (OIBDA)	**2,683**	**2,292**	**17.0**
OIBDA margin	*35.6%*	*31.0%*	*4.6%-p.*
CapEx	**(1,094)**	**(1,044)**	**4.8**
Investment ratio (CapEx/sales-ratio)	**14.5**	**14.1**	**2.9**
Operating cash flow (OIBDA-CapEx)	**1,589**	**1,248**	**27.3**
Free cash flow	**1,896**	**1,023**	**85.3**
Mobile accesses (in thousands)	44,275	43,827	1.0
Net adds in mobile prepaid business (in thousands)	(813)	(447)	82.0
Net adds in mobile postpaid business excluding M2M (in thousands)	1,043	1,451	(28.1)
Total ARPU (in EUR)	**9.9**	**10.0**	**(1.2)**
Non-SMS data revenue over total data revenues (%)	**91.8%**	**90.7%**	**1.1%-p.**

As of 31 December	2020	2019	% Change
Net leverage ratio	**1.4x**	**1.7x**	**(17.8)**
Net financial debt	3,168	3,860	(17.9)

[1] Exceptional effects in financial year 2020 comprised net gains on disposals in the amount of EUR 407 million from the first step in the transaction governing the sale of major parts of the business operations of the rooftop sites, restructuring expenses in the amount of EUR 38 million and gains from disposals in the amount of EUR 4 million as well as losses from disposals of spectrum licenses in the amount of EUR 9 million. In financial year 2019, exceptional effects comprised restructuring expenses in the amount of EUR 22 million and other expenses in the amount of EUR 1 million.

BASIC INFORMATION ON THE GROUP

This report combines the Group Management Report of the Telefónica Deutschland Group, consisting of Telefónica Deutschland Holding AG (also referred to as Telefónica Deutschland or Company) and its consolidated subsidiaries and joint ventures (together referred to as the Telefónica Deutschland Group or the Group) and 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 the Telefónica Deutschland Group. It is included in the Consolidated Financial Statements of the ultimate parent company, Telefónica, S.A., Madrid, Spain (Telefónica, S.A.; its group: the Telefónica, S.A. Group). The direct parent company of the Telefónica Deutschland Group is Telefónica Germany Holdings Limited, a wholly owned subsidiary of O2 (Europe) Limited, Slough, United Kingdom (O2 (Europe) Limited), and an indirect subsidiary of Telefónica, S.A.

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

Business Activity

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

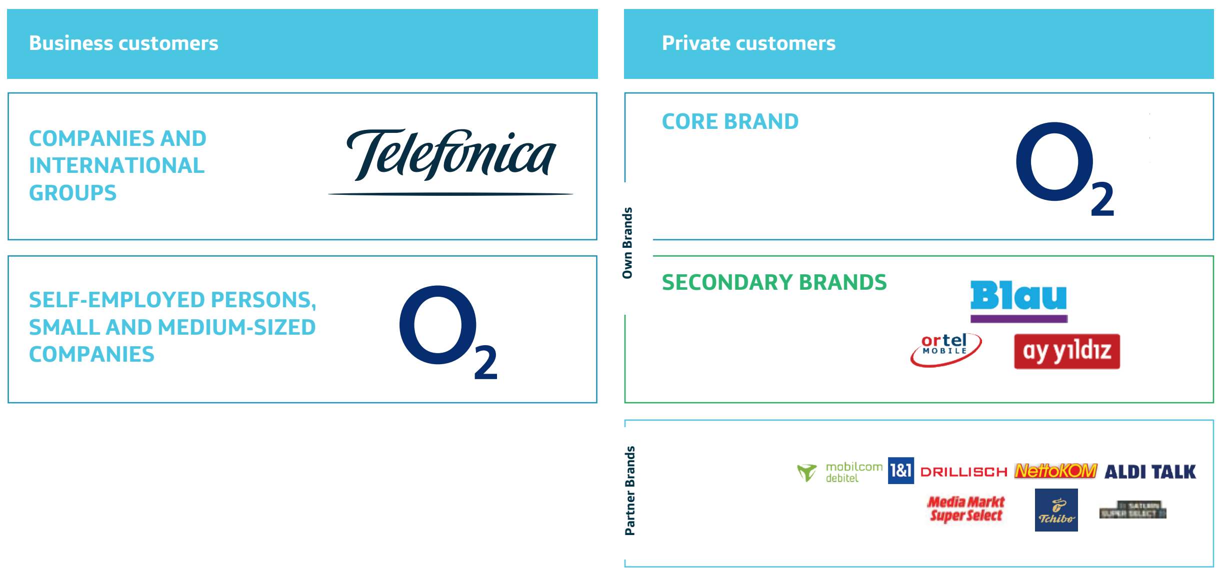
In the mobile sector, we serve the demand for mobile services as a consequence of the increasing digitalisation of ever more areas of life.

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

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

G 01

OUR BRANDS[1]



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

Mobile services
With a total of 44.3 million mobile accesses as of 31 December 2020, we are a leading provider in this market. In 2020, at EUR 5,307 million, mobile services were the most important revenue stream for the Telefónica Deutschland Group (70.5% of total volume). In this area, we offer private and business customers mobile voice and data services both on a contractual basis (postpaid) and in the prepaid segment.

The basis for this is our mobile communications network. In 2020, we further expanded and improved our LTE network, which is also reflected in the results of the current mobile network test by the trade magazine connect[2]. The O_2 network was awarded the grade “very good” for the first time, impressing with stable data connections, very good call quality and significantly improved network coverage.

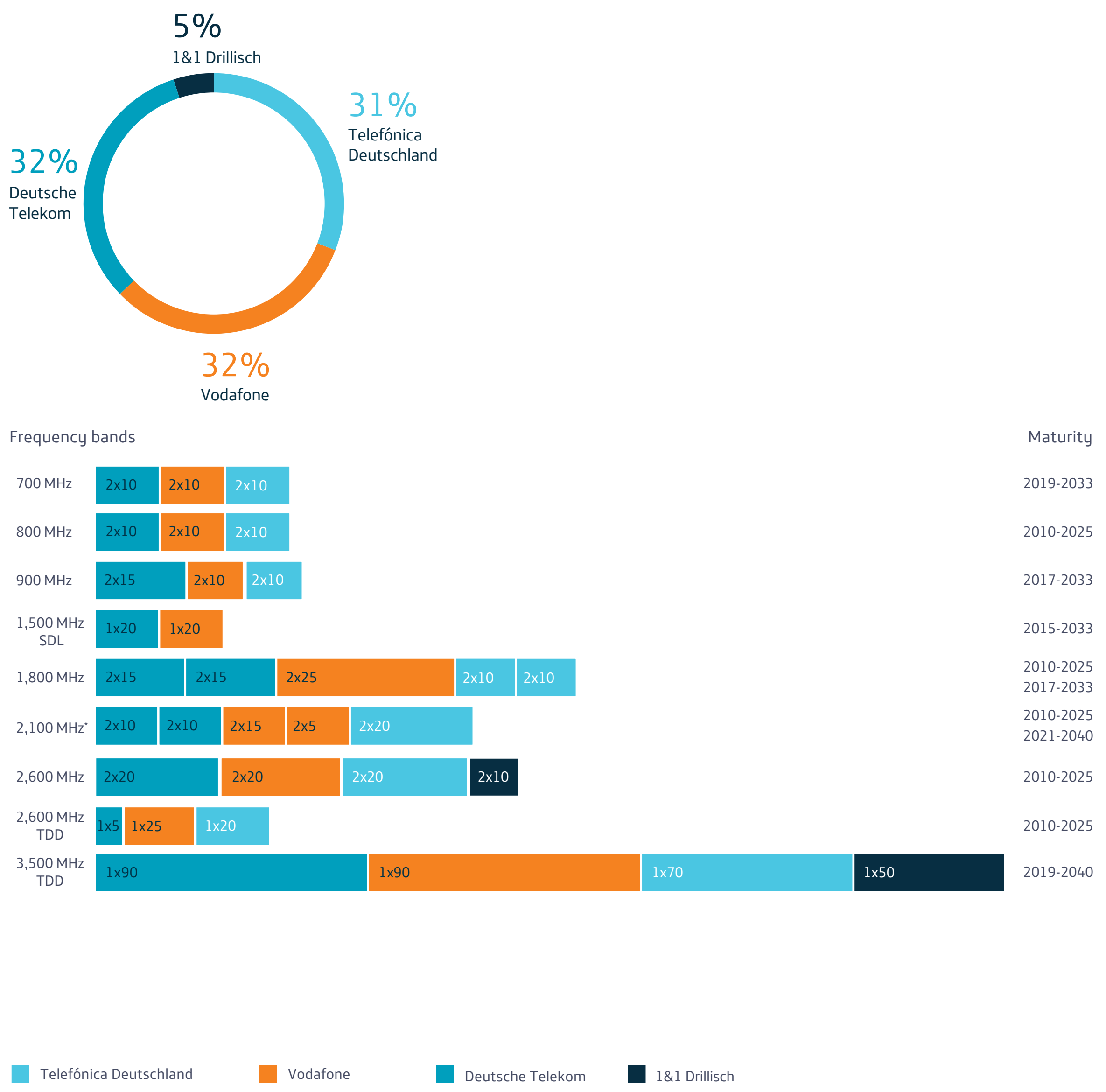
The Telefónica Deutschland Group also secured nationwide spectrum totalling 90 MHz for the high-performance mobile communications standard 5G in the mobile communications auction in 2019. The auctioned spectrum has a term from 2021 to 2040 or 2026 to 2040 and includes frequencies that provide both coverage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

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

[2] Source: Connect (https://www.connect.de/vergleich/mobilfunk-netztest-2021-bestes-handy-netz-deutschland-3201325-8951.html)

G 02

FREQUENCY BANDS FOR MOBILE NETWORK OPERATORS IN GERMANY 2021 – 2025[3,4]



* From 2021, additional 19.2 MHz TDD
From 1 January 2026 Drillisch: 2x10 MHz; Telefónica Deutschland Group: 2x10 MHz, Vodafone: 2x20 MHz; Deutsche Telekom: 2x20 MHz

[3] Source: German Federal Network Agency (https://www.bundesnetzagentur.de/DE/Sachgebiete/Telekommunikation/Unternehmen_Institutionen/Breitband/MobilesBreitband/Frequenzauktion/2019/Auktion2019.html)
[4] The German Federal Network Agency will formally allocate the spectrum to the company in the 2.1 GHz range with one block with effect from 1 January 2021 and another block with effect from 1 January 2026. The 3.6 GHz spectrum will gradually become available over the next few years and fully from 2022.

This newly acquired spectrum is initially used to supply urban areas and industrial areas with 5G, delivering high data rates and low latency. In October 2020, Telefónica Deutschland Group activated 5G on its network for residential and business customers of its core brand O_2. Telefónica Deutschland Group started in the largest German cities of Berlin, Hamburg, Munich, Cologne and Frankfurt. In 2021, Telefónica Deutschland Group will continue to drive the roll-out of 5G in both urban and rural areas.

In the business customer segment, 5G also lays the foundation for a variety of new business models, such as the campus solution at Mercedes-Benz Cars, which was implemented in 2020.

Fixed-line business

We offer nationwide fixed services to complement our mobile services. Our DSL retail customer base amounted to approximately 2.3 million as of year-end 2020.

The offering is based, among other things, on our strategic partnership with Telekom Deutschland GmbH ("Telekom"). It grants us access to future-proof, next-generation fixed-line infrastructure and currently provides a total of approximately 34 million[5] households in Germany with high-speed VDSL internet access. In October 2020, the Telefónica Deutschland Group and Telekom extended and expanded their existing cooperation in the fixed line network by ten years before the term of the contract. The contract enables the Telefónica Deutschland Group to also market Telekom's fibre building connection lines (FTTH: "Fibre to the home") to its customers in the future. In addition, we will continue to use Telekom's VDSL and vectoring wholesale products. The cooperation concluded between the Telefónica Deutschland Group and Telekom is still subject to regulatory approval, in particular by the German Federal Network Agency. The agreement is expected to come into effect in spring 2021. The Telefónica Deutschland Group will also benefit from all future improvements made by Deutsche Telekom in the fixed-line area. Added to this is the coverage that O_2 achieves through cooperations with regional providers, such as in Hamburg and Schleswig-Holstein with Wilhelm.tel, and with the network operator-independent platform vitroconnect which gives us access to the VDSL network of EWE TEL GmbH in Lower Saxony.

Furthermore, the access agreement with Vodafone and also Tele Columbus has significantly expanded our nationwide fixed-line offering in Germany. As part of the cooperation with Vodafone, we will also in the future be able to supply up to 24 million[6] cable households in Germany with fixed line products with higher speeds than VDSL, thus offering a technology-agnostic solution via a broadband mix of VDSL, cable, fibre and, with the O_2 HomeSpot, a mobile WLAN router, also a fully-fledged fixed network replacement solution via mobile.

In October 2020, the Telefónica Deutschland Group also agreed with Telefónica Infra, S.L.U. and the Allianz Group to establish a joint venture to roll out fibre-to-the-home (FTTH) accesses in Germany. Upon completion of the transaction, which took place in December 2020, Telefónica, S.A. Group / Telefónica Deutschland Group, on the one hand, and Allianz Group, on the other hand, each initially hold 50% of the joint venture, with the Telefónica Deutschland Group holding 10%. Under the terms of the joint venture agreements, the Telefónica Deutschland Group will invest up to EUR 100 million for a ten per cent stake over an approx. six-year period in the new company, which will enter into various operating agreements with Telefónica Germany GmbH & Co. OHG. The EU Commission cleared the transaction under the merger control procedure by decision of 11 December 2020 (>MANAGEMENT REPORT OPPORTUNITIES).

Hardware business

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

Our most important suppliers for mobile phones are the manufacturers Samsung, Apple and Huawei. We focus in particular on the sale of LTE-enabled smartphones. In addition, O_2 also already offers a selection of 5G smartphones in all price ranges. We also cover the demand from our secondary brand customers for more mobile data services with a wide range of smartphones.

Digital services

In order to make our offerings even more attractive for our customers, we offer a variety of additional products and services, for example in connection with the Internet of Things (IoT) and also our additional digital services O_2 TV or the O_2 Cloud. Furthermore, the relaunch of our banking product O_2 Money offers an additional opportunity to grow further in this business segment as well. O_2 was able to partner with comdirect, one of the leading online banks in Germany, for O_2 Money.

[5]Source: Telefónica Deutschland Holding AG press release: „For accelerated growth in the fixed network: O_2 reinvents the Home-Internet" (20 October 2020)
[6]Source: Vodafone Group Plc, Results for the year ended 31 March 2020, spreadsheet, page 8

Our market areas

We are strengthening the market position of our core brand O_2. In this area, we want to continue to win customers in the private and business customer segment and increase 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 phone fixed-line network contracts. With the introduction of our O_2 Free tariff portfolio, we have consistently aligned our O_2 core brand with the customer promise of freedom in the mobile communications area. In 2020, we continued this orientation by continuously expanding the tariff portfolio, with 5G as an integral part of higher-value tariffs. In the fixed-line network, we will also be able to market products via cable accesses in the future and will therefore be offering a technology mix comprised of VDSL, cable, fibre and 4G/5G mobile. The O_2 my Home service applies equally to DSL, cable, fibre and the mobile phone-based O_2 HomeSpot and as such is technology-agnostic. Customers who have both an O_2 fixed line and a mobile phone contract will also be able to benefit from monthly savings.

The Blau brand is our second brand that is clearly defined separate from O_2 for price-conscious private customers, offering this customer segment a mobile communications portfolio reduced to the essentials and transparent communication. Our customer promise of freedom also defines the orientation of our Blau brand. Furthermore, we address ethnic target groups with brands such as AY YILDIZ or Ortel Mobile.

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 Drillisch and mobilcom/debitel. As part of the merger with E-Plus, we have committed to selling 20% of our mobile network capacity via mobile bitstream access (MBA) to Drillisch Online AG (formerly: MS Mobile Service GmbH), which now belongs to the 1&1 Drillisch Group. On 30 December 2019, 1&1 Drillisch exercised the contractually agreed extension option for the capacity-based MBA MVNO agreement with the Telefónica Deutschland Group, which came into effect on 1 July 2020 and was extended until 30 June 2025.

Business customers
The Telefónica Deutschland Group offers mobile and fixed-line products to business customers, too. Our focus is on addressing small and medium-sized enterprises (SME) as well as small offices/home offices (SoHo) via our core brand O_2 with a product portfolio that is tailored towards customer needs. For example, the Group has been offering its business customers a mobile tariff portfolio including 5G, O_2 Business since October 2020.

We also offer business customers services in the areas of IoT, machine-to-machine communication (M2M) and managed connectivity, thereby opening up 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. With the Kite platform, the Telefónica Deutschland Group also offers an intelligent management system for the central administration of IoT SIM cards.

Management System

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

The seven-person Management Board takes all operational and strategic decisions which help to successfully manage the Company in the individual business divisions in weekly meetings. This includes, 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 the Telefónica Deutschland Group has introduced a comprehensive internal management system for the control of the Group, which primarily comprises the following components:

— Process for strategic goal setting

— Integrated budgeting and planning system

— Financial and non-financial performance indicators

— Monthly reporting to the Management Board and Supervisory Board

— Ongoing opportunity and risk management

— Leadership by target at all levels of the organisation

Strategic objectives are reviewed and redefined annually

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

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

Management system of the Telefónica Deutschland Group

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

The following monitoring parameters were of particular significance for our Company's value-oriented management and evaluation in financial year 2020:

G 03

PERFORMANCE INDICATORS

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

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

OIBDA adjusted for exceptional effects
OIBDA corresponds to operating income before depreciation and amortisation of intangible assets, property, plant and equipment and right 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 income 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 non-operational transactions. We continue to consider the performance indicator adjusted for the regulatory of the reporting year, insofar as these have a significant influence on the development of the performance indicator. The effects on earnings are adjusted if the comparability of the performance indicator with prior-year periods is not appropriate due to a transaction carried out during the year. However, as other companies may use a different basis of calculation for OIBDA, it is possible that our representation is not comparable with other companies.

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

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

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

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

The net leverage ratio compares the net financial debt level with an operational success parameter (OIBDA adjusted for exceptional effects) and provides management with information about the Company's debt reduction ability. The maximum 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 and management-relevant performance indicators, the Management Board of Telefónica Deutschland sets internal objectives for the Group. To define a 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

Overall economic development in Germany strongly influenced by the COVID-19 pandemic[7]
Since spring 2020, the COVID-19 pandemic has had a major influence on the global economy. The measures to contain the pandemic resulted in a deep recession in the German and global economies in 2020. The outbreak of the pandemic and the first lockdown in spring 2020 led to a historical drop in gross domestic product (GDP) in the second quarter of 2020 by 9.8% quarter-on-quarter. Towards the end of the year, the strong recovery experienced in the summer of 2020 was inhibited by the second wave of the COVID-19 pandemic and the renewed lockdown. According to information from the Federal Ministry for Economic Affairs and Energy (Bundesministerium für Wirtschaft und Energie – BMWi), GDP fell by 5.0% (on a price-adjusted basis) in 2020 as compared to the previous year.

The COVID-19 pandemic left clear traces in virtually all economic sectors. According to the Federal Statistical Office, the economic drop in the service sectors, such as retail, transport and the hospitality industry was particularly marked. There were, however, also conflicting developments. Online trade gained significantly in a year-on-year comparison, while stationary retail showed a huge deficit.

The consumer prices in Germany grew only moderately in 2020 and increased only by an annual average of 0.5%, according to estimates of the Federal Statistical Office. The temporary reduction of the value-added tax rates was one reason for this, amongst other things.

The impact of the COVID-19 pandemic is also apparent in the German labour market. According to the German Federal Employment Office, the number of unemployed rose from 2.23 million at the end of 2019 to 2.71 million in December 2020. During this period, the unemployment rate increased from 4.9% to 5.9%. However, the massive use of short-time work in the first half of 2020 and from autumn 2020 onwards had a stabilising effect on the labour market here. Due to the above-mentioned developments as well as the „second wave" and the lockdown implemented in response, consumer sentiment has also dampened further in autumn 2020, according to the market research institute GfK. According to the GfK, economic and income expectations as well as the propensity to buy are declining.

Technology trends bring growth potential for the telecommunications market[8]
The COVID-19 crisis has clearly shown the important role telecommunications plays in our society and economy. The pandemic has changed our everyday lives and the world of work: the use of digital solutions for work, leisure and shopping has increased further and accelerated numerous (digital) developments. Connectivity in particular has proven to be an important component of normal daily life. Due in particular to home office work, home schooling, but also to entertainment services at home, consumers' demand for internet access with ever higher bandwidth is increasing.

A fast internet is also offered by 5G technology, which is currently being rolled out in Germany. 5G is turning into an enabler for innovative content and services in both the residential and business sectors. This will include, for example, offerings such as 4K/8K video, virtual and augmented reality and real-time gaming, as well as networked and autonomous cars.

The population in Germany has been using smartphones more than before since the beginning of the coronavirus crisis. Mobile devices are not only a central communication tool, but also an access point for numerous digital services. According to the survey by „App Annie", gaming, business, wellness and delivery apps, for example, were in high demand during the crisis months.

[7] Sources: Federal Statistical Office (Statistisches Bundesamt – Destatis): Press release no. 465 (24 November 2020) and no. 20 /GDP press conference (14 January 2021); Council of Experts: Annual Expert Report 2020/21 (11 November 2020); Federal Ministry for Economic Affairs and Energy (Bundesministerium für Wirtschaft und Energie – BMWI): Press Release on Economic Situation and Cyclical Development (27 January 2021); GfK Consumer Sentiment Index (22 October and 26 November 2020); Federal Employment Agency (Bundesanstalt für Arbeit): Monthly Report December 2019 and 2020 (January & December 2020)

[8] Sources: PwC: German Entertainment & Media Outlook (GEMO) 2020 – 2024 (November 2020); VATM: "Telecommunications Market Study 2020" (06 October 2020); Bitkom: Future of Consumer Technology Study 2018 and 2019 (29 August 2018 and 4 September 2019); Postbank Digital Study 2020 (29 June 2020); ARD/ZDF Long-Term Study Mass Communication 2020 (10 September 2020); VATM "22nd Telecommunications Market Analysis for Germany 2020" (6 October 2020); AGF Videoforschung: Convergence Monitor 2020 press release (14 October 2020); Deloitte: "Smartphone Use in the COVID-19 Pandemic" (2020) and "How the COVID-19 Pandemic is Changing Media Use" (16 July 2020); PCTipp: "How Corona has changed smartphone use" (20 August 2020).

Smartphone penetration also continued to increase in 2020 compared to 2019. According to a survey by AGF Videoforschung, older target groups in particular are driving the use of smartphones: among 50 to 64 year olds, the proportion of users has risen from 80% to 87%, and among 65 to 69 year olds from 60% to 73%.

Voice assistants are increasingly being used alongside smartphones as control centres, either in the form of separate smart speakers or as integrated voice control software. These digital helpers can be used in a variety of ways to make everyday life easier, for example in the "smart home". The devices in the smart home are now not only connected to each other but also access data platforms in the cloud. This is where the greatest change has taken place in the narrower area of Consumer Technology in recent years. It is already a given that music and videos are streamed from the cloud.

The television market in Germany is also in upheaval, and this development has also been accelerated by the pandemic. Consumption of films, series and video clips via the internet was already an integral part of everyday media use in Germany before the crisis and gained further importance especially during the lockdown in spring 2020. Video-on-demand (VoD) services are distributed over the top (OTT), i.e. via the Internet. Traditional linear television competes with these services, especially among the young target group. The continuous increase in the consumption of VoD content is supported by the flexible use of devices such as tablets or smartphones. Although linear television is losing popularity overall, the COVID-19 crisis has underlined its importance as a reliable source of information.

Demand for mobile data services continues to grow[9]

The mobile phone market is a saturated market. According to VATM data, the number of SIM cards in the market at the end of 2020, including M2M or IoT cards, was 148.7 million (end of 2019: 140.1 million). The strong SIM card growth is mainly due to M2M and IoT cards: According to estimates by VATM, at the end of 2020, around 39.1 million SIM cards were in use for M2M and IoT applications, compared to 29.6 million at the end of 2019. By the end of 2020, these M2M or IoT cards now account for around 26% of all SIM cards in the market.

The steadily growing demand for more data-intensive Internet services such as video streaming and social media ensured a further increase in mobile data use in 2020. According to VATM estimates, the average monthly data consumption per mobile phone customer increased from 2.1 GB in 2019 to 3.0 GB in 2020. This corresponds to an increase of 45%.

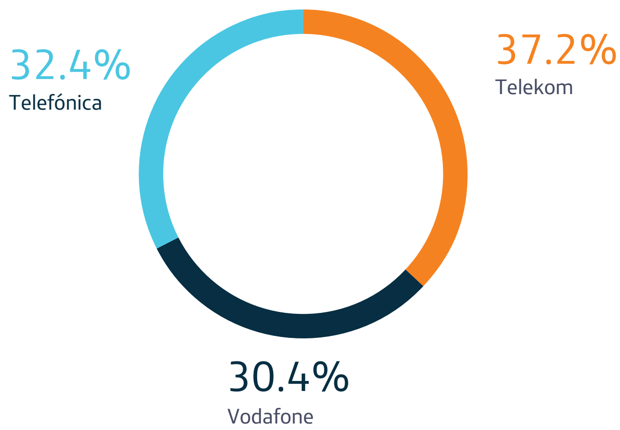
[9] Sources: VATM: "Telecommunications Market Study 2020" (6 October 2020); company data and own calculations: Deutsche Telekom Investor Relations Publication of Q3 2020 Results; (12 November 2020); Vodafone Germany press release on July-September 2020 Results (16 November 2020); German Federal Network Agency: Press release "Frequency auction completed" (12 June 2019)

The German mobile telecommunications market is an established market

The German mobile telecommunications market currently consists of three network operators and several service providers or mobile virtual network operators (MVNOs). At the 5G frequency auction, which ended in June 2019, the provider 1&1 Drillisch acquired frequencies and plans to establish itself as the fourth mobile network operator in the future. In the third quarter of 2020, Telefónica Deutschland Group had a market share of 32.4% in terms of mobile service revenues, making it the number 2 in the German market.

G 04

MARKET SHARES IN THE MOBILE COMMUNICATIONS MARKET
BASED ON SERVICE REVENUE (IN %)
3RD QUARTER 2020



Growth in German fixed line broadband market continues[10]

Growth in fixed line broadband connections continued unabated: VATM estimates that the number of connections increased by around 3% year-on-year to approx. 36.2 million at the end of 2020. With approximately 8.7 million active broadband connections at the end of 2020, cable now accounts for a share of around 24% of the total market. The takeover of the cable provider Unitymedia by Vodafone in summer 2019 created a nationwide cable provider in Germany. "Real" fibre optic connections (FTTH/FTTB) continue to gain in importance. According to VATM 2020, they have increased by more than 30% compared to the previous year and now account for more than 5% of active broadband connections. The Telefónica Deutschland Group relies on partnerships in its fixed line business. By means of the infrastructure of Deutsche Telekom, the Group is able to reach approximately 34 million households via VDSL, with the prospect of even more households via fibre-optic line (FTTH). Its partnership with Vodafone will enable the Group to reach approximately 24 million households, and that with Tele Columbus a further 2.3 million households via broadband cable, in the future.

The demand for data in Germany remains high: According to VATM, around 47% of customers with a broadband connection will be using maximum receive data rates of more than 50 Mbit/s by the end of 2020, compared to 40% at the end of 2019. The increased customer demand for more bandwidth is also reflected in the data volume generated per broadband connection and month. According to VATM, this increased by 25% in 2020 compared to 2019 to an average of 168 GB per access.

Regulatory Influences on the Telefónica Deutschland Group

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

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

Frequencies

BNetzA launches first step to make mobile radio frequencies available for the further expansion of high-performance telecommunications networks

[10] Sources: VATM: "Telecommunications Market Study 2020" (06 October 2020); Vodafone press releases: "Proposed Unitymedia takeover: Proposed measures to the EU Commission may take competition to a new level" (7 May 2019); "Vodafone-Unitymedia Gigabit Republic" (18 July 2019); Telefónica Deutschland Holding AG press releases: "High-speed internet via cable: Telefónica Deutschland and Vodafone cooperate in fast cable connections" (7 May 2019) and „For accelerated growth in the fixed network: O2 reinvents the Home-Internet" (20 October 2020); Tele Columbus: Press release: "Tele Columbus signs agreement about a long-term wholesale cooperation with Telefónica Deutschland" (30 October 2019);

On 19 August 2020, the BNetzA published the "Spectrum Compass 2020", which contains initial considerations on the future availability of frequencies for mobile radio. The first aim of the Spectrum Compass is to establish the facts and the concerns of the market players. This includes in particular the frequency usage rights in the 800 MHz, 1800 MHz and 2.6 GHz ranges, which expire at the end of 2025. The Telefónica Deutschland Group and other interested parties submitted comments on time.

BNetzA takes next steps to allocate frequencies above 24 GHz

The BNetzA is preparing an application procedure for the frequency range above 24 GHz, initially for 26 GHz. Local allocations are envisaged in this procedure, particularly for 5G applications. To this end, the BNetzA had submitted a draft of the basic framework conditions for consultation until 21 February 2020, on which the Telefónica Deutschland Group also issued a statement. Based on the basic framework conditions, the BNetzA has developed the draft of the "Administrative Regulation on Frequency Allocations for Local Broadband Frequency Uses in the 24.25 – 27.5 GHz Frequency Range (VV Local Broadband 26 GHz)", under which the frequencies are to be allocated by way of an application procedure. The BNetzA submitted the draft for consultation in July 2020, in which the Telefónica Deutschland Group participated with a statement. The BNetzA started the application procedure on 1 January 2021. This is a so-called "Day-One Procedure", according to which all applications for allocation that exist by 31 March 2021 are deemed to be submitted at the same time; applications that are received after 31 March 2021 are treated on the basis of the "first-come-first-served" procedure.

BNetzA continues consultation on the allocation of frequencies in the 450 MHz range

In January 2020, the Federal Network Agency published the first key points on the allocation of frequencies in the 450 MHz range for comment and at the same time carried out an identification of demand procedure, in which the Telefónica Deutschland Group participated. Based on the comments received on the benchmarks and the identification of demand, a draft award decision was prepared and put out for public comment in July 2020. Accordingly to the draft decision, the frequencies are to be allocated in a tendering procedure for nationwide use and primarily for coverage of critical infrastructures. The Telefónica Deutschland Group submitted its comments on the consultation draft within the deadline. On 16 November 2020, the BNetzA published the decision of its President´s Chamber on the order for and choice of proceedings for award the determinations and rules in detail (award rules) and the determinations and rules for conduct of the proceedings (tendering rules) for spectrum in the 450 MHz band for mobile/fixed communications networks (MFCN). With the publication of this decision, the tendering procedure was opened and applications could be submitted until 18 December 2020. The Telefónica Deutschland Group did not submit an application.

2019 auction to provide new frequencies for the further development of digital infrastructures

The action brought by the Telefónica Deutschland Group against the decisions issued on 14 May 2018 by the President´s Chamber of the BNetzA (President´s Chamber Decisions I and II) about the structure and choice of procedure governing the award of frequencies in the 2 GHz and 3.6 GHz ranges for wireless network access was rejected by the Cologne Administrative Court on 18 February 2019. The Telefónica Deutschland Group had lodged an appeal against this decision with the Federal Administrative Court in Leipzig. The Federal Administrative Court rejected the action in the last instance on 24 June 2020. This concluded the legal action.

The action brought by the Telefónica Deutschland Group against the decisions issued on 26 November 2018 by the President´s Chamber of the BNetzA (President´s Chamber Decisions III and IV) about the rules governing the award and the auction of frequencies in the 2 GHz and 3.6 GHz ranges was rejected by the Cologne Administrative Court in a ruling handed down on 17 February 2020. As an appeal against this ruling was not allowed, the Telefónica Deutschland Group lodged an appeal against denial of leave to appeal with the Federal Administrative Court in Leipzig. By decision of 6 November 2020, the Federal Administrative Court allowed the appeal. The legal action will be continued in 2021.

Coverage requirements resulting from the 2015 frequency auction

In the view of the BNetzA, the Telefónica Deutschland Group was unable to meet the coverage requirement resulting from the 2015 frequency auction on schedule. This requirement stipulates that, from 1 January 2020, 98% of households throughout Germany and 97% of households in each federal state must be fully covered with a minimum data rate of 50 Mbit/s per antenna sector, as well as the main traffic routes, insofar as this is legally and actually possible. The BNetzA set the Telefónica Deutschland Group a grace period until 31 December 2020, adding two milestones of 30 June and 30 September. A grace period until 31 July 2020 was provided for reaching the first milestone as a result of delays caused by the COVID-19 pandemic, for example by disrupting supply chains. This grace period was met on schedule. The second milestone of 30 September 2020 was met on time. The Telefónica Deutschland Group complied with the grace period until 31 December 2020 and informed the BNetzA at the beginning of 2021 that the coverage requirements have been achieved in relation to the households nationwide and in every federal state and in relation to the main traffic routes, where legally and actually possible. The BNetzA is currently examining the supply data provided by the Telefónica Deutschland Group.

Second Mobile Communications Summit 2020

On 16 June 2020, a joint statement was issued at the Second Mobile Communications Summit by the German federal government, the federal states, local umbrella organisations and the mobile network operators and operators of mobile communications sites involved in the mobile network expansion, with the participation of the Telefónica Deutschland Group. This announcement included a federal support programme worth EUR 1.1 billion to close the “white spots” at up to 5,000 sites. The programme is to be coordinated by a mobile network infrastructure company set up by the federal government. In addition, the federal government, federal states and local authorities have agreed to provide suitable public-sector land and infrastructure for the mobile network expansion and to speed up approval procedures. The federal government, together with the federal states, local authorities and the academic community, wants to achieve more acceptance of mobile network expansion by the population through a communication initiative. It was also announced that the cooperation of all parties involved in mobile network expansion on railway lines is to be stepped up and that the federal government will provide EUR 150 million to support migration to the digital wireless communications system for railway services, GSM-R.

Telecommunications market

Telefónica Deutschland Group cooperates with Telefónica Infra, S.L.U. and Allianz Group to establish a fibre optic joint venture

On 29 October 2020, the Telefónica Deutschland Group agreed with Telefónica Infra, S.L.U. and the Allianz Group to establish a joint venture to roll out fibre-to-the-home (FTTH) connections in Germany. The EU Commission cleared the transaction under the merger control procedure by decision of 11 December 2020. For further information, please refer to the section >MANAGEMENT REPORT OPPORTUNITIES.

Conditions from the Merger of Telefónica and E-Plus

In December 2019, the Telefónica Deutschland Group agreed on a spectrum lease with the 1&1 Drillisch Group, according to which the Telefónica Deutschland Group will lease a spectrum package of 2 x 10 MHz in the range at 2.6 GHz to 1&1 Drillisch until the end of the term at the end of 2025. In return, the Telefónica Deutschland Group receives an annual usage fee. The spectrum lease agreement was approved by the BNetzA and put into effect at the beginning of 2020. With this spectrum lease, the Telefónica Deutschland Group fulfils another EU requirement imposed by the EU Commission arising from the merger of the Telefónica Deutschland Group and E-Plus in 2014.

In arbitration proceedings between the Telefónica Deutschland Group and 1&1 Drillisch, the independent expert informed the parties on In an arbitration procedure regarding the demand of the Telefónica Deutschland Group for a participation of 1&1 Drillisch in the costs for the spectrum auction 2015, the independent expert made the final decision on 17 December 2020. In the decision, the independent expert rejected a participation of 1&1 Drillisch only for the period from 2016 until 2020 and furthermore determined that for the years from 2021 onwards, the Telefónica Deutschland Group is entitled to apply for relevant review regarding a cost participation on the basis of the expert report.

On 22 February 2019, the EU Commission opened formal proceedings against the Telefónica Deutschland Group by submitting its grounds for objection arising from the implementation of 4G wholesale access as a result of the merger between the Telefónica Deutschland Group and E-Plus. The Telefónica Deutschland Group responded to the complaints on 26 April 2019. The Telefónica Deutschland Group has also adjusted the conditions of the 4G access offer in the first half of 2020.

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

The EU Electronic Communications Code entered into force on 20 December 2018 and is to be transposed into national law by 20 December 2020. The EU Code provides for a fundamental revision of the rules for the telecommunications industry. Core aspects include the standardisation of consumer protection regulations under telecommunications law in Europe, extending the regulatory targets to include "encouraging investment in very high-capacity networks" and considerations on the regulation of OTT services. The proposal also contains regulations on frequency usage, investment-friendly access regulation and the future institutional framework. In addition, the EU Commission can set maximum charges for fixed line and mobile termination rates by means of a delegated act.

For transposition into national law the German legislature is preparing a corresponding amendment to the Telecommunications Act (TKG Amendment). The national legislative process is delayed and it is uncertain whether the EU Code will be implemented on time. A draft bill, for example, was only officially published on 9 December 2020. According to the draft bill, a considerable implementation effort is expected in the area of consumer information and contract design, as well as an expansion of customer rights with regard to contract terms and compensation for damages. Based on the German implementation of the universal service obligation, the Telefónica Deutschland Group could also be required to make a compensation payment for the expansion of universal service.

Discontinuation of data retention by BNetzA

In 2017, BNetzA published a notification according to which it will refrain from issuing ordinances and taking other measures to enforce the retention obligations in respect of all companies required to do so until the lawfulness of the retention obligations had been legally clarified. For this reason, Telefónica Deutschland Group temporarily discontinued the retention in 2017. The legally binding clarification of the legality of the storage obligation also continued in 2020.

Access and price regulation

Roam-like-at-home

In 2017, the Federation of German Consumer Organisations (Verbraucherzentrale Bundesverband e.V. – vzbv) issued a warning to Telefónica Germany GmbH & Co. OHG with regard to individual aspects of the implementation of Roam-like-at-home and brought an action before the Munich Regional Court I in spite of the fact that said implementation was in line with the specifications of the Federal Network Agency (Bundesnetzagentur – BNetzA). The legal proceedings before Munich Regional Court I were concluded by way of mutual agreement following a preliminary ruling by the Court of Justice of the European Union of 3 September 2020.

MTR and FTR

As a result of the BNetzA decision of 28 November 2019, the mobile termination rates (MTR) of EUR 0.90 cents per minute, which have been in force since 1 December 2019, have been reduced to EUR 0.78 cents per minute since 1 December 2020. A charge of EUR 0.70 cents per minute is then approved for the period from 1 December 2021 to 31 December 2022. The ruling is subject to the revocation proviso that a delegated act sets uniform rates throughout Europe.

As a result of the BNetzA decision of 28 June 2019, the fixed network termination rates (FTR) for 2020 have decreased from EUR 0.08 cents per minute to EUR 0.06 cents per minute. EUR 0.05 cents per minute has been approved for 2021. This decision is also subject to the revocation proviso that a delegated act sets uniform rates throughout Europe.

From 31 December 2020, a delegated act is to be adopted as part of the revision of the European regulatory framework for telecommunications services, which will set a Europe-wide maximum limit for the MTR and FTR. In August 2020, the EU Commission published a draft delegated act. It provides for a glide path for MTRs, according to which MTRs may not exceed EUR 0.70 cents per minute by the end of 2021, EUR 0.55 cents per minute by the end of 2022 and EUR 0.40 cents per minute by the end of 2023. From 2024, the MTR cap will be EUR 0.20 cents per minute. FTRs must not exceed EUR 0.07 cents per minute. These maximum charges will apply to all German providers of these services. In other European countries, different glide paths apply to some providers. It is currently being discussed whether and how these maximum limits should also apply to non-geographic phone numbers and possibly to service phone numbers. The BNetzA plans to abolish the current charge approval requirement so that regulated charges would be replaced by maximum charges. The implementation proposals of the EU Commission and the BNetzA are currently subject to public consultation and may therefore change. Currently, the delegated act is expected to become effective in the second quarter of 2021.

Mobile number porting fees

In a notification issued on 17 April 2020, the BNetzA ordered a porting fee of EUR 5.73 (plus value-added tax) for the porting of a mobile number at retail customer level, in a procedure for retroactive price regulation effective 20 April 2020. The fee applies to the company's own retail customers who switch to another provider. The Telefónica Deutschland Group implemented the order within the specified time limit.

BNetzA consultation and market investigation on fibre-optic infrastructures continues

The investigations initiated by the BNetzA in 2017 on "Issues of price regulation for FTTH/B-based wholesale products with a view to the roll-out of high-performance fibre-optic infrastructures" as well as on the need for regulation and the existence of significant market power on markets 3a (= market for wholesale access provided locally at a fixed location) and 3b (= market for wholesale mass market products provided centrally at a fixed location) continued in 2020. The core issues of these investigations were the questions of the regulatory support for an accelerated roll-out of fibre-optic networks based on charges and the allocation of FTTH/B-based wholesale products to the nationwide access market, which also includes copper-based and cable connections. For market 3a, the BNetzA has found Telekom Deutschland GmbH to have nationwide market dominance for ADSL, VDSL and FTTH. In the next step, the BNetzA will impose the necessary regulatory obligations on Telekom Deutschland GmbH. A draft decision is expected in the first quarter of 2021. Regarding market 3b, the BNetzA published a draft decision in the third quarter of 2020 in which the market dominance of Telekom Deutschland GmbH will be permitted only for cities with more than 60,000 inhabitants. It can be assumed that this market analysis result will not be finally decided until 2021. Subsequently, the BNetzA will also have to decide on the obligations to be imposed on Telekom Deutschland GmbH for market 3b.

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

On 1 October 2020, the Telefónica Deutschland Group concluded long-term binding preliminary agreements with Telekom Deutschland GmbH in which the future access entitlements and corresponding conditions for access to xDSL and FTTH accesses are defined. The main conditions will apply from 1 April 2021. The majority of the agreed conditions are subject to regulation. It has been agreed that the corresponding procedures with the BNetzA should be started by Telekom Deutschland GmbH in the fourth quarter of 2020 and completed by the first quarter of 2021 at the latest. The signed contracts are available to the BNetzA for review. The contracting parties have made a binding commitment to sign the final and fully negotiated contracts after completion of the procedures at the BNetzA.

Overview of the Financial Year 2020

Operational Performance
Telefónica Deutschland Group's core business remained intact in 2020, even in the midst of the macroeconomic recession driven by COVID-19. Nevertheless, the company was not completely immune to the effects of the pandemic due to the restrictions imposed by the government. In a continued dynamic but rational market environment in the German mobile communications market, the Telefónica Deutschland Group again recorded solid customer development in 2020. This resulted in particular from the traction of the O_2 Free portfolio and historically low churn rates. In total, the Group recorded 1,043 thousand postpaid net adds (1,451 thousand in 2019) and 218 thousand M2M net adds (4 thousand in 2019) during the financial year, thanks to the positive performance of the consumer business combined with a robust partner business. In the prepaid business, a continuing prepaid-to-postpaid migration trend was evident in the market. In light of this, the Telefónica Deutschland Group recorded a decline in accesses of 813 thousand in 2020 (-447 thousand in the previous year).

Overall, the number of mobile accesses increased by +1.0% in 2020 and amounted to 44.3 million at year-end. The strongest driver was growth (+4.6% year-on-year) in the mobile postpaid segment excluding M2M, which recorded 23.6 million accesses as of 31 December 2020 (53.3% of the total mobile base, +1.8% percentage points year-on-year). The company's focus on customer retention measures and continued improvements in network quality, as well as tailwinds from COVID-19, resulted in historically low churn rates. The implied annualised churn rate for the O_2 brand improved to 13.1% compared to 15.5% in 2019, demonstrating sustained quality improvements and a multiple award-winning customer experience in the O_2 network. The number of M2M accesses as of 31 December 2020 was 1.4 million, up 18.3% year-on-year. In contrast, mobile accesses in the mobile prepaid segment fell by 4.0% year-on-year to 19.3 million.

While domestic business activity has been able to nearly completely recover from the COVID-19 effects in the meantime, the new lockdown since mid-December 2020 has impaired retail sales due to the closure of shops. This can be partly compensated by the optimisation in the direction of online channels. The ARPU trends in the financial year 2020 crucially reflect the development of the roaming revenues. These were impacted by the ongoing travel restrictions, counteracting the continued positive ARPU contributions from the successful marketing of the O_2 Free portfolio and from value-added services. Own brand postpaid ARPU declined by 1.3% year-on-year in 2020. Excluding the loss of roaming revenue, own brand ARPU increased by 0.1% year-on-year in 2020.

We also recorded good demand for our O_2 my Home products in the fixed-line business and realised 55 thousand net adds (127 thousand in 2019), mainly driven by the high demand for VDSL services. The fixed-line customer base rose accordingly by 2.5% to a total of 2.3 million.

Financial Performance
Revenue in the 2020 financial year was EUR 7,532 million, an increase of 1.8% compared to the previous year and thus in line with expectations. This was driven by intact operating trends in mobile service revenues and fixed line revenues while absorbing the COVID-19 impact of approximately EUR -72 million, as well as robust demand for devices. Adjusted for the COVID-19 impact, revenue growth in 2020 would have been approximately 1.0 percentage points higher.

Operating income before depreciation and amortisation (OIBDA) adjusted for exceptional effects amounted to EUR 2,319 million in the reporting year, +0.2% compared to the previous year. The adjusted OIBDA margin of 30.8% (-0.5% percentage points year-on-year) was the result of the improved revenue mix and efficiency gains in operations, while COVID-19 dampened performance, particularly due to a lack of roaming revenue. The COVID-19 impact amounted to approximately EUR -58 million in the financial year 2020. Adjusted for these effects, growth in OIBDA adjusted for exceptional effects would have been approximately 2.5 percentage points higher in the reporting year.

Exceptional effects totalled EUR 364 million in the 2020 financial year (previous year: EUR -23 million) and mainly comprised the net disposal gain of EUR 407 million from the first transaction step in the sale of major parts of the business operations of the rooftop sites to Telxius Telecom, S.A. (>NOTES NO. 8 DISPOSAL GROUP). This was partly offset by restructuring expenses of EUR -38 million (previous year: EUR -22 million) and losses of EUR -5 million from the sale of spectrum licences.

Capital Expenditure

Capital expenditure (CapEx) amounted to EUR 1,094 million in 2020 (previous year: EUR 1,044 million) with a CapEx/Sales ratio of 14.5% (previous year: 14.1%). Within the current growth-oriented investment programme, the investment ratio in 2020 reflects, among other things, COVID-19-related postponements of some investments to the next years. The execution of the programme will take slightly more time overall as a result of COVID-19, but the total volume of investments remains within the expected range. Despite this, the LTE expansion made steady progress and the Telefónica Deutschland Group successfully reached the milestone agreed with the Federal Network Agency for the end of the year. In addition, the Telefónica Deutschland Group's 5G network went live in the first 15 German cities in October 2020 and will be rapidly expanded in the coming months.

T 01

OVERVIEW OF FINANCIAL YEAR 2020

	Actual 2019 (EUR million)	Outlook for 2020 (year-on-year in %)	2020 financial year (year-on-year in %)	Evaluation
Revenues	7,399	Flat to slightly positive year-on-year	EUR 7,532 million (+1.8%)	As expected
OIBDA adjusted for exceptional effects	2,316	Broadly stable to slightly positive year-on-year	EUR 2,319 million (+0.2%)	As expected
CapEx/sales ratio[11]	14.1%	< 17 – 18%	14.5%	As expected

Sale of major parts of the business operations of the rooftop sites

On 8 June 2020, the Telefónica Deutschland Group signed a comprehensive conglomerate of agreements with Telxius Telecom, S.A. („Telxius"), an affiliate of Telefónica, S.A. Group, for the sale of major parts of the business operations of the rooftop sites.

This includes the spin-off and sale of a large part of its passive infrastructure on approximately 10,080 mobile communications sites, consisting of around 10,000 rooftop sites and up to 80 tower sites, including the related lease agreements, associated assets and liabilities, know-how and other legal relationships, at a nominal purchase price of EUR 1.5 billion.

The active radio technology at the transferred stations remains the property of the Telefónica Deutschland Group and will continue to be used by the company, unchanged, for operation of the mobile communications network.

The transaction takes place in two steps: on 19 August 2020, approximately 60% of the sites (5,975 rooftop sites and 58 tower sites) were spun off into Telefónica Germany Mobilfunk Standortgesellschaft mbH („TGMS"), which was established in the first half of 2020. The shares in this company were transferred to Telxius on 1 September 2020. Subsequently, TGMS was renamed Telxius Towers Erste GmbH and merged into Telxius Towers Germany GmbH („Telxius Germany").

A further approx. 40% of the sites are expected to be spun off in the second half of 2021 into Telefónica Germany Zweite Mobilfunk Standortgesellschaft mbH, which was also newly founded in the reporting period and whose shares will then also be transferred to Telxius. The sites affected by this cannot be determined as of the publication date, as the specific selection of the individual transfer sites is not expected to take place until the end of the second quarter of 2021.

The specific selection of the individual sites to be transferred takes place on the basis of the technical condition of the individual locations and economic criteria. The negotiations with the landlords are not yet completed.

Due to the specific selection of the individual transfer sites prospectively only at the end of the second quarter of 2021, the related assets and liabilities cannot be identified individually at the end of the reporting period, so that no presentation is made of the transferable assets and liabilities as "held for sale" in accordance with IFRS 5.

The purchase price receivable, taking into consideration the purchase price adjustment from the first step of the transaction, amounts to EUR 945 million, thereof EUR 766 million was already paid in the reporting period. The portion of the purchase price receivable not yet due in the amount of EUR 179 million is due for payment in 2021 with a share of EUR 33 million. A further EUR 146 million will become due for payment in 2025.

Since the transfer of TGMS to Telxius, the Telefónica Deutschland Group is leasing areas on the transferred passive infrastructure from Telxius for the installation and operation of its active radio technology.

Business development is further detailed in the following sections.

[11] The CapEx/sales ratio of 17 – 18% that was originally forecast for 2020 was updated to < 17 – 18% when the results for the first half-year 2020 were published.

Results of Operations

T 02

CONSOLIDATED INCOME STATEMENT

1 January to 31 December

(in EUR million)	2020	2019	Change	% change
Revenues	**7,532**	**7,399**	**133**	**1.8**
Other income	542	183	359	>100
Operating expenses	(5,391)	(5,290)	(102)	1.9
Supplies	(2,435)	(2,372)	(63)	2.6
Personnel expenses	(611)	(592)	(19)	3.2
Impairment losses in accordance with IFRS 9	(69)	(77)	8	(9.8)
Other expenses	(2,276)	(2,249)	(27)	1.2
Operating income before depreciation and amortisation (OIBDA)	**2,683**	**2,292**	**391**	**17.0**
OIBDA margin	***35.6%***	***31.0%***	**–**	***4.6%-p.***
Depreciation and amortisation	(2,369)	(2,416)	47	(1.9)
Operating income	**314**	**(124)**	**437**	**>100**
Financial result	(66)	(55)	(10)	18.5
Profit/(loss) before tax	**248**	**(179)**	**427**	**>100**
Income tax	80	(33)	113	>100
Profit/(loss) for the period	**328**	**(212)**	**540**	**>100**

T 03

REVENUE BREAKDOWN

1 January to 31 December

(in EUR million)	2020	2019	Change	% change
Mobile business	**6,730**	**6,647**	**83**	**1.2**
Mobile service revenues	5,307	5,301	6	0.1
Handset revenues	1,423	1,346	77	5.7
Fixed-line/DSL business revenues	**785**	**741**	**44**	**6.0**
Other revenues	**17**	**11**	**6**	**53.9**
Revenues	**7,532**	**7,399**	**133**	**1.8**

T 04

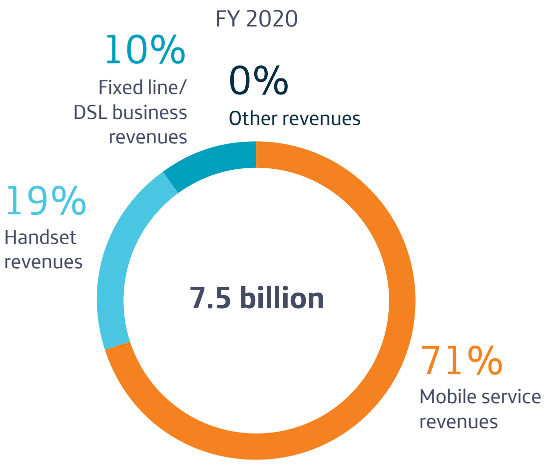
RECONCILIATION OF PERFORMANCE INDICATORS ALSO USED FOR THE INTERNAL MANAGEMENT

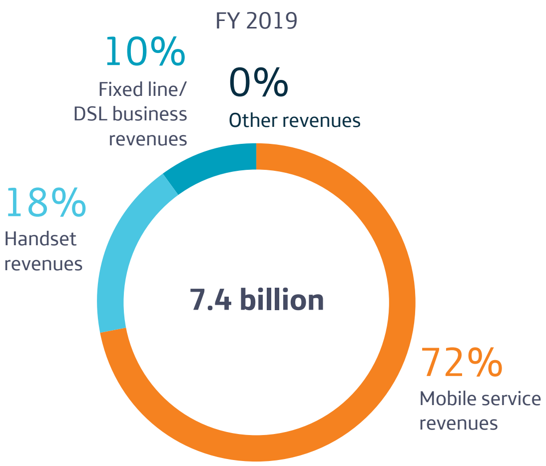
1 January to 31 December

(in EUR million)	Consolidated Income Statement 2020	Exceptional effects from restructuring 2020	Exceptional effects from the sale of major parts of the business operations of the rooftop sites 2020	Other exceptional effects 2020	2020 adjusted	2019 adjusted	Change	% change
Revenues	**7,532**	**–**	**–**	**–**	**7,532**	**7,399**	**133**	**1.8**
Other income	542	–	(407)	(4)	132	183	(51)	(27.8)
Operating expenses	(5,391)	38	–	9	(5,345)	(5,266)	(79)	1.5
Supplies	(2,435)	–	–	–	(2,435)	(2,372)	(63)	2.6
Personnel expenses	(611)	28	–	–	(583)	(587)	4	(0.6)
Impairment losses in accordance with IFRS 9	(69)	–	–	–	(69)	(77)	8	(9.8)
Other expenses	(2,276)	10	–	9	(2,257)	(2,230)	(27)	1.2
Operating income before depreciation and amortisation (OIBDA)	**2,683**	**38**	**(407)**	**5**	**2,319**	**2,316**	**4**	**0.2**

G 05

REVENUES
(IN % AND EUR BILLION)





Increase in revenue
The revenue in the financial year 2020 increased in all revenue components in a year-on-year comparison, mainly thanks to the growth in the mobile hardware and fixed line/DSL business overcompensating the negative COVID-19 impacts of approximately EUR 72 million.

Stable mobile service revenues
The development of mobile services revenue was negatively impacted by COVID-19 effects in the 2020 financial year. This was reflected in a very limited contribution from roaming, especially as of the second quarter of 2020, as a result of the ongoing travel restrictions. In addition, the temporary lockdown in the second quarter and in the second half of December led to less trading, less gross new subscribers and lower demand for mobile voice and data packages in the prepaid segment as a result of the shift to WLAN use at home. The Telefónica Deutschland Group still operates in a dynamic competitive environment that is impaired by COVID-19. The above-mentioned negative revenue effects were counteracted by the continuing rise in data usage and sustained demand for the O_2 Free portfolio among new and existing customers. The larger customer base compared to 31 December 2019 is also a result of the robust development of our partner brands. Therefore, our postpaid mobile subscriber base excluding M2M grew by 1,043 thousand net new customers to 23.6 million in the financial year 2020 (increase in 2019: 1,451 thousand). This led to a 1.8 percentage point increase in the postpaid share of total mobile customers excluding M2M to 53.3% as of 31 December 2020 compared to 31 December 2019. Due to the factors described above, the average revenue per user (ARPU) was slightly below the previous year's level at EUR 9.9 (financial year 2019: EUR 10.0). As a result of the steady increase in LTE network coverage and a growing number of LTE-enabled mobile devices, the use of mobile audio and video applications is increasing and, as a consequence, the demand for larger data packages. Non-SMS data revenues as a percentage of data revenues rose by 1.1 percentage points to 91.8% in financial year 2020 compared to the previous year.

Significant increase in handset revenues
Handset revenues are generally subject to fluctuation, as they depend on the launch of new mobile devices. Due to continued high demand for mobile devices in financial year 2020, revenue from sales of increasingly high-end devices – including to mobile service partners – significantly increased year on year.

Rise in fixed line/DSL business revenues

Revenues from fixed line business rose in financial year 2020. This is mainly due to the growing customer base and the continued demand for VDSL products and the associated higher share of the customer base.

Other income increased as a result of the sale of major parts of the business operations of the rooftop sites

Other income increased significantly to EUR 542 million in the financial year 2020 (previous year: EUR 183 million). This mainly includes a net gain on disposal of EUR 407 million in connection with the first transaction step of the sale of major parts of the business operations of the rooftop sites to Telxius, which was completed on 1 September 2020 (>NOTE 8 DISPOSAL GROUP).

Higher operating expenses

Operating expenses increased in the financial year 2020 in comparison to the previous year, mainly due to the higher hardware cost of sales for mobile devices, as a consequence of the increase in sales cost and due to higher connectivity costs in connection with the COVID-19 pandemic. Operating expenses include exceptional effects of EUR 46 million (previous year: EUR 23 million), which are mainly attributable to higher restructuring expenses and to a lesser extent to disposal losses from the sale of spectrum licences. The decrease in customer service costs and allowances for bad debts compared to the prior-year period had a counteracting effect.

Increase in cost of materials and supplies

The cost of supplies in the financial year 2020 was higher than in the previous year. This is mainly due to the increased hardware cost of sales for mobile devices. The cost of connectivity was also slightly higher year-on-year. This was due particularly to the increase in voice volume for mobile and fixed-line communications resulting from the COVID-19 pandemic and higher data usage in the fixed-line network.

Rise in personnel expenses in a year-on-year comparison

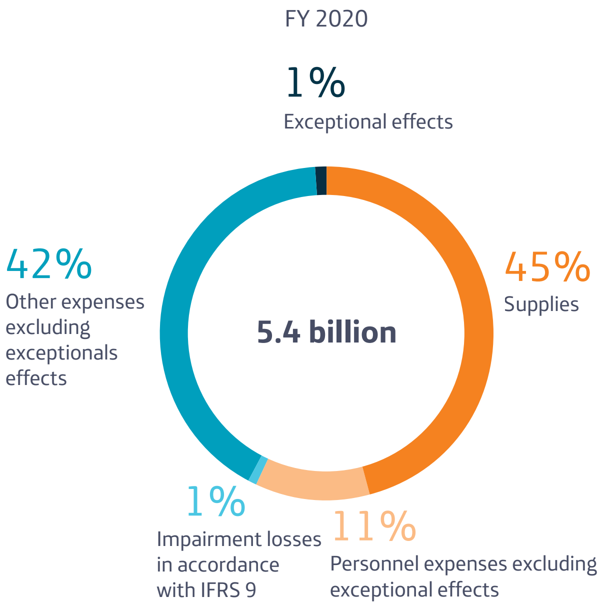
The personnel expenses grew in the 2020 financial year, particularly due to higher network restructuring expenses in the reporting period in the amount of EUR 28 million (2019 financial year: EUR 5 million) and through wage and salary adjustments. The reduction of personnel expenses due to a decline in the headcount in comparison to the previous year had a counteracting effect.

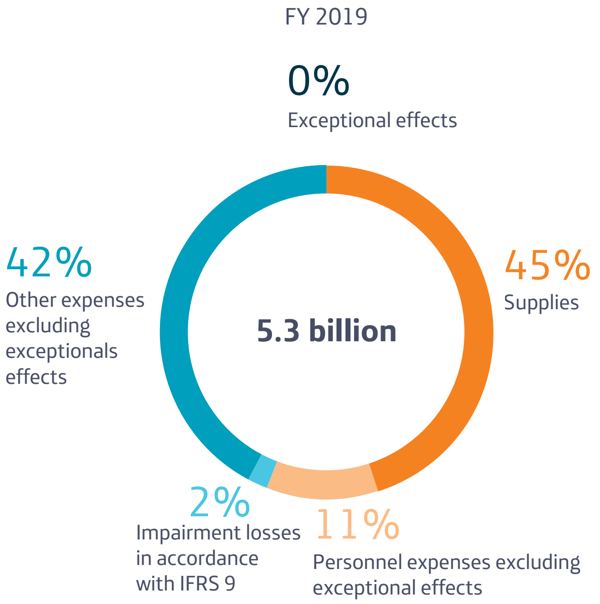
Other expenses slightly increased

Other expenses increased slightly in the 2020 financial year. This is essentially due to the higher sales costs in the year-on-year comparison. This was offset by lower restructuring expenses of EUR 10 million (previous year: EUR 17 million), which is mainly related to measures in the network area. In total, the exceptional effects amounted to EUR 19 million, as in the previous year.

G 06

OPERATING EXPENSES
(IN % AND IN EUR BILLION)



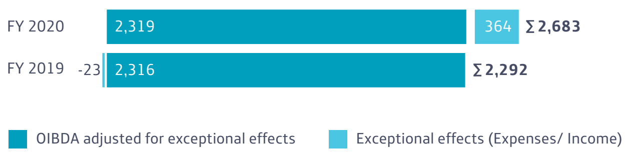


OIBDA adjusted for exceptional effects stable

OIBDA adjusted for exceptional effects was EUR 2,319 million in the 2020 financial year and therefore essentially at the level of the previous year (EUR 2,316 million). Negative COVID-19 effects of approximately EUR 58 million were essentially compensated by the revenue growth. The exceptional effects in the amount of EUR 364 million (previous year: EUR -23 million) in the financial year 2020 mainly comprised the net gain on disposal of EUR 407 million from the first transaction step of the sale of major parts of the business operations of the rooftop sites to Telxius and the restructuring expenses of EUR 38 million. As a result, OIBDA increased to EUR 2,683 million (previous year: EUR 2,292 million).

G 07

OIBDA
(IN EUR MILLION)



Decline in depreciation and amortisation

Depreciation and amortisation fell by a total of EUR 47 million to EUR 2,369 million in the financial year 2020. Depreciation and amortisation particularly decreased as a result of the network consolidation completed in the previous year, while the shorter useful life of 3G assets due to the planned shutdown of the 3G network by the end of 2021 had the opposite effect.

Operating income improved

The improvement in operating income was mainly due to the net gain on disposal of EUR 407 million as a result of the completed first transaction step of selling major parts of the business operations of the rooftop sites to Telxius.

Financial result affected by the interest effect of spectrum payables

The change in the financial result from EUR -55 million to EUR -66 million in the reporting period is primarily due to the interest effect of spectrum payables, which were recognised for the first time in the second half of 2019.

Income tax

The Telefónica Deutschland Group recorded positive taxable income in 2020 after proportionate offsetting with tax losses carried forward and consequently recognised provisions for current income taxes in the amount of EUR 15 million. The taxable income is thereby largely impacted by the spinning-off and sale, by way of initial transaction step, of material parts of the business operations of the rooftop locations. With the spin-off, hidden reserves were realised for tax purposes and subjected to tax within the minimum tax regime (proportional taxation with 60% utilisation of tax losses carried forward). Without the aforementioned transaction, no current tax would have been recognised.

The tax income of EUR 80 million reported in the financial year includes tax expenses of EUR 15 million for income tax liabilities made and counteracting tax income of EUR 95 million from changes in deferred taxes. Deferred tax income comprises, in addition to other effects, the expected taxable revenues and the associated proportional use of tax loss carry forwards for the spin-off of additional material parts of the business operations of the rooftop sites to Telefónica Germany Zweite Mobilfunk Standortgesellschaft mbH in 2021 that was contractually agreed as part of the second transaction step. In the previous year, deferred tax expenses amounted to EUR 33 million.

Positive result for the period

The result for the financial year 2020 was positive at EUR 328 million, after a negative result of EUR 212 million was posted in the previous year. This was mainly due to the net gain on disposal of EUR 407 million from the first transaction step of the sale of major parts of the business operations of the rooftop sites to Telxius. Furthermore, the reported tax income contributed to the improvement of the result.

Financial Position

Principles and goals of financial management

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

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

Finance

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

Refinancing of the syndicated loan
On 22 March 2016, the Telefónica Deutschland Group signed a syndicated credit line in the amount of EUR 750 million, which on 17 December 2019 was replaced by a new revolving syndicated credit line in the same amount with a term until 17 December 2024. In 2020, the term of this credit line was extended by one year until 17 December 2025. The credit line serves general corporate purposes and has not been drawn as of 31 December 2020.

Financing agreements with the European Investment Bank (EIB)
On 13 June 2016, the Telefónica Deutschland Group signed its first financial agreement with the EIB, which amounted to EUR 450 million. The facility is intended to finance the consolidation, modernisation and expansion of the Telefónica Deutschland Group's mobile network after the acquisition of the E-Plus Group and was fully utilised as of 31 December 2020. The funds provided by the EIB have terms of up to eight years.

Further financing agreements with the EIB were signed on 18 December 2019 for EUR 300 million and on 14 January 2020 for EUR 150 million. This loan has not been drawn yet as of 31 December 2020. The EIB loan will also have a maturity of eight years as of drawdown and will be repaid in equal instalments.

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

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

T 05

NOMINAL AMOUNT

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

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

Unused credit facilities provide financial flexibility
The Group's financial flexibility remains secure reasoned to the availability of unused credit facilities totalling EUR 2,264 million. This comprises bilateral revolving credit facilities with various banks in the amount of EUR 610 million with a remaining term of more than one year, the undrawn syndicated credit line of EUR 750 million, the undrawn EIB loan of EUR 450 million and available short-term overdraft facilities of Telfisa Global B.V. of EUR 454 million.

Working capital strengthened by silent factoring
We have entered into factoring agreements with various credit institutions regarding the sale of receivables in order to strengthen our working capital. This mainly relates to factoring transactions for instalment receivables with a total net cash effect of EUR 611 million in financial year 2020. 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 2020 (>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, the Telefónica Deutschland Group has entered into agreements with certain commercial suppliers to extend payment periods. The industry-standard payment terms were not exceeded, so that a reclassification is not required, and the payments are shown within trade payables.

Financial analysis

Net financial debt declined
Net financial debt, as an essential component of the net leverage ratio, which amounts to 1.4x at the end of the reporting year, decreased by EUR 691 million to EUR 3,168 million as of 31 December 2020 compared to the previous year.

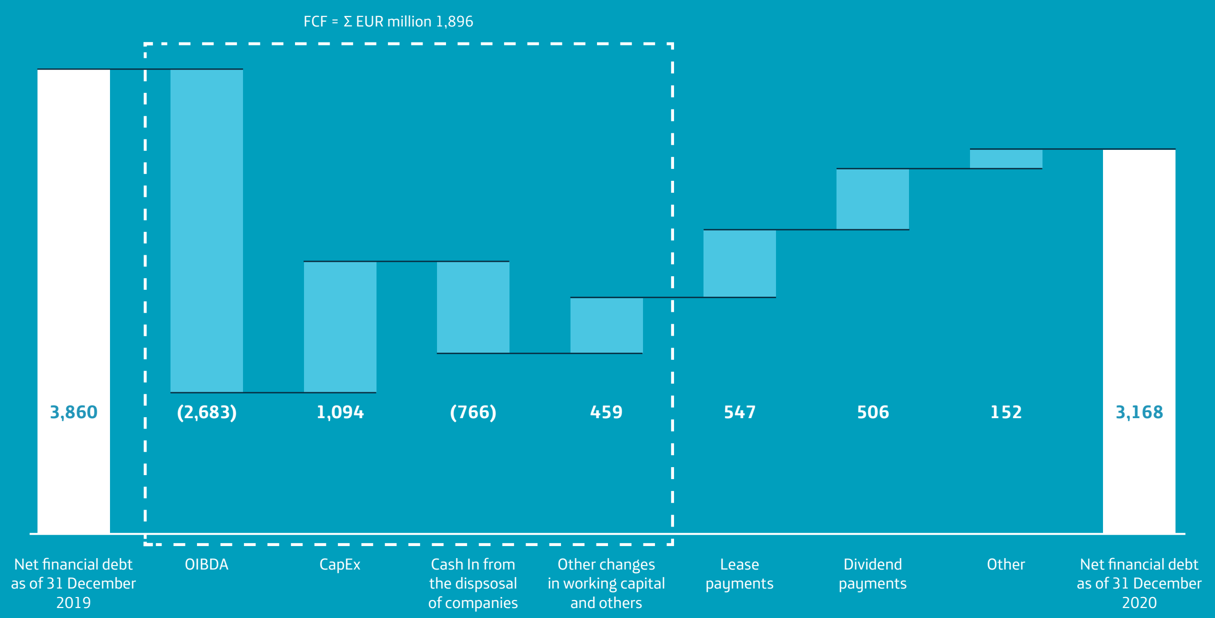
Table 6 shows the composition of net financial debt – i.e. the net amount of interest-bearing financial liabilities less any cash and cash equivalents and interest-bearing financial assets.

The reduction in net financial debt is due to the free cash flow in the amount of EUR 1,896 million, which includes the incoming payment for the purchase price receivable due in the financial year 2020 from the first transaction step of the sale of major parts of the business operations of the rooftop sites to Telxius in the amount of EUR 766 million. This was largely offset by the dividend payout of EUR 506 million for financial year 2019 and payments for lease liabilities totalling EUR 547 million.

The graphic below illustrates the development of net financial debt in the 2020 financial year.

G 08

DEVELOPMENT OF NET FINANCIAL DEBT
(IN EUR MILLION)



T 06

COMPOSITION OF NET FINANCIAL DEBT

As of 31 December

(in EUR million)	2020	2019	Change	% change
A Liquidity	1,337	781	556	71.2
B Current financial assets[1]	304	211	93	44.3
C Current financial debt[2]	1,229	801	428	53.5
D=C-A-B Current net financial debt	(412)	(191)	(221)	>100
E Non-current financial assets[1]	322	129	194	>100
F Non-current financial debt[2]	3,903	4,180	(277)	(6.6)
G=F-E Non-current net financial debt	3,581	4,051	(470)	(11.6)
H=D+G Net financial debt[3]	**3,168**	**3,860**	**(691)**	**(17.9)**

[1] Current and non-current financial assets include handset receivables not yet due, other interest-bearing assets, net investment (in accordance with IFRS 16), the positive performance of the fair value hedge for fixed interest financial debt and loans issued to third parties.

[2] Current and non-current financial debt 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 interest-bearing financial assets and interest-bearing financial and lease liabilities as well as cash and cash equivalents.

Notes:
Handset receivables are presented in trade receivables in the Statement of Financial Position.

Off-balance sheet obligations

The purchase and other contractual obligations increased by EUR 84 million to EUR 2,885 million due to higher purchase obligations, particularly for orders of hardware, higher contractual obligations of content providers and higher purchase obligations for service activities (> NOTE 19 PURCHASE AND OTHER CONTRACTUAL OBLIGATIONS).

Liquidity Analysis

T 07

CONSOLIDATED STATEMENT OF CASH FLOWS

1 January to 31 December

(in EUR million)	2020	2019
Cash flow from operating activities	2,134	2,015
Cash flow from investing activities	(238)	(992)
Free cash flow (cash flow from operating activities + cash flow from investing activities)	**1,896**	**1,023**
Cash flow from financing activities	(1,340)	(993)
Net increase (decrease) in cash and cash equivalents	**556**	**30**
Cash and cash equivalents at the beginning of the period	**781**	**751**
Cash and cash equivalents at the end of the period	**1,337**	**781**

Consolidated Statement of Cash Flows

The following is an analysis of the cash flow development of the Telefónica Deutschland Group in the financial years 2020 and 2019.

Slight improvement in cash flow from operating activities

Cash flow from operating activities amounted to EUR 2,134 million in financial year 2020, which represents an increase of EUR 119 million or 5.9 % over the previous year's figure of EUR 2.015 million. This development is largely due to the change in working capital, which amounted to EUR -83 million in the reporting period as compared to EUR -227 million in financial year 2019.

Cash flow from investment activities influenced by high cash inflows

Cash inflows increased to EUR 788 million (previous year: EUR 3 million) and this may be attributed, in particular, to the receipt of the purchase price, due in financial year 2020, in the amount of EUR 766 million from the first transaction step in the sale of material parts of the business operations of the rooftop locations to Telxius (>NOTE 8 DISPOSAL GROUP). Cash outflows largely comprised investments in plant and software, and increased slightly to EUR 1,026 million from EUR 995 million in the prior reporting period.

Free cash flow up

Free cash flow in the reporting period 2020 amounted to EUR 1,896 million, an increase of EUR 873 million compared to the same period of the previous year (EUR 1,023 million). The development is mainly due to the receipt of payment in the amount of EUR 766 million as a result of the purchase price receivable due in the 2020 financial year from the first transaction step of the sale of major parts of the business operations of the rooftop sites to Telxius (>NOTE 8 DISPOSAL GROUP).

Cash flow from financing activities affected by higher cash outflows

Cash outflows increased to EUR 2,131 million (previous year: EUR 1,821 million) and essentially include the repayment of the overdraft facility of Telfisa Global B.V. of EUR 791 million, the payments of EUR 547 million to redeem lease liabilities, the payment of the dividend of EUR 506 million and the repayment of promissory note loans in the amount of EUR 113 million and the EIB loan in the amount of EUR 75 million. In contrast, the financial year 2019 included the dividend payment of EUR 803 million, payments of EUR 484 million to redeem lease liabilities, and repayment of the EUR 330 million loan provided by Telfisa Global B.V. and of a EUR 75 million promissory note and the EIB loan in the amount of EUR 42 million.

Cash inflows decreased by EUR 37 million year-on-year to EUR 791 million. The change is due to reduced financial needs and primarily involves the utilisation of a short-term overdraft facility from Telfisa Global B.V. totalling EUR 791 million during the year. In comparison, the 2019 financial year saw the issue of a promissory note for EUR 360 million, the short-term utilisation of the loan from Telfisa Global B.V. in the amount of EUR 330 million and a further short-term credit facility of EUR 130 million.

Increase in cash and cash equivalents

As a result of the cash inflows/outflows described above, cash and cash equivalents decreased EUR 556 million year-on-year and amounted to EUR 1,337 million as of 31 December 2020 (31 December 2019: EUR 781 million).

Net Assets

T 08

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of 31 December

(in EUR million)	2020	2019	Change	% Change
Goodwill and other intangible assets	6,234	7,348	(1,114)	(15.2)
Property, plant and equipment	3,706	3,750	(43)	(1.2)
Right-of-use assets	2,852	2,499	353	14.1
Investments accounted for using the equity method	2	–	2	–
Trade and other receivables	1,454	1,469	(16)	(1.1)
Deferred tax assets	473	314	159	50.7
Other financial assets	368	150	218	>100
Other non-financial assets	639	675	(36)	(5.3)
Inventories	129	165	(35)	(21.5)
Cash and cash equivalents	1,337	781	556	71.2
Total assets = Total equity and liabilities	**17,194**	**17,151**	**43**	**0.3**
Interest-bearing debt	2,292	2,492	(200)	(8.0)
Lease liabilities	2,841	2,489	352	14.2
Trade and other payables	2,488	2,508	(20)	(0.8)
Payables – Spectrum	1,196	1,272	(77)	(6.0)
Provisions	850	729	122	16.7
Other non-financial liabilities	50	103	(53)	(51.7)
Income tax liabilities	15	–	15	–
Deferred income	768	710	58	8.2
Deferred tax liabilities	365	314	51	16.4
Equity	**6,330**	**6,534**	**(204)**	**(3.1)**

Decrease in goodwill and other intangible assets

The reduction in comparison to the previous year mainly resulted from scheduled depreciation on other intangible assets in the amount of EUR 1,017 million, as well as the disposal of proportionate goodwill in the amount of 347 million due to the sale of major parts of the business operations of the rooftop sites to Telxius. The disposal of the proportional goodwill is related to the first transaction step (>NOTE 8 DISPOSAL GROUP).

Additions of other intangible assets in the amount of EUR 280 million had an increasing effect.

Property, plant and equipment slightly reduced

The decrease in property, plant and equipment is mainly due to depreciation of EUR 827 million and the disposal of passive infrastructure of rooftop and tower sites with a net carrying amount of EUR 203 million due to the first step in the transaction governing the sale of major parts of the business operations of the rooftop sites to Telxius (>NOTE 8 DISPOSAL GROUP).

In contrast, additions in the financial year 2020 amount to EUR 814 million, which mainly relate to investments in the network (technical equipment) and additions of EUR 176 million (2019: EUR 80 million) in connection with assets relating to dismantling and retirement obligations, which are mainly due to the development of interest rates, higher cost estimates and increases in the quantity structure.

Increase in right-of-use assets
The increase in right-of-use assets is due in particular to additions of right-of-use assets of EUR 677 million from the leasing of space on the transferred passive infrastructure for the installation and operation of active radio technology from Telxius Germany from 1 September 2020, as well as further additions in the amount of EUR 482 million particularly regarding plants and land and buildings.

Disposals of right-of-use assets from the transfer of lease agreements with third parties to Telxius with a net book value in the amount of EUR 189 million due to the first step of the transaction governing the sale of major parts of the business operations of the rooftop sites (> NOTE 8 DISPOSAL GROUP) had a reducing effect as well as additional reductions in the amount of EUR 91 million and scheduled depreciation in the amount of EUR 525 million.

Investment ratio (CapEx/sales ratio) slightly increased
Capital expenditure (CapEx) increased slightly in the financial year 2020 to EUR 1,094 million, in comparison with EUR 1,044 million in 2019. The investment ratio in the reporting period therefore amounted to 14.5% (2019: 14.1%).

Investments accounted for using the equity method
The Investments accounted for using the equity method comprise the investments of Telefónica Deutschland Group in the newly founded fibre-optic companies in the financial year 2020 of the Telefónica Deutschland Group, with Telefónica Infra, S.L.U. and the Allianz Group (>MANAGEMENT REPORT BUSINESS ACTIVITY).

Deferred tax assets
The deferred tax assets grew in the financial year 2020 from EUR 314 million to EUR 473 million. In addition to other effects, the increase also includes the expected taxable income for the spin-off in 2021 of other major parts of the business operation of the rooftop sites to Telefónica Germany Zweite Mobilfunk Standortgesellschaft mbH, which has been contractually agreed as part of the second step in the transaction. With these revenues, tax losses carried forward become proportionally utilizable.

Other financial assets increased
The increase by EUR 218 million resulted mainly from the recognition of the portion of the purchase price receivable not yet due in the amount of EUR 179 million from the first transaction step of the sale of major parts of the business operations of the rooftop sites to Telxius (>NOTE 8 DISPOSAL GROUP).

Other non-financial assets slightly decreased
The decline is mainly due to the regular use of multi-year accruals.

Inventories of mobile devices decreased
The cause of the decline was the reduction of inventories due to the upcoming change of product portfolio with manufacturers, as well as due to shop closure resulting from the lockdown at the end of the financial year 2020.

Increase in cash and cash equivalents
The development is due to multiple effects, which are described in further detail in the chapter >MANAGEMENT REPORT FINANCIAL SITUATION.

Interest-bearing debt slightly down on previous year
The decrease resulted in particular from repayment of a promissory note of EUR 113 million and the partial repayment of a loan from the European Investment Bank of EUR 75 million.

Increase in lease liabilities
The increase in lease liabilities is due in particular to additions of lease liabilities of EUR 677 million from the leasing of space on the transferred passive infrastructure for the installation and operation of active radio technology from Telxius Germany from 1 September 2020.

Disposals of lease liabilities in the amount of EUR 180 million from the transfer of the lease agreements with third parties to Telxius as part of the first transaction step in the sale of material parts of the business operations of the rooftop locations (>NOTE 8 DISPOSAL GROUP), as well as an increase in lease payments in the amount of EUR 62 million as compared to financial year 2019, had a countervailing effect.

Decrease in trade and other payables
The decline in comparison to the previous year results from fluctuations in operations. An opposite effect had the increase in liabilities to affiliated companies due in particular to the liabilities to Telxius Germany, which arose due to the withdrawal of Telefónica Germany Mobilfunk Standortgesellschaft mbH from the group of consolidated companies in the amount of EUR 34 million and specifically contains net liabilities related to the spinoff and sale of a significant portion of the rooftop location business operation to Telxius (>NOTES NR. 8 DISPOSAL GROUP).

Payables – Spectrum
The payables are attributable to the outstanding payment obligations arising out of the mobile frequency auction in 2019 which decreased mainly as a result of the payment of instalments in the financial year.

Provisions up year on year

The provisions mainly increased due to the higher recognition of asset retirement obligations as a consequence of an interest rate change and cost rises of EUR 176 million, as well as due to the increase in pension provisions by EUR 35 million due to the interest rate development. In particular, the disposal of the asset retirement obligations in the amount of EUR 75 million due to the transfer of the passive infrastructure as well as the associated asset retirement obligations in connection with the first transaction step of the sale of major parts of the business operations of the rooftop sites to Telxius (>NOTE 8 DISPOSAL GROUP) had an offsetting effect. No further asset retirement obligations exist at the end of the reporting period for the transferred passive infrastructure of mobile communications sites.

Decrease in other non-financial liabilities

This decrease is largely the result of a lower amount of value-added tax liability.

Income tax liabilities

This item includes the first-time recognition of tax items with regard to income tax in the amount of EUR 15 million.

Increase in deferrals and accruals

Deferrals and accruals increased by EUR 58 million. The increase particularly resulted from received payments received during the course of extending the Mobile Bitstream Access Mobile Virtual Network Operator (MBA MVNO) contract, as well as from higher voucher sales in the prepaid business. This was offset by regular releases.

Deferred tax liabilities higher

The development is due to the tax-reducing temporary differences, which relate, among other things, to additional tax depreciation and longer depreciation periods for tax purposes in connection with intangible assets and were realised as scheduled. Counteracting this effect were realised taxable temporary differences recognised in previous years in the spin-off in the run-up to the first step in the transaction governing the sale of parts of the business operations of the rooftop sites, the carrying amounts of which were mainly recognised in fixed assets.

Equity declines

The changes to equity mainly result from the dividend payment of EUR 506 million until 26 May 2020 and, with a counteracting effect, to the positive result for the period amounting to EUR 328 million. In addition, an amount of EUR 288 million was withdrawn during the financial year from the (free) additional paid-in capital within equity and transferred to retained earnings.

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 EUR 0.18 per share is planned until 2023.

On 19 January 2021, Telefónica Deutschland announced that it had concluded a bilateral letter of intent with Deutsche Telekom and a corresponding agreement with Vodafone with regard to active joint use of their networks in so-called “grey spots”. In total, it is intended that at least 1,200 locations will be shared. Furthermore, Telefónica Deutschland is participating in the trilateral passive sharing arrangement entered into by German mobile network operators for the joint fulfilment of the industrial supply requirements imposed in the context of the spectrum auction in 2019. As announced in November 2019, each of the participating parties will construct an equal share of the total of 6,000 locations in “white spots”.

On February 10, 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.

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

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

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

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

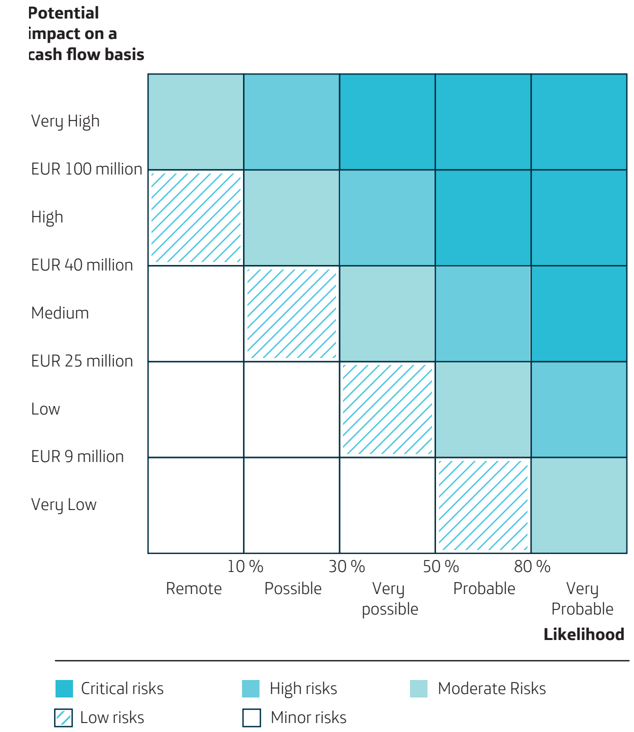
Opportunities are not recorded in the risk management system.

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

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

G 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 "very 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 likelihood 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 are therefore not included in the risk listing 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 above which risks are reported is represented by the space in the matrix.

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

Risks

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

Business risks

Competitive markets and changing customer demands

We operate in markets characterised by a high level of competition and continuous technological developments. Our Company faces increasing competition from alternative telecommunications service providers – among them cable operators, MVNOs and consumer electronics companies – and also competes with alternative telecommunications services like OTT. 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.

COVID-19 pandemic

COVID-19 spread globally in 2020 and has already had an appreciable impact on our business operations. We will continue to face restrictions that could affect our business activities, especially as further waves of infection may occur.

Deliveries for network expansion and other hardware necessary for business operations, for example from particularly affected regions, could be delayed or even cancelled. It is also possible that we may not be able to use our distribution channels to the usual extent, due to fresh restrictions. Our employees could also be absent due to illness, which could affect our operations.

Due to the economic downturn, companies might not be able to compensate for the consequences of the pandemic. Any resulting payment difficulties or changes in demand on the part of our customers could impair our business activities. Our future business activities are also dependent on overall economic recovery and normalisation of public life. As a result, any prolonged or reimposed travel restrictions could have a negative impact in particular on roaming revenues.

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. The plan also defines the steps for a gradual return to normal business operations.

In order to prevent the virus from spreading, employees are working mostly from home, in those areas where this is possible. Business trips are also suspended until further notice. Our inventories have been optimised due to the current situation in order to be prepared for potential shortages. The efficiency of our online and remote channels has been enhanced, in order to compensate for the limitations in our traditional physical channels. In addition, our Controlling department ensures extensive monitoring. This makes it possible to take appropriate steps in good time to avoid any divergence from the defined targets. 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 US and China could also impact our relations with suppliers as a result of existing or future trade barriers.

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

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.

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. There is a moderate risk that measures by regulatory authorities could negatively affect our business activity as well as our financial and earnings position.

Licences and frequencies
Our licences and the licence usage rights granted to us are time-limited and depend on prior allocation. If we cannot extend or cannot newly obtain the licences and frequency usage rights necessary for our business or if the financial conditions for the use of these licenses and rights change significantly, this will lead to higher investment costs than planned. A potential change to the network expansion resulting from this could also have a negative impact on expected revenues. Overall, we classify the risk as 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 the Telefónica Deutschland Group to meet various requirements. This includes an obligation to provide frequencies, infrastructure and network capacities to a potential new mobile network operator in exchange for payment. In fulfilment of the frequency part of this condition, the Telefónica Deutschland Group agreed with the 1&1 Drillisch Group to transfer 2x 10 MHz in the frequency range at 2.6 GHz to 1&1 Drillisch until the end of the term at the end of 2025; in return, the 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 Drillisch Group in 2014 on the provision of network capacities and services. An extensive project was launched to ensure strict compliance with the contracts concluded and hence prevent the possibility of significant fines. We classify this risk as 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, the Telefónica Deutschland Group maintains close communications with the decision makers on a national and international level. This allows us to introduce our interests and views to the decision-making process in good time. Moreover, we review and use legal protective mechanisms against decisions of the regulatory authorities in order to actively foster positive changes for us.

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

Operational risks

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

Damage caused by cyberattacks
Cyberattacks on our network or our IT systems that are not detected or averted in good time could lead to disruptions or damage that could also affect our services and thus result in lost revenue and customer dissatisfaction. The availability and confidentiality of data that we process may be impacted by these attacks. In addition to reputational losses, legal consequences would also be possible, and we could be fined. We counter this risk, on the one hand, by analysing and reducing weaknesses and focusing on an early warning system, and, on the other hand, we are constantly improving our systems for rectifying faults and establishing increased risk awareness among our employees with regard to cyberattacks. We classify this risk as 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 mobile and fixed network operator and a provider of telecommunications services and products, we are dependent on a few main suppliers in the same way as other companies in the industry. These suppliers provide us with important products and services that are primarily related to the IT and network infrastructure and mobile devices. If these suppliers do not provide or are unable to provide their products and services as expected, this could jeopardise the operation and expansion of the network and the sale of telecommunications products, which in turn could adversely affect our Company and earnings. The same applies if service providers to whom we award projects for reasons of efficiency do not perform the services in time or with the required quality. As part of our supplier management, we assess the quality of the services provided and any potential risks in this regard on a continuous basis. This allows us to identify weak points at an early stage and to counter them. We classify this risk as moderate.

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

Use of services
The Telefónica Deutschland Group still obtains services and inputs from the Telefónica, S.A. Group to a significant extent. A number of contracts exist, particularly in the area of financial management, the leasing of space for passive infrastructure and with regard to 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, the Telefónica Deutschland Group is required to comply with a large number of laws. An infringement of legal provisions poses an intrinsic risk to the business activities, success and reputation of the Company.

Data privacy regulations
In the course of our business activities, we also collect and handle customer data and other personal data. There is the risk of misuse or loss of these data. This could represent a breach of the relevant laws and provisions and result in fines, loss of reputation and the migration of customers, and hence the loss of revenues. Particularly against the background that the EU-US Privacy Shield agreement has been declared null and void, uncertainties could arise in contractual relationships. We classify this risk as moderate.

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

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

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

Financial risks

Taxes
Like every company, we are subject to regular tax audits. These include an intrinsic risk that higher subsequent tax payments for prior tax periods may be imposed if the tax authorities have a divergent opinion about the interpretations and calculation principles that form the basis of our tax declaration. The acquisition of the E-Plus Group could also result in additional tax payments in this connection. Furthermore, changes in tax laws or in the interpretation of existing regulations by courts or tax authorities may also have an adverse effect on our business activities as well as on our financial position and results of operations. We counter this low risk by

providing regular training to our employees, discussing matters with our external tax advisors, and taking part in expert discussions and working groups on a regular basis. We are thus able to identify changes regarding the interpretation of the tax laws at an early stage and can initiate respective measures.

Other (global) risks

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

Overview of the assessments of the reported risks

Risk	**Potential level of impact**	**Likelihood of occurrence**	**Evaluation**
Business risks			
Competitive markets and changing customer demands	Very high	Probable	Critical
COVID-19 pandemic	High	Probable	Critical
Geopolitical risks	High	Possible	Moderate
Market acceptance and technological transformation	Medium	Possible	Low
Regulatory environment			
General regulatory influences	High	Possible	Moderate
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
Insurance	High	Remote	Low
Operational risks			
Reliability of our services			
Attracting and retaining customers	High	Probable	Critical
Damage caused by cyberattacks	Very high	Very possible	Critical
Technical faults	High	Very possible	High
Supply chain disruptions	High	Possible	Moderate
Loss of advantages in the event 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	Possible	Moderate
Contractual relationships	Low	Probable	Moderate
Violation of customers' rights	High	Remote	Low
Financial risks			
Taxes	High	Remote	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. 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 the Telefónica Deutschland Group.

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

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

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

The Telefónica Deutschland Group is exposed to interest rate risks arising from variable-rate loan agreements as borrower and from the variable-rate cash pooling accounts with Telfisa Global B.V. as well as in the form of opportunity costs in connection with the conclusion of fixed-rate debts, the interest rate of which may exceed market interest rates during the term. To reduce these opportunity costs, interest rate swaps in connection with the issue of a bond were concluded on a partial amount of the nominal value of the bond. Under this interest rate swap contract, the Telefónica Deutschland Group pays a variable interest rate on a nominal amount and receives a fixed interest rate on the same amount in return. The nominal amount of this interest rate swap is used to offset the effects of future changes in market interest rates on the fair value of the underlying fixed-rate financial debt from the bond issue (fair value hedge). Hedge accounting for these hedge relationships complies with IFRS 9.

Inflation risk
The inflation risk consists of the danger of a negative effect on the financial result as a result of an adverse change in the inflation rate for the Telefónica Deutschland Group. A long-term contractual receivable of EUR 145 million is 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 the Telefónica Deutschland Group corresponds to the carrying amount of the financial assets.

The Telefónica Deutschland Group considers the management of the commercial credit risk to be critical in order to achieve its goals for sustainable growth of the business and the customer base in harmony with its risk management guidelines. Suitable processes have been established for the management and the monitoring of the credit risk. These include the ongoing monitoring of the expected risks and the level of default. Particular attention here is paid to the customers which could have significant effects on the Consolidated Financial Statements of Telefónica Deutschland Group. For these customers, credit management instruments such as credit insurance or collateral for limiting the default risk are used, depending on the business area and type of business relationship. To control credit risk, the Telefónica Deutschland Group regularly conducts an analysis of the maturity structure of trade receivables and recognises adjustments for expected credit defaults on receivables. Due to COVID-19 and a possible increased risk of default, we have intensified our risk monitoring measures. However, no significant changes in bad debt and in our assessment of default risk were identified.

Liquidity risk

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

Opportunity Management

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

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

Opportunity management is a significant component of the entire process for strategic goal setting. It takes place both as part of budget creation for the 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 increasing availability of 5G through increasing network coverage and number of compatible mobile devices enable more customers to use high data rates. In addition, increased availability and use of streaming and TV services – which has also been accelerated by the COVID-19 pandemic – may further increase data demand. 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-line network accesses via mobile-based WLAN routers, which can be used as an alternative to the traditional DSL accesses, can also increase data usage.

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

Improving our LTE network

After the network expansion with more than 10,000 LTE network elements in 2020, we are also driving the expansion of our LTE network forward in 2021, especially in rural areas, and focussing in parallel on increasing network capacity. To this end, we will also make increasing use of the 2,100 MHz spectrum of the 3G network for our LTE network from 2021.

If the market reacts more positively to the better quality of the LTE network than previously expected and this leads to stronger customer acquisition than previously planned, especially in rural areas, our revenue and operating income could be positively impacted.

5G and new business models

The Telefónica Deutschland Group secured 90 MHz of spectrum for nationwide use in the mobile frequency auction, which ended in June 2019, with a term until 2040. The Group pushed ahead intensively with the 5G network expansion in the past financial year and also activated 5G for private customers in the largest German cities, among other locations, in October 2020. Through the end of 2021, we will make 5G available in more and more cities and especially in rural regions. 5G delivers additional capacity and higher speeds, further enhancing our O_2 customers' mobile data experience and making new applications possible. Private and business contract customers of our core brand O_2 also benefit from the 5G network.

In the business customer segment, 5G 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 and customer demand for 5G services is higher than anticipated, this could have a positive impact on our revenues and operating income.

Fixed-line cooperation agreements via various technologies
As an integrated telecommunications provider, the 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 relied on a nationwide strategic partnership with Telekom Deutschland GmbH ("Telekom"), which allows us to offer DSL products to our customers, supplemented by other regional cooperations (>MANAGEMENT REPORT BUSINESS ACTIVITY). In October 2020, the Telefónica Deutschland Group and Telekom extended and expanded their existing cooperation in the fixed line network before the term of the contract. Both companies have signed a contract with a ten-year term for this purpose.

In addition, the cooperation agreements with cable providers complement our existing positioning in the fixed-line market and also open up further growth opportunities. In particular, the cooperation with Vodafone since November 2020 will give us access to up to 24 million[12] cable households in Germany in the future and enable us to supply them with O_2 fixed-line network products with higher speeds than VDSL. In addition, the cooperation agreement with Tele Columbus gives the Telefónica Deutschland Group long-term access to a further 2.4 million[13] households that are supplied with IP products by Tele Columbus via cable and fibre networks. In addition, the agreement allows data speeds of up to 1 Gbit/s to be provided to customers in the future.

As part of the newly founded joint venture of the Telefónica Deutschland Group with Telefónica Infra, S.L.U. and the Allianz Group, the Telefónica Deutschland Group will be able to offer even more O_2 private and business customers high-performance fibre-to-the-home accesses in the future, especially in rural areas and in business parks. Since completion of the transaction, which took place in December 2020, Telefónica, S.A. Group / Telefónica Deutschland Group, on the one hand, and Allianz Group, on the other hand, each hold 50% of the joint venture, with the Telefónica Deutschland Group holding a 10% investment. As an independent wholesale company, which operates under the name Unsere Grüne Glasfaser GmbH & Co. KG, the company will expand local fibre networks in underserved rural areas and offer non-discriminatory FTTH wholesale access to interested telecommunications service providers. To this end, the Telefónica Deutschland Group concluded a corresponding wholesale contract with a minimum term of 12 years in January 2021.

If the availability of high-speed accesses through our cooperation partners or through the formed joint venture increases more significantly than planned, this could result in a stronger than expected demand for our fixed-line products and have a positive impact on our revenue. In addition, our fixed-line network cooperation agreements open up additional growth opportunities for us in the area of convergent offers. Furthermore, the remuneration for our transport services for the new joint venture 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, which will enable the realisation of synergies between the companies in the wholesale context.

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

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

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

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

[12] Vodafone Group Plc Results for the half year ended 30 September 2019, page 39.
[13] Tele Columbus AG, Financial report for the half year ended 30 June 2020, page 6.

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 SME segment. The size of this market segment makes it attractive for us, so that we expect to be able to win corresponding SME customers with lean, tailor-made mobile communications and fixed-network products and tap the resulting growth potential.

If our renewed product portfolio for business customers, with products such as O_2 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 even higher than expected.

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

Cooperation with Telxius as infrastructure partner in the network
The contractually agreed sale of major parts of the business activities of rooftop sites to Telxius has significantly increased the Telefónica Deutschland Group's financial flexibility, giving it much greater freedom in its business activities. Since the sale of Telefónica Germany Mobilfunk Standortgesellschaft mbH to Telxius, Telefónica Deutschland Group is leasing space on the transferred passive infrastructure for the installation and operation of its active radio technology from Telxius Germany and will lease further space in the future after the second transaction step. As part of this arrangement, it was also agreed that Telxius Germany will develop 2,400 further sites within the next four years and lease space there to the Telefónica Deutschland Group for the installation of active radio technology. The entire transaction was approved by the competent authorities by 27 July 2020.

Summary of the Risks and Opportunities

Based on our assessment, the intensive competition on the German telecommunications market, the regulatory environment and the need to ensure reliable service pose our greatest risks. Compared to the previous year, we have included the ongoing COVID-19 pandemic in the risk report. Furthermore, there was a reduced assessment of the impact of geopolitical risks.

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

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

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

ACCOUNTING-RELATED INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

The following statements contain information in accordance with section 289 (4) HGB and section 315 (4) HGB.

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

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

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

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

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

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

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

Telefónica Deutschland and the Consolidated Financial Statements and discusses the financial statements with the Management Board and the external auditor.

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

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

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

REPORT ON EXPECTED DEVELOPMENTS

Economic Outlook

The economic development in Germany continues to be influenced by the COVID-19 pandemic and the measures taken to contain it. According to information from the Federal Ministry for Economic Affairs and Energy (Bundesministerium für Wirtschaft und Energie – BMWi), gross domestic product (GDP) fell by 5.0% (on a price-adjusted basis) in 2020 as compared to the previous year. The BMWi predicts with regard to 2021 growth of 3.0%. With COVID-19 infection rates remaining high, the economic situation remains fragile. According to the Council of Experts, the decisive factors for further development are how the pandemic can be contained and on developments in foreign economies. Due to the most recent lockdown, the experts of the Ifo Institute expect a delay in the economic recovery for 2021. With the loosening of the lockdown, according to information from the Ifo Institute, a rapid and strong recovery is then expected. The Ifo experts anticipate that the behaviour of consumers should largely normalise during summer, amongst other things because the vaccinations against COVID-19 should have progressed significantly by then. The impact of the COVID-19 pandemic is also apparent in the German labour market. According to the German Federal Employment Office, the number of unemployed rose from 2.23 million at the end of 2019 to 2.71 million in December 2020. During this period, the unemployment rate increased from 4.9% to 5.9%. For 2021, the BMWi expects an unemployment rate of 5.8%. Many companies countered the declining economic output at the end of 2020 with short-time work, as they did in the spring, which results in a smaller decline in employment. [14]

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GDP GROWTH 2019 – 2021
GERMANY (PRICE-ADJUSTED)

In %	2019	2020	**2021**
Germany	0.6	-5.0	**3.0**

Market Expectations

The COVID-19 pandemic has changed everyday life and the world of work. The acceptance of digital solutions and their use for work, leisure and shopping have increased further. The importance of digitalisation for consumers and businesses has received a boost as a result, with this trend likely to accelerate. The expansion of the fibre-optic network and the 5G mobile communications standard will be decisive for further digitalisation in Germany. The market research specialists at Analysys Mason expect the number of 5G connections to increase from 1.3 million at the end of 2020 to around 6.0 million by the end of 2021. The experts also expect data traffic to continue to grow, which is reflected in increased average data consumption per customer. Analysys Mason estimates that a mobile customer's data consumption will increase by over 67% from 2020 to 2021, to 5.8 GB per month. According to the study "German Entertainment and Media Outlook (GEMO)", the main drivers will be streaming, the use of mainly video-intensive social networks and also the increase in gaming services. The development of increasingly high-quality games combined with virtual or augmented reality will increase the

[14] Sources: Council of Experts – Economy: Annual Expert Report 2020/21 (11 November 2020); Ifo Institute: Press Release dated 14 January 2021; Federal Employment Agency (Bundesanstalt für Arbeit): Monthly Report December 2019/ December 2020 (January & December 2020); Federal Ministry for Economic Affairs and Energy (Bundesministerium für Wirtschaft und Energie – BMWi): Press Release on Economic Situation and Cyclical Development (27 January 2021)

need for fast internet. The increased use of networks for home office work as well as for private purposes requires frictionless processes to an even greater degree and shifts the demands to network operators. When choosing a provider, the stability and capacity of the connections become more important than the price. Consumption of Internet video offerings via over-the-top services (OTT) will also continue to increase. According to the GEMO study, this is supported by the flexible use of devices, such as tablets or smartphones, but also by new offers.[15]

Financial Outlook 2021

The financial year 2021 marks the second year of Telefónica Deutschland Group's growth-oriented investment programme initially announced at the company's strategy update in December 2019 with three growth pillars:

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

In 2021, Telefónica Deutschland Group will continue to build on what has already been achieved in the first year of the investment programme, in particular its substantial 4G network expansion (+14 percentage points coverage) and the launch of its 5G network in early October 2020. As a result, Telefónica Deutschland Group not only successfully complied with the coverage obligations from the 2015 spectrum auction in the challenging COVID-19 environment, but also successfully equalised network quality, as evidenced by the 'very good' rating for all German mobile networks in the connect test. This critical step-change in O_2's network quality sets the base for capturing the before mentioned growth opportunities.

At the same time, Telefónica Deutschland Group will continue to pursue its path of digital transformation to make its business 'simpler, faster and better' and to benefit from top-line growth as well as efficiency gains. Telefónica Deutschland Group emphasizes sustainable growth and, as part of its ESG targets, is committed to be carbon neutral by 2025.

The multi-brand and multi-channel strategy remains the backbone of the company's go-to-market strategy and continues to focus on both, ARPU-up and churn-down. Postpaid is the strongest value-generator for the business driven mainly by own brand performance. In prepaid, the company expects the current trend of pre- to postpaid migration to continue. Telefónica Deutschland Group assumes pricing in the premium and discount segments to remain stable in 2021 based on current market dynamics and the impacts of COVID-19, including the hard lockdown imposed by the German government until 7 March 2021.

As a result, Telefónica Deutschland Group's sustained mobile service revenues (MSR) momentum continues to be the main driver of the company's revenue trajectory. Telefónica Deutschland Group expects roaming revenues to recover only gradually over the course of the year with anticipated easing of travel restrictions and the roaming related MSR drag annualising towards the end of the first quarter of 2021, i.e. the first anniversary of the initial hard lockdown in Germany.

Handset revenues continue to depend on market dynamics as well as the launch cycles and availability of new smartphones. As in the past, handset margins continue to be broadly neutral.

On the fixed business side, the technology-agnostic approach of Telefónica Deutschland Group includes all key infrastructures (i.e. VDSL, FTTx, cable, FMS) enabling the company to match individual customer needs in the best way.

Telefónica Deutschland Group anticipates regulatory changes to remain a headwind for its financial performance in 2021. Revenues, and to a lesser extent OIBDA, will be impacted mainly by the negative effects of the termination rate cut for mobile voice minutes from EURc 0.90 to EURc 0.78 as of 1 December 2020 and to EURc 0.70 as of 1 December 2021.

Against this backdrop, Telefónica Deutschland Group expects financial year 2021 total revenues to be 'flat to slightly positive' and OIBDA adjusted for exceptional effects to be 'broadly stable to slightly positive' year-over-year, respectively.

To fully capture these revenue and OIBDA growth opportunities, Telefónica Deutschland Group will continue its network-focused investment programme to boost rural coverage primarily with 4G and add urban capacity preferably through 5G. Against the background of significantly increased 4G coverage and high data usage trends, Telefónica Deutschland Group has decided to bring forward its plan to switch off the 3G network to the end of 2021. Therefore, investments are increasingly shifted from 4G to 5G. Additionally, mainly due to COVID-19 related limitations during the first year (2020) of its growth-oriented investment programme, Telefónica Deutschland Group expects some CapEx shifts within the overall unchanged CapEx envelope. As a result, the company expects CapEx to Sales ratio to peak at 17 to 18% in 2021.

[15] Sources: Bitkom: Press Release on Digitalisation (15 June 2020); Wuppertal Institute: Interim report on COVID-19 (11 June 2020); PwC: German Entertainment and Media Outlook (GEMO) 2020 – 2024 (November 2020); Analysys Mason: "Western European telecoms market: trends and forecasts 2020 – 2025" (18 November 2020)

Telefónica Deutschland Group's assumptions are based on broadly unchanged overall economic conditions, current competitive dynamics, and existing wholesale relationships. At the same time, management is continuously monitoring and analysing the impact on the company from the latest COVID-19 restrictions and developments including the start of the country-wide vaccination programme.

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FINANCIAL OUTLOOK 2021

	Actual 2020	Outlook for 2021
Revenues	EUR 7,532 million	Flat to slightly positive year-on-year
OIBDA Adjusted for exceptional effects	EUR 2,319 million	Broadly stable to slightly positive year-on-year
Capex to Sales Ratio	14.5%	17 – 18%

OTHER DISCLOSURES

Report on Relations with Affiliated Companies

In the period from 1 January to 31 December 2020, Telefónica Deutschland Holding AG was a directly dependent company of Telefónica Germany Holdings Limited, Slough, United Kingdom, within the meaning of section 312 AktG. In addition, Telefónica Deutschland Holding AG was an indirectly dependent company of O2 (Europe) Limited, Slough, United Kingdom and of Telefónica, S.A., Madrid, Spain, within the meaning of section 312 AktG. There is neither a domination agreement nor a profit and loss transfer agreement between Telefónica Deutschland Group and the aforementioned companies.

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

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

Remuneration Report

The remuneration report describes the structure and design of the remuneration for the Management Board and Supervisory Board of Telefónica Deutschland Holding AG. Furthermore, the remuneration of each member of the Management Board and Supervisory Board is disclosed for the 2020 financial year and reported according to integral parts.

The report complies with the requirements of the German Commercial Code (HGB) and the recommendations of the German Corporate Governance Code, as amended on 16 December 2019 and published in the Federal Gazette on 20 March 2020 (GCGC 2020), taking into account German Accounting Standard No. 17 (DRS 17) and International Financial Reporting Standards (IFRS). The individualised disclosure of Management Board remuneration is additionally based on the model tables of the German Corporate Governance Code as amended on 07 February 2017 (GCGC 2017).

Remuneration of members of the Management Board

Composition of the 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 01 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 01 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.

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

The fixed, non-performance-related remuneration components (fixed remuneration and fringe benefits) accounted for 47% of total remuneration in 2020. The variable, performance-related remuneration components accounted for 53%. Of this, 32% is attributable to the one-year variable remuneration and 21% to components with a long-term incentive effect.

In order to assess whether the total remuneration of members of the Management Board is customary compared to that of other companies, the Supervisory Board will use the companies listed in the German TecDAX stock index as a peer group for future board appointments.

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

One-year variable remuneration
The one-year variable remuneration component is an annual cash bonus (Bonus I). The payout amount of Bonus I at the end of the financial year is calculated as a product of the target bonus and a target achievement factor. The target bonus is equal to a fixed percentage of the annual fixed salary (100% for the CEO, 65% for the other members of the Management Board). The target achievement factor can have a minimal value of 0%. The maximum possible value had been stipulated at 125% in the old contracts of Markus Rolle, Wolfgang Metze, Alfons Lösing, Valentina Daiber and Nicole Gerhardt which were valid until 31 July 2020. All the current Management Board contracts provide for a maximum value of 150%. The members of the Management Board can therefore receive a maximum payment of 150% of the respective target bonus (CAP) in accordance with the current contracts.

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

The performance criteria (KPIs) relevant for measuring the Telefónica Deutschland component, their weighting, target values and target achievement curves are determined annually by the Supervisory Board. For 2020, in addition to three financial performance criteria with a total weighting of 80%, five non-financial performance criteria with a total weighting of 20% have also been agreed, which refer directly and indirectly to customer satisfaction as well as social and ecological factors (ESG-criteria): Net promoter score (NPS), NPS difference to best competitor, Company reputation in society as measured by RepTrak Pulse, greenhouse gas emissions reduction, gender diversity measured by the proportion of women in management positions.

If less than a certain percentage of the target value of a performance criterion is achieved, the target achievement factor for that measure is 0%. If the minimum threshold is met, the factor is 50%. If the target value is reached 100%, the factor is 100%. If the target value is exceeded, the factor increases up to an upper limit, which for 2020 is 140% for one financial performance criterion, and 125% for all other performance criteria. Intermediate values of target achievement are not linearly interpolated, but calculated according to a target achievement curve set by the Supervisory Board. The target achievement curve assigns a corresponding target achievement factor to the value actually achieved for each performance criterion. In order to create an increased incentive for the simultaneous achievement of all annual targets, the Supervisory Board has decided for 2020 that those factors below 120% will be increased to 120% if all targets are achieved. The sum of the weighted target achievement factors determines the Telefónica Deutschland component.

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

In 2020, the one-year variable remuneration is expected to lead to a payout. However, at the time the report was prepared, the Supervisory Board had not yet reached a decision on the target achievement factor.

Components with a long-term incentive effect
The members of the Management Board receive multi-year variable remuneration. The total grant value is set at 120% of the annual fixed salary of the CEO and 66% of the annual fixed salary of the other members of the Management Board. All members of the Management Board participate in a long-term variable remuneration plan of Telefónica Deutschland Holding AG. This is a virtual Performance Share Plan, which has replaced the previous Deferred Bonus Plan as Bonus II for all new grants from financial year 2020.

In addition, the members of the Management Board are generally entitled to participate in a long-term variable remuneration plan of Telefónica, S.A. (Bonus III) after the approval of the Supervisory Board. This is currently the Performance Share Plan (PSP). For 2020, the Supervisory Board approved the participation of the members of the Management Board, with the exception of Mallik Rao, in the Performance Share Plan (PSP).

Moreover, in 2020, Mallik Rao received a one-off restricted share grant under the Restricted Share Plan (RSP) of Telefónica, S.A. in order to compensate for forfeited share entitlements with the previous employer.

Virtual Performance Share Plan (new Bonus II): The Telefónica Deutschland Performance Share Plan was approved by the Supervisory Board on 22 July 2019 and replaces the previous Deferred Bonus Plan as Bonus II for all new grants from financial year 2020. An allocation cycle begins on 1 January of each financial year and has a term of three years. At the start of the term, the Supervisory Board determines a grant value equal to a percentage of the annual fixed salary of the Management Board member. The payment at the end of the three-year term is calculated as a product of the respective grant value, a TSR factor (1+TSR), which reflects the development of Telefónica Deutschland Holding AG's total shareholder return (TSR) over the three-year term of the plan, and a target achievement factor, which depends on the fulfilment of certain performance conditions. The payout is limited to 200% of the grant value (CAP).

For the 2020 allocation cycle, the target achievement factor consists of two components: The first component is based on the relative total shareholder return of Telefónica Deutschland Holding AG (TSR target achievement factor) and has a weighting of 50%. The second component is based on the achievement of free cash flow targets (FCF target achievement factor) and also has a weighting of 50%.

The TSR target achievement factor depends on how the total shareholder return of Telefónica Deutschland Holding AG has developed over the three-year period compared to the total shareholder return of a reference group consisting of the STOXX Europe 600 Telecommunications companies (with the exception of Telefónica, S.A.): If the total shareholder return of Telefónica Deutschland Holding AG is below the median of the peer group, the TSR target achievement factor is 0%. If the median is reached, the TSR target achievement factor is 30%. The TSR target achievement factor is increased by linear interpolation to up to 100% if the total shareholder return of Telefónica Deutschland Holding AG reaches the upper quartile of the peer group.

The FCF target achievement factor corresponds to the average of annual target achievement factors, which can be between 0% and 100% depending on the achievement of annual targets for free cash flow (annual budget figures). If the annual target is met by less than 90%, the annual target achievement factor is 0%. If 90% is met, the annual target achievement factor is 50%. The annual target achievement factor will increase to up to 100% if the annual target has been met 100% or exceeded. The respective annual targets for free cash flow are set by the Supervisory Board at the start of the respective financial year.

In 2020, the grant value equals 80% of the annual fixed salary for the CEO, 66% for the CTIO Mallik Rao and 33% for each of the other members of the Management Board.

Deferred Bonus Plan (Bonus II): The Deferred Bonus Plan is a deferred bonus that was last awarded in 2019. According to this plan, the members of the Management Board are promised an amount equal to a percentage of their annual fixed salary as a bonus. The Management Board member has the right to the full amount (CAP) after a period of three years if the total shareholder return of Telefónica Deutschland Holding AG is in the upper quartile of the total shareholder return of the peer group comprising the DAX 30 companies. Each Management Board member has the right to receive 50% of this amount if the total shareholder return of Telefónica Deutschland Holding AG corresponds to the median of the peer group. If the total shareholder return of Telefónica Deutschland Holding AG lies between the median and the upper quartile, the amount paid out is calculated on a linear proportional basis. If the total shareholder return of Telefónica Deutschland Holding AG lies below the median, there is no entitlement to payments.

Participation in the Deferred Bonus Plan for the period from 2017 to 2020 did not result in any payment.

Performance Share Plan (PSP/Bonus III): The Telefónica, S.A. Performance Share Plan was approved by the Annual General Meeting of Telefónica, S.A. on 08 June 2018 and consists of three allocation cycles starting on 1 January 2018, 1 January 2019 and 1 January 2020. The term is three years in each case. At the beginning of the term, with the approval of the Supervisory Board, a certain number of performance shares are allocated to the members of the Management Board at a value corresponding to a certain proportion of the annual fixed salary of the respective member of the Management Board. The number of shares actually earned at the end of the three-year term is calculated as the product of the number of allocated performance shares and a target achievement factor that depends on the fulfilment of certain performance conditions and can reach a minimum value of 0% and a maximum value of 100%. The members of the Management Board can therefore receive a maximum entitlement to 100% of the originally allocated performance shares in the form of real shares (CAP). For plan participants who are also members of the Executive Committee of Telefónica, S.A. (Markus Haas), a holding period of 12 months for at least 25% of the shares earned is provided for.

As in the 2018 and 2019 allocation cycles, the target achievement factor for the 2020 allocation cycle consists of two components: The first component is based on the relative total shareholder return of Telefónica, S.A. (TSR target achievement factor) and has a weighting of 50%. The second component is based on the achievement of free cash flow targets (FCF target achievement factor) and also has a weighting of 50%.

The TSR target achievement factor depends on how the total shareholder return of Telefónica, S.A. has developed over the three-year period compared to the total shareholder return of selected global telecommunications companies. The reference group consists of America Movil, BT Group, Deutsche Telekom, Orange, Telecom Italia, Vodafone Group, Belgacom, Royal KPN, Millicom, Swisscom, Telenor, Telia Sonera and Tim Participacoes. If the total shareholder return of Telefónica, S.A. is below the median of the peer group, the TSR target achievement factor is 0%. If the median is reached, the TSR target achievement factor is 30%. The TSR target achievement factor is increased by linear interpolation to up to 100% if the total shareholder return of Telefónica, S.A. reaches the upper quartile of the peer group.

The FCF target achievement factor corresponds to the average of annual target achievement factors, which can be between 0% and 100% depending on the achievement of annual targets for free cash flow (annual budget figures). If the annual target is met by less than 90%, the annual target achievement factor is 0%. If 90% is met, the annual target achievement factor is 50%. The annual target achievement factor will increase to up to 100% if the annual target has been met 100% or exceeded. The respective annual targets for free cash flow are calculated annually by the Board of Directors of Telefónica, S.A.

In 2020, the grant value of the performance shares equals 40% of the annual fixed salary for the CEO and 33% each for all other members of the Management Board except Mallik Rao, who was not awarded any shares.

Participation in the 2018 allocation cycle, which runs from 2018 to 2020, is expected to result in the allocation of real shares of Telefónica, S.A. However, no resolution had yet been adopted by the Supervisory Board on the target achievement factor at the time the report was prepared.

Restricted Share Plan (RSP): The Telefónica, S.A. Restricted Share Plan was approved by the Annual General Meeting of Telefónica, S.A. on 18 May 2011 and serves as a special compensation instrument for recruiting employees in key positions. The term is between one and five years. At the beginning of the term, a certain number of virtual shares are allocated to a participant at a value corresponding to a certain proportion of the annual fixed salary of that participant. At the end of the term, the participant receives a certain percentage of the virtual shares originally allocated in the form of real shares. The percentage corresponds to the share of the active employment relationship in the total duration of the plan and is therefore between 0% and 100%, i.e. the plan participant can receive a maximum of 100% of the virtual shares originally allocated in the form of real shares (CAP). A prerequisite for allocation is an active employment relationship for at least 12 months during the term of the plan.

In order to compensate for forfeited share entitlements with his previous employer, Management Board member Mallik Rao received a one-time allocation of virtual shares with a value of EUR 160,000 as of 1 January 2020, after the approval of the Supervisory Board of the Company. Half of the allocation has a term of two years; the second half of the allocation has a term of three years.

Pension commitments

All members of the Management Board, with the exception of Alfons Lösing, participate in the Company's pension plan. Alfons Lösing receives a fixed contribution for a reinsured commitment from the Essener Verband (EV). The Management Board members who participate in the company's pension plan, will receive an annual financing contribution in the amount of 20% of the annual fixed salary, which is invested in a reinsured support fund. The Management Board members may choose between 6 specified pension packages, which hedge the risks of surviving dependants' pension, work disability and old-age to varying degrees. Besides the statutory guaranteed interest, there is no further interest guarantee. The Management Board members have the option to choose between a one-off payment, payment in three or six instalments or the drawing of a pension. The old-age pension or payout is received by the Management Board member when they have reached the age limit and left the services of the Company.

The Management Board member who is a member of the Essener Verband (EV), receives a fixed financing amount for the so-called BOLO (contribution-based benefit ordinance of the EV). There is a specific pensionable age. Furthermore, surviving dependants' and work disability pension benefits are granted. The Management Board member also receives a pension from Benefit Ordinance B of the EV. Commitments are also provided for retirement, surviving dependants' and work disability pensions. The benefits from the commitments which are not covered by the pension insurance association, are insured within the scope of reinsurance policy.

Commitments in the event of premature termination of business activities

Early termination of the service agreement: In the event of premature termination of the service contract without good cause, the Management Board contracts contain a clause that any payments to be made to the Management Board member should not exceed the value of two years' remuneration and the value of the remuneration for the remaining term of the Management Board member service agreement.

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

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

Other remuneration components

Malus and clawback regulations: The Management Board contracts provide for various regulations under which the Supervisory Board can withhold (malus) or reclaim (clawback) variable remuneration in justified cases. With regard to the one-year variable remuneration (Bonus I), the Supervisory Board can adjust the Bonus I by means of a malus factor in the event of breach of duty by the member of the Management Board in accordance with the new contracts of Markus Rolle, Wolfgang Metze, Alfons Lösing, Valentina Daiber and Nicole Gerhardt, which have been in force since 01 August 2020. With regard to the long-term remuneration components, the plan terms of the virtual Performance Share Plan (new Bonus II) also include a compliance-based malus regulation. The conditions of the Performance Share Plan (PSP/Bonus III) include a malus regulation and a clawback regulation. These regulations apply not only in the event of compliance violations, but also when the original measurement of target achievement is found to be incorrect due to misrepresentations of financial reporting or other events subsequently detected.

In 2020, as in previous years, the Supervisory Board did not withhold or reclaim variable remuneration.

Discretionary bonus: In accordance with the old contracts of Markus Rolle, Wolfgang Metze, Alfons Lösing, Valentina Daiber and Nicole Gerhardt valid until 31 July 2020, the Supervisory Board was authorised, at its discretion, to award a discretionary bonus up to a maximum of 100% of the annual fixed salary to the members of the Management Board for particular performance that was not covered by the other remuneration granted and which provided significant economic benefit to the Company.

As in previous years, the Supervisory Board did not grant any discretionary bonus to members of the Management Board in 2020. Moreover, the current Management Board contracts no longer include clauses for granting a discretionary bonus.

Employee share plan: Members of the Management Board are entitled to participate in the Global Employee Share Plan (GESP) of Telefónica, S.A. or any subsequent plan with the consent of the Supervisory Board. A tranche has a term of two years. During the first year, the participant will invest 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 one year is provided for. At the end of the holding period, the participant will receive one share in Telefónica, S.A. free of charge for every two shares purchased.

One member of the Management Board is currently participating in the employee share plan.

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

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

Post-contractual non-competition covenant: A one-year non-competition covenant has been agreed with the members of the Management Board. During the term of the post-contractual non-competition covenant, members of the Management Board will receive compensation equal to 50% of the most recently received contractual remuneration. The Company may at any time waive compliance, in which case the obligation to pay the compensation ends six months after the waiver has been declared. In addition, for the new contracts of Markus Rolle, Wolfgang Metze, Alfons Lösing, Valentina Daiber and Nicole Gerhardt which have been valid since 01 August 2020, severance pay received in connection with the termination of the employment contract will be offset against the compensation.

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

Disclosure of Management Board remuneration
Management Board remuneration is reported both on the basis of the requirements of the German Commercial Code (HGB) and in accordance with the recommendations of the old German Corporate Governance Code, in the version of 07 February 2017 (GCGC 2017). This results in deviations for individual remuneration components and total remuneration.

In accordance with the GCGC 2017, the presentations follow the recommended model tables 1 and 2, which show the total remuneration of the remuneration components granted and received for the year under review. The overview of the benefits granted also shows the minimum and maximum achievable values. In contrast to the table about granted benefits, the table about received benefits does not show the target values granted for the short-term and long-term variable remuneration components, but instead the values actually received for 2020.

Management Board remuneration in accordance with HGB
The following remuneration was paid to the members of the Management Board who were active in 2020:

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MANAGEMENT BOARD REMUNERATION 2020 IN EUR

	Non-performance-related components			**Performance-related components**	**Components with a long-term incentive effect**				
2020	Fixed remuneration	Fringe benefits	TOTAL	One-year variable remuneration	Multi-year cash remuneration	Number[2]	Multi-year share remuneration[1] Fair Value[3]	TOTAL: Components with a long-term incentive effect	**Total remuneration**
Markus Haas	770,000	15,322	785,322	794,500	–	44,571	525,414	525,414	**2,105,236**
Markus Rolle	411,667	20,546	432,213	276,683	–	20,517	149,616	149,616	**858,513**
Wolfgang Metze	415,000	45,926	460,926	278,850	–	20,847	152,082	152,082	**891,858**
Alfons Lösing	411,667	62,206	473,873	276,683	–	20,517	149,616	149,616	**900,173**
Nicole Gerhardt	308,750	22,688	331,438	207,513	–	15,388	112,212	112,212	**651,162**
Valentina Daiber	311,250	19,070	330,320	209,138	–	15,635	114,061	114,061	**653,519**
Mallik Rao	360,000	153,596[4]	513,596	234,000	–	23,979	314,440	314,440	**1,062,036**

[1] The expense from share-based payment for the members of the Management Board recognised in accordance with IFRS for the financial year amounted to EUR 896,494. The following amounts were attributable to the members of the Management Board: Markus Haas EUR 295,935, Markus Rolle EUR 106,905, Wolfgang Metze EUR 107,670, Alfons Lösing EUR 106,905, Nicole Gerhardt EUR 80,179, Valentina Daiber EUR 80,753, Mallik Rao EUR 118,147.

[2] The reported number for Mallik Rao refers to the allocation from the RSP and for all the other members of the Management Board to allocations from the 2019 and 2020 PSP allocation cycles. With regard to the PSP, the number of shares actually vested at the end of the plan term depends 50% on the TSR target achievement factor and 50% on the FCF target achievement factor. The figures shown take account of the fact that, under IFRS 2, only those performance shares for which corresponding target values were fixed at the time of granting are considered to be allocated.
The reported numbers do not include any units for allocations from the new Bonus II, as its plan conditions do not envisage any conversion from allocation values in units.

[3] In contrast to the reported numbers, the fair values include the respective allocations from the new Bonus II in addition to the RSP allocation for Mallik Rao and the allocations from the 2019 and 2020 PSP allocation cycles for the remaining members of the Management Board.

[4] The fringe benefits for Mr Mallik Rao, who was recruited from abroad, include a special allowance which is similar to an expatriate allowance.

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

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MANAGEMENT BOARD REMUNERATION 2019 IN EUR

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

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

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

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

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PENSION COMMITMENTS AND OTHER BENEFITS IN EUR

	Service cost according to IFRS		Service cost according to HGB[1]		Projected unit credit value of the pension benefit commitment according to IFRS		Projected unit credit value of the pension benefit commitment according to HGB	
	2020	2019	**2020**	2019	**2020**	2019	**2020**	2019
Markus Haas	143,046	143,885	584,518	102,103	2,155,649	1,214,343	1,348,757	744,108
Markus Rolle	81,732	82,128	171,073	75,529	1,072,807	771,771	578,780	396,959
Wolfgang Metze	81,879	82,391	114,167	10,750	260,889	74,029	160,483	45,106
Alfons Lösing	74,926	93,626	210,195	28,221	3,129,797	2,833,122	2,140,725	1,879,623
Cayetano Carbajo Martín (until 08/11/2019)	–	66,350	–	65,037	–	–	–	–
Nicole Gerhardt	61,302	61,678	101,051	20,096	211,774	49,201	133,008	31,118
Valentina Daiber	61,232	61,592	156,376	24,590	508,432	272,459	335,585	174,488
Guido Eidmann (until 31/10/2019)	–	61,752	–	16,113	–	134,968	–	91,144
Mallik Rao (since 15/10/2019)	1,869	–	1,340	1,416	2,830	1,438	2,756	1,416

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

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MANAGEMENT BOARD REMUNERATION IN ACCORDANCE WITH GCGC 2017 (BENEFITS GRANTED AND RECEIVED) IN EUR

The following tables show the benefits granted to the members of the Management Board and the minimum and maximum achievable values.

	Markus Haas Chief Executive Officer (CEO)				Markus Rolle Chief Financial Officer				Wolfgang Metze Chief Consumer Officer			
Benefits granted	2019	**2020**	**2020 (min)**	**2020 (max)**	2019	**2020**	**2020 (min)**	**2020 (max)**	2019	**2020**	**2020 (min)**	**2020 (max)**
Fixed remuneration	700,000	770,000	770,000	770,000	400,000	411,667	411,667	411,667	400,000	415,000	415,000	415,000
Fringe benefits	19,323	15,322	15,322	15,322	24,415	20,546	20,546	20,546	28,283	45,926	45,926	45,926
Total	**719,323**	**785,322**	**785,322**	**785,322**	**424,415**	**432,213**	**432,213**	**432,213**	**428,283**	**460,926**	**460,926**	**460,926**
One-year variable remuneration	**700,000**	**770,000**	**–**	**1,155,000**	**260,000**	**267,583**	**–**	**363,458**	**260,000**	**269,750**	**–**	**366,708**
Multi-year variable remuneration	**752,684**	**525,414**	**–**	**n/a**	**222,835**	**149,616**	**–**	**n/a**	**222,835**	**152,082**	**–**	**n/a**
PSP/Bonus III (2018–2020)[1]	35,638	–	–	–	16,801	–	–	–	16,801	–	–	–
Bonus II (2019–2022)	560,000	–	–	–	132,000	–	–	–	132,000	–	–	–
PSP/Bonus III (2019–2021)[1]	157,046	37,681	–	n/a	74,034	17,763	–	n/a	74,034	17,763	–	n/a
Bonus II (2020–2022)	–	400,400	–	1,232,000	–	91,806	–	282,480	–	93,522	–	287,760
PSP/Bonus III (2020–2022)[1]	–	87,333	–	n/a	–	40,047	–	n/a	–	40,797	–	n/a
RSP (2020 – 2021/2022)[2]	–	–	–	–	–	–	–	–	–	–	–	–
Total	**2,172,007**	**2,080,736**	**785,322**	**n/a**	**907,249**	**849,413**	**432,213**	**n/a**	**911,118**	**882,758**	**460,926**	**n/a**
Pension expenses	143,885	143,046	143,046	143,046	82,128	81,732	81,732	81,732	82,391	81,879	81,879	81,879
Total remuneration	**2,315,892**	**2,223,782**	**928,368**	**n/a**	**989,377**	**931,145**	**513,945**	**n/a**	**993,509**	**964,637**	**542,805**	**n/a**

	Alfons Lösing Chief Partner and Wholesale Officer				Cayetano Carbajo Martín Chief Technology Officer Until: 08/11/2019				Nicole Gerhardt Chief Human Resources Officer			
Benefits granted	2019	**2020**	**2020 (min)**	**2020 (max)**	2019	**2020**	**2020 (min)**	**2020 (max)**	2019	**2020**	**2020 (min)**	**2020 (max)**
Fixed remuneration	400,000	411,667	411,667	411,667	256,667	–	–	–	300,000	308,750	308,750	308,750
Fringe benefits	86,266	62,206	62,206	62,206	214,133	–	–	–	17,253	22,688	22,688	22,688
Total	**486,266**	**473,873**	**473,873**	**473,873**	**470,800**	**–**	**–**	**–**	**317,253**	**331,438**	**331,438**	**331,438**
One-year variable remuneration	**260,000**	**267,583**	**–**	**363,458**	**166,833**	**–**	**–**	**–**	**195,000**	**200,688**	**–**	**272,594**
Multi-year variable remuneration	**222,835**	**149,616**	**–**	**n/a**	**144,685**	**–**	**–**	**–**	**167,126**	**112,212**	**–**	**n/a**
PSP/Bonus III (2018–2020)[1]	16,801	–	–	–	12,601	–	–	–	12,601	–	–	–
Bonus II (2019–2022)	132,000	–	–	–	84,625	–	–	–	99,000	–	–	–
PSP/Bonus III (2019–2021)[1]	74,034	17,763	–	n/a	47,460	–	–	–	55,525	13,322	–	n/a
Bonus II (2020–2022)	–	91,806	–	282,480	–	–	–	–	–	68,855	–	211,860
PSP/Bonus III (2020–2022)[1]	–	40,047	–	n/a	–	–	–	–	–	30,035	–	n/a
RSP (2020 – 2021/2022)[2]	–	–	–	–	–	–	–	–	–	–	–	–
Total	**969,101**	**891,073**	**473,873**	**n/a**	**782,319**	**–**	**–**	**–**	**679,380**	**644,337**	**331,438**	**n/a**
Pension expenses	93,626	74,926	74,926	74,926	66,350	–	–	–	61,678	61,302	61,302	61,302
Total remuneration	**1,062,727**	**965,999**	**548,799**	**n/a**	**848,668**	**–**	**–**	**–**	**741,058**	**705,639**	**392,740**	**n/a**

	Valentina Daiber Chief Officer for Legal and Corporate Affairs				Guido Eidmann Chief Information Officer Until: 31/10/2019				Mallik Rao Chief Technology and Information Officer Since: 15/10/2019			
Benefits granted	2019	**2020**	**2020 (min)**	**2020 (max)**	2019	**2020**	**2020 (min)**	**2020 (max)**	2019	**2020**	**2020 (min)**	**2020 (max)**
Fixed remuneration	300,000	311,250	311,250	311,250	250,000	–	–	–	203,871	360,000	360,000	360,000
Fringe benefits	19,768	19,070	19,070	19,070	57,357	–	–	–	24,194	153,596	153,596	153,596
Total	**319,768**	**330,320**	**330,320**	**330,320**	**307,357**	**–**	**–**	**–**	**228,065**	**513,596**	**513,596**	**513,596**
One-year variable remuneration	**195,000**	**202,313**	**–**	**275,031**	**162,500**	**–**	**–**	**–**	**–**	**234,000**	**–**	**351,000**
Multi-year variable remuneration	**167,126**	**114,061**	**–**	**n/a**	**81,582**	**–**	**–**	**–**	**–**	**314,440**	**–**	**n/a**
PSP/Bonus III (2018–2020)[1]	12,601	–	–	–	11,900	–	–	–	–	–	–	–
Bonus II (2019–2022)	99,000	–	–	–	35,750	–	–	–	–	–	–	–
PSP/Bonus III (2019–2021)[1]	55,525	13,322	–	n/a	33,931	–	–	–	–	–	–	–
Bonus II (2020–2022)	–	70,142	–	215,820	–	–	–	–	–	154,440	–	475,200
PSP/Bonus III (2020–2022)[1]	–	30,597	–	n/a	–	–	–	–	–	–	–	–
RSP (2020 – 2021/2022)[2]	–	–	–	–	–	–	–	–	–	160,000	–	n/a
Total	**681,894**	**646,694**	**330,320**	**n/a**	**551,439**	**–**	**–**	**–**	**228,065**	**1,062,036**	**513,596**	**n/a**
Pension expenses	61,592	61,232	61,232	61,232	61,752	–	–	–	–	1,869	1,869	1,869
Total remuneration	**743,486**	**707,926**	**391,552**	**n/a**	**613,191**	**–**	**–**	**–**	**228,065**	**1,063,905**	**515,465**	**n/a**

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

The following tables show the received values of the various remuneration components for the members of the Management Board.

	Markus Haas Chief Executive Officer (CEO)		Markus Rolle Chief Financial Officer		Wolfgang Metze Chief Consumer Officer		Alfons Lösing Chief Partner and Wholesale Officer	
Benefits received	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019
Fixed remuneration	770,000	700,000	411,667	400,000	415,000	400,000	411,667	400,000
Fringe benefits	15,322	19,323	20,546	24,415	45,926	28,283	62,206	86,266
Total	**785,322**	**719,323**	**432,213**	**424,415**	**460,926**	**428,283**	**473,873**	**486,266**
One-year variable remuneration[1]	**770,000**	**700,000**	**267,583**	**260,000**	**269,750**	**260,000**	**267,583**	**260,000**
Multi-year variable remuneration	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Bonus II (2016–2019)	–	–	–	–	–	–	–	–
Bonus II (2017–2020)	–	–	–	–	–	–	–	–
Other	–	–	–	–	–	–	–	–
Total	**1,555,322**	**1,419,323**	**699,796**	**684,415**	**730,676**	**688,283**	**741,456**	**746,266**
Pension expenses	143,046	143,885	81,732	82,128	81,879	82,391	74,926	93,626
Total remuneration	**1,698,368**	**1,563,208**	**781,528**	**766,543**	**812,555**	**770,674**	**816,382**	**839,892**

Benefits received	Cayetano Carbajo Martín Chief Technology Officer until 08/11/2019 2020	2019	Nicole Gerhardt Chief Human Resources Officer 2020	2019	Valentina Daiber Chief Officer for Legal and Corporate Affairs 2020	2019
Fixed remuneration	–	256,667	308,750	300,000	311,250	300,000
Fringe benefits	–	214,133	22,688	17,253	19,070	19,768
Total	**–**	**470,800**	**331,438**	**317,253**	**330,320**	**319,768**
One-year variable remuneration[1]	**–**	**166,833**	**200,688**	**195,000**	**202,313**	**195,000**
Multi-year variable remuneration	**–**	**–**	**–**	**–**	**–**	**–**
Bonus II (2016–2019)	–	–	–	–	–	–
Bonus II (2017–2020)	–	–	–	–	–	–
Other	–	–	–	–	–	–
Total	**–**	**637,633**	**532,125**	**512,253**	**532,632**	**514,768**
Pension expenses	–	66,350	61,302	61,678	61,232	61,592
Total remuneration	**–**	**703,983**	**593,427**	**573,931**	**593,864**	**576,360**

Benefits received	Guido Eidmann Chief Information Officer until 31/10/2019 2020	2019	Mallik Rao Chief Technology and information Officer since 15/10/2019 2020	2019
Fixed remuneration	–	250,000	360,000	203,871
Fringe benefits	–	57,357	153,596	24,194
Total	**–**	**307,357**	**513,596**	**228,065**
One-year variable remuneration[1]	**–**	**162,500[2]**	**234,000**	**–**
Multi-year variable remuneration	**–**	**–**	**–**	**–**
Bonus II (2016–2019)	–	–	–	–
Bonus II (2017–2020)	–	–	–	–
Other	–	–	–	–
Total	**–**	**469,857**	**747,596**	**228,065**
Pension expenses	–	61,752	1,869	–
Total remuneration	**–**	**531,609**	**749,465**	**228,065**

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

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

Remuneration of members of the Supervisory Board

By resolution of the Annual General Meeting of 20 May 2020, the members of the Supervisory Board, in accordance with the articles of association, receive a fixed remuneration of EUR 30,000 per year retroactively to 1 January 2020 (2019: EUR 20,000) payable after the end of the financial year. The Chairperson of the Supervisory Board receives EUR 100,000 (2019: EUR 80,000) and the Deputy Chairperson of the Supervisory Board EUR 50,000 (2019: EUR 40,000) per year.

In addition to the fixed remuneration, the Chairperson of the Audit Committee receives EUR 45,000 per year (2019: EUR 50,000), unless the Chairperson of the Supervisory Board is the Chairperson of the Audit Committee.

Starting in the 2020 financial year, the members of the Supervisory Board also receive remuneration for their work in the standing committees, i.e. members of the Audit Committee receive an additional EUR 10,000 per year. The regular members of the Remuneration Committee receive an additional EUR 7,500 per year, while the Chairperson of the Remuneration Committee receives EUR 13,000 in addition to the fixed remuneration. Supervisory Board members who hold office in the Supervisory Board or the position of Chairperson of the Supervisory Board or Chairperson of a Committee only for a certain part of the financial year receive proportionate remuneration on a pro rata temporis basis.

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

Five (in some cases former) members of the Supervisory Board who also have an executive role in one of the Telefónica, S.A. Group companies waive or waived their remuneration up to an amount of EUR 2,000 per year or entirely.

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

Name	Member of the Supervisory Board	**Remuneration (in EUR) 2020**	Remuneration (in EUR) 2019
Peter Löscher[1]	since 01 April 2020	73,989	–
Laura Abasolo García de Baquedano[2]	from 12 May 2015 to 31 March 2020	2,000	2,000
Christoph Braun	since 01 July 2016	50,000	40,000
Sally Anne Ashford[3]	from 18 September 2014 to 25 September 2020	31,604	20,000
Martin Butz	since 17 May 2018	40,000	20,000
Pablo de Carvajal Gonzalez	since 25 July 2018	2,000	2,000
Patricia Cobián González[3]	from 18 September 2012 to 25 September 2020	2,000	2,000
Peter Erskine	since 19 May 2016	30,000	20,000
María García-Legaz Ponce[4]	since 07 June 2018	2,000	2,000
Ernesto Gardelliano[5]	since 05 October 2020	–	–
Cansever Heil	since 03 April 2019	30,000	14,959
Christoph Heil	from 03 June 2013 to 17 May 2018; since 03 April 2019	30,000	14,959
Sandra Hofmann	from 17 May 2018 to 18 February 2019	–	2,685
Michael Hoffmann[6]	since 05 October 2012	78,481	70,000
Julio Linares López	since 16 October 2017	30,000	20,000
Stefanie Oeschger[7]	since 03 October 2020	7,377	–
Thomas Pfeil	since 03 June 2013	40,000	20,000
Joachim Rieger[8]	since 31 October 2014	34,500	24,500
Dr Jan-Erik Walter	since 03 June 2013	37,500	20,000
Claudia Weber	since 03 June 2013	37,500	20,000

[1] Peter Löscher was appointed by the court as shareholder representative to the Supervisory Board with effect from 01 April 2020 and confirmed in office by the Annual General Meeting on 20 May 2020. From 02 April 2020 he was also Chairman of the Supervisory Board and was confirmed in this office by the Supervisory Board on 27 May 2020, also after the Annual General Meeting.
[2] Laura Abasolo García de Baquedano resigned from office with effect from the end of 31 March 2020.
[3] Sally Anne Ashford and Patricia Cobián González each resigned from office with effect from the end of the Supervisory Board meeting on 25 September 2020.
[4] María García-Legaz Ponce succeeded Laura Abasolo García de Baquedano as a member of the Remuneration Committee on 01 April 2020.
[5] Ernesto Gardelliano was appointed by the court to the Supervisory Board as a shareholder representative with effect from 05 October 2020 and elected as a member of the Audit Committee on 10 October 2020.
[6] Michael Hoffmann was elected as a member and Chairman of the Remuneration Committee with effect from 25 September 2020.
[7] Stefanie Oeschger was appointed by the court to the Supervisory Board as a shareholder representative with effect from 03 October 2020.
[8] In addition to the remuneration pursuant to Section 20 of the articles of association of Telefónica Deutschland Holding AG, Joachim Rieger received an annual remuneration in the amount of EUR 4,500 for his activities as a member of the Supervisory Board of the subsidiary TGCS Essen & Potsdam GmbH, which is already taken into account in the table.

The members of the Supervisory Board received remuneration for their work on the Supervisory Board of Telefónica Deutschland Holding AG and its subsidiaries amounting to EUR 559 thousand in 2020 and EUR 315 thousand in 2019.

As of 31 December 2020, the 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.

Separate combined non-financial report

Telefónica Deutschland will publish a separate, non-financial, combined report which contains the information for both Telefónica Deutschland Group and Telefónica Deutschland, at the following website address: **www.telefonica.de/nfe.** This non-financial report in accordance with section 289b paragraph 3 HGB in conjunction with section 315b paragraph 3 HGB is part of this Combined Management Report.

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

Composition of subscribed capital

The registered share capital of Telefónica Deutschland Holding AG amounts to EUR 2,974,554,993, which is consistent with the prior year. The share capital is divided into 2,974,554,993 no-par value registered shares, each with a proportionate interest in the share capital of EUR 1.00 ("shares"). The registered share capital is fully paid. As of 31 December 2020 and at the time this Management Report was prepared, Telefónica Deutschland Holding AG did not hold any of its own shares. In accordance with section 6 (2) of the articles of association, the shareholders do not have the right to securitise shares. Each no par value share grants one vote at the Annual General Meeting. The shares are freely transferable.

Voting restrictions and restrictions on the transferability of shares

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

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

As of 31 December 2020, 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.

In financial year 2020, the Management Board of Telefónica Deutschland Holding AG consisted of seven members.

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

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

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

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

Changes to the articles of association
In accordance with section 179 (1) sentence 1 AktG, any change to the articles of association of Telefónica Deutschland Holding AG requires a resolution of the Annual General Meeting. In accordance with section 27 of the articles of association together with section 179 (2) sentence 2 AktG, resolutions of the Annual General Meeting of Telefónica Deutschland 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 2020, the following authorisations of the Management Board for the issuing of shares exist:

Authorised capital
As of 31 December 2020, the Management Board is authorised, with the approval of the Supervisory Board, to increase the share capital of the company in the period until 18 May 2021, on one or more occasions, by a total of EUR 1,487,277,496 by issuing up to 1,487,277,496 new no-par value shares in exchange for cash and/or non-cash contributions (Authorised Capital 2016/I). The authorisation stipulates that shareholder subscription rights can, in certain cases, be completely or partially excluded (section 4 (3) of the articles of association). This was resolved by the Shareholders' Meeting on 19 May 2016, which at the same time cancelled the existing Authorised Capital 2012/I.

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

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

The Shareholders' Meeting on 19 May 2016 cancelled the existing authorisation to buy back own shares dated 05 October 2012 and resolved a new authorisation in accordance with section 71 (1) 8 AktG to buy back own shares of up to a total of 10% of the share capital on the resolution date or, if lower, on the date on which the authorisation is exercised.

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

In the event of a change of control, the rating of the 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 the option to terminate the financing early at a redemption amount of 101% of the nominal amount plus accrued interest. Otherwise, the interest rate will be increased by 1.25% p.a. until maturity or by 3.0% p.a. for the bond issued on 05 July 2018.

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

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

BUSINESS DEVELOPMENT OF TELEFÓNICA DEUTSCHLAND HOLDING AG

The Annual Financial Statements of Telefónica Deutschland Holding AG were prepared in accordance with the provisions of the German Stock Corporation Act (AktG) and the German Commercial Code (HGB).

Telefónica Deutschland acts as a holding company and as a service provider, it is responsible for the management and strategic approach of the Telefónica Deutschland Group. As the parent company of the Telefónica Deutschland Group, Telefónica Deutschland Holding AG has no relevant financial key performance indicators on its own. Telefónica Deutschland Holding AG does not have any significant performance indicators of its own.

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

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.

As of 31 December 2020, Telefónica Deutschland Holding AG has no employees.

Results of Operations

Telefónica Deutschland generates its revenue from compensation for services, which it provides for its subsidiaries. In financial year 2020, the charging on of the respective costs resulted in revenues in the amount of EUR 10 million.

The revenues for the financial year 2020 are slightly below the previous year due to a slightly lower cost base and the associated lower charged on costs.

The personnel expenses fell slightly in comparison to the previous year. The income from investments counteracted the income tax expenses in the reporting year and led to a total net profit for the year in the amount of approximately EUR 16 million.

Revenues slightly below previous year's level
In the financial year, revenues in the amount of EUR 10 million (2019: EUR 11 million) were generated. The revenues were essentially comprised of charging on the costs for the remuneration of Management Board members, as well as additional administration costs, which are assumed by Telefónica Germany GmbH & Co. OHG. 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 slightly below previous year's level
Personnel expenses mainly comprise the remuneration of the Management Board including social security contributions and amounted to EUR 8 million (2019: EUR 9 million). Due to the change during the year to the Management Board in the previous year, personnel expenses in the reporting year are slightly below the level of the previous year.

Other operating expenses at previous year's level
Other operating expenses of EUR 4 million were at the previous year's level. They essentially include legal and consulting expenses from external service providers.

Financial result significantly above previous year's level
The financial result mainly includes the income from the investment in Telefónica Germany GmbH & Co. OHG in the amount of EUR 22 million (2019: EUR 0 million), due to the distribution in the reporting year of the profit for 2019 of Telefónica Germany GmbH & Co. OHG.

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

Profit of the period significantly improved
In 2020, the Company generated a profit of the period of around EUR 16 million (2019: EUR -2 million).

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INCOME STATEMENT

1 January to 31 December

(in EUR million)	2020	2019	Change	% change
Revenues	**10**	**11**	**(1)**	**(6.9)**
Other income	1	–	1	>100
Operating expenses	(12)	(13)	0	(3.7)
Personnel expenses	(8)	(9)	1	(7.1)
Other operating expenses	(4)	(4)	(0)	3.3
Operating income	**(1)**	**(2)**	**1**	**(38.0)**
Financial result	22	–	22	(>100)
Profit/(loss) before tax	**21**	**(2)**	**23**	**(>100)**
Income tax	(5)	–	(5)	-
Profit/(loss) after tax	**16**	**(2)**	**18**	**(>100)**
Other taxes	(0)	–	0	(79.8)
Profit/(loss) for the period	**16**	**(2)**	**18**	**(>100)**

Financial Position and Net Assets

Principles and goals of financial management

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

Bonds for corporate financing

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

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

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

Investment projects

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

Decrease in financial assets

The shares in affiliated companies in the amount of EUR 8,031 million (2019: EUR 8,537 million) 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 of EUR 506 million by Telefónica Deutschland on the basis of a shareholders' resolution dated 04 May 2020 in accordance with section 4 (3) of the shareholders' agreement. The carrying value of the shares in Telefónica Germany Management GmbH, Munich was unchanged in comparison to the previous period at EUR 10 million.

Decrease in receivables from affiliated companies

The decrease in receivables from affiliated companies was mainly due to the decrease in cash pooling receivables from Telfisa Global B.V., Amsterdam from EUR 54 million in 2019 to EUR 8 million in the reporting year. This decline mainly resulted primarily from the proportional loan repayment made in the amount of EUR 30 million to Telefónica Germany GmbH & Co. OHG.

In addition, there are receivables from affiliated companies from the VAT Group amounting to EUR 79 million (2019: EUR 79 million).

Increase in provisions
The increase in provisions is mainly due to the tax provision formed for corporate tax, including solidarity surcharge, in the amount of EUR 5 million in the financial year (2019: EUR 0 million), which is related to the results of Telefónica Germany GmbH & Co. OHG and its controlled companies. As a shareholder of Telefónica Germany GmbH & Co. OHG, Telefónica Deutschland Holding AG is the taxable entity for corporate income tax purposes.

At EUR 3 million, pension provisions were at the previous year's level. The slight increase in other provisions at the end of the reporting period resulted mainly from higher provisions for outstanding purchase invoices for consulting services.

Decline in liabilities
This decline in liabilities to affiliated companies in the reporting year mainly resulted from the proportional loan repayment made in the amount of EUR 30 million to Telefónica Germany GmbH & Co. OHG. Trade payables were at the previous year's level. Other liabilities of EUR 37 million particularly relate to value-added tax liabilities, which the Company must pay to the tax office as the controlling company of the VAT group.

Decline in equity
Equity decreased by EUR 490 million or 5.7% to EUR 8,055 million in the financial year 2020 (2019: EUR 8,544 million). The change in equity resulted from the dividend resolved on 20 May 2020 and paid out in 2020 in the amount of EUR 506 million and from the result for the period of EUR 16 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-p ar value registered shares (Conditional Capital 2019/I). Conditional Capital 2019/I was resolved by resolution of the Annual General Meeting on 21 May 2019 – with Conditional Capital 2014/I being cancelled.

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BALANCE SHEET

As of 31 December

(in EUR million)	**2020**	2019	Change	% change
Fixed assets				
Financial assets				
Investments in affiliated companies	8,042	8,547	(506)	(5,9)
Current assets				
Receivables from affiliated companies	89	136	(47)	(34,6)
Other assets and miscellaneous assets	0	–	–	–
Total assets	**8,131**	**8,683**	**(552)**	**(6,4)**
Equity	**8,055**	**8,544**	**(490)**	**(5,7)**
Provisions	**14**	**8**	**6**	**76,5**
Liabilities	**62**	**131**	**(69)**	**(52,6)**
Total equity and liabilities	**8,131**	**8,683**	**(552)**	**(6,4)**

Employees

As in 2019, Telefónica Deutschland Holding AG had no employees in financial year 2020.

Subsequent Events

With regard to business transactions of particular significance that occurred after the end of the reporting year, reference is made to > NOTES, SUBSEQUENT EVENTS IN THE 2020 ANNUAL FINANCIAL STATEMENTS OF TELEFÓNICA DEUTSCHLAND HOLDING AG.

Risks and Opportunities

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

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

The risk of 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.

For further information > RISK AND OPPORTUNITIES MANAGEMENT.

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

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

Outlook 2021

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

MANAGEMENT DECLARATION

The Company has published this declaration, which also contains the declaration of compliance pursuant to section 161 AktG, section 76 (4) and section 111 (5) AktG, and the statements on the diversity concept for the Supervisory Board and Management Board on its website **(www.telefonica.de/management-declaration-2020)** and in the Compliance Statement of the Annual Report. This management declaration in accordance with section 289f HGB in conjunction with section 315d HGB forms part of this Combined Management Report.

Munich, 18 February 2021

Telefónica Deutschland Holding AG

The Management Board

Markus Haas

Markus Rolle

Valentina Daiber

Nicole Gerhardt

Wolfgang Metze

Alfons Lösing

Mallik Rao

CONSOLIDATED FINANCIAL STATEMENTS

For the financial year 2020

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of 31 December

Assets (in EUR million)	Notes	**2020**	2019
A) Non-current assets		**13,913**	**14,367**
Goodwill	[5.1]	1,616	1,964
Other intangible assets	[5.2]	4,617	5,384
Property, plant and equipment	[5.3]	3,706	3,750
Right-of-use assets	[5.4]	2,852	2,499
Investments accounted for using the equity method	[11]	2	–
Trade and other receivables	[5.5]	157	104
Other financial assets	[5.6]	301	133
Other non-financial assets	[5.7]	188	220
Deferred tax assets	[6.7]	473	314
B) Current assets		**3,281**	**2,783**
Inventories	[5.8]	129	165
Trade and other receivables	[5.5]	1,297	1,366
Other financial assets	[5.6]	67	17
Other non-financial assets	[5.7]	451	455
Cash and cash equivalents	[5.9]	1,337	781
Total assets (A+B)		**17,194**	**17,151**

As of 31 December

Equity and Liabilities (in EUR million)	Notes	**2020**	2019
A) Equity		**6,330**	**6,534**
Subscribed capital	[5.10]	2,975	2,975
Additional paid-in capital	[5.10]	4,512	4,800
Retained earnings		(1,156)	(1,240)
Total equity attributable to owners of the parent		6,330	6,534
B) Non-current liabilities		**6,373**	**6,532**
Interest-bearing debt	[5.11]	1,577	2,153
Lease liabilities	[5.12]	2,326	2,027
Trade and other payables	[5.13]	12	15
Payables – Spectrum	[5.14]	1,089	1,186
Provisions	[5.15]	784	624
Deferred income	[5.13]	219	213
Deferred tax liabilities	[6.7]	365	314
C) Current liabilities		**4,491**	**4,084**
Interest-bearing debt	[5.11]	715	339
Lease liabilities	[5.12]	514	462
Trade and other payables	[5.13]	2,475	2,493
Payables – Spectrum	[5.14]	107	86
Provisions	[5.15]	66	104
Other non-financial liabilities	[5.7]	50	103
Income tax liabilities	[6.7]	15	–
Deferred income	[5.13]	548	497
Total equity and liabilities (A+B+C)		**17,194**	**17,151**

CONSOLIDATED INCOME STATEMENT

1 January to 31 December

(in EUR million)	Notes	**2020**	2019
Revenues	[6.1]	7,532	7,399
Other income	[6.2]	542	183
Supplies		(2,435)	(2,372)
Personnel expenses	[6.3]	(611)	(592)
Impairment losses in accordance with IFRS 9		(69)	(77)
Other expenses	[6.4]	(2,276)	(2,249)
Operating income before depreciation and amortisation (OIBDA)		**2,683**	**2,292**
Depreciation and amortisation	[6.5]	(2,369)	(2,416)
Operating income		**314**	**(124)**
Finance income		3	3
Exchange gains		1	0
Finance costs		(69)	(58)
Exchange losses		(1)	(0)
Financial result	[6.6]	**(66)**	**(55)**
Profit/(loss) before tax		**248**	**(179)**
Income tax	[6.7]	80	(33)
Profit/(loss) for the period		**328**	**(212)**
Profit/(loss) for the period attributable to owners of the parent		**328**	**(212)**
Profit/(loss) for the period		**328**	**(212)**
Earnings per share	[9]		
Basic earnings per share in EUR		**0.11**	**(0.07)**
Diluted earnings per share in EUR		**0.11**	**(0.07)**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

1 January to 31 December

(in EUR million)	Notes	2020	2019
Profit/(loss) for the period		**328**	**(212)**
Items that will not be reclassified to profit/(loss)			
Remeasurement of benefits after termination of employment	[5.15]	(40)	(53)
Income tax impact	[6.7]	13	17
Other comprehensive income/(loss)		**(27)**	**(36)**
Total comprehensive income/(loss)		**302**	**(248)**
Total comprehensive income/(loss) attributable to owners of the parent		302	(248)
Total comprehensive income/(loss)		**302**	**(248)**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(in EUR million)	Notes	Subscribed capital	Additional paid-in capital	Retained earnings	Total equity attributable to owners of the parent	Equity
Financial position as of 1 January 2019		**2,975**	**4,800**	**(189)**	**7,586**	**7,586**
Profit/(loss) for the period		–	–	(212)	(212)	(212)
Other comprehensive income/(loss)		–	–	(36)	(36)	(36)
Total comprehensive income/(loss)		**–**	**–**	**(248)**	**(248)**	**(248)**
Dividends	[5.10]	–	–	(803)	(803)	(803)
Financial position as of 31 December 2019		**2,975**	**4,800**	**(1,240)**	**6,534**	**6,534**
Financial position as of 1 January 2020		**2,975**	**4,800**	**(1,240)**	**6,534**	**6,534**
Profit/(loss) for the period		–	–	328	328	328
Other comprehensive income/(loss)		–	–	(27)	(27)	(27)
Total comprehensive income/(loss)		**–**	**–**	**302**	**302**	**302**
Dividends	[5.10]	–	–	(506)	(506)	(506)
Withdrawal	[5.10]	–	(288)	288	–	–
Financial position as of 31 December 2020		**2,975**	**4,512**	**(1,156)**	**6,330**	**6,330**

CONSOLIDATED STATEMENT OF CASH FLOWS

1 January to 31 December

(in EUR million)	Notes	**2020**	2019
Cash flow from operating activities			
Profit/(loss) for the period		**328**	**(212)**
Adjustments to profit/(loss)			
Financial result	[6.6]	66	55
Gains on disposals of assets		(408)	(1)
Income taxes	[6.7]	(80)	33
Depreciation and amortisation	[6.5]	2,369	2,416
Other non-cash expenses/income		–	–
Change in working capital and others			
Other non-current assets	[5.5], [5.6], [5.7]	3	(95)
Other current assets	[5.5], [5.6], [5.7],[5.8]	128	35
Other non-current liabilities and provisions	[5.13], [5.15]	86	(61)
Other current liabilities and provisions	[5.13], [5.15]	(300)	(106)
Others			
Interest received		5	4
Interest paid		(63)	(53)
Cash flow from operating activities		**2,134**	**2,015**
Cash flow from investing activities			
Proceeds from disposals of property, plant and equipment and intangible assets		17	3
Payments on investments in property, plant and equipment and intangible assets	[5.2], [5.3]	(1,000)	(966)
Payments from the disposal of companies	[8]	766	–
Acquisition of companies, net of cash acquired		(1)	(9)
Proceeds from financial assets		5	0
Payments for financial assets		(25)	(21)
Cash flow from investing activities		**(238)**	**(992)**

1 January to 31 December

(in EUR million)	Notes	**2020**	2019
Cash flow from financing activities			
Repayments of lease liabilities	[5.11]	(547)	(484)
Payments made relating to frequency auctions	[5.14]	(87)	(87)
Proceeds from interest-bearing debt	[5.11]	791	820
Payments made for the repayment of interest-bearing debt	[5.11]	(990)	(446)
Dividends paid		(506)	(803)
Other proceeds/payments relating to financing activities		(2)	8
Cash flow from financing activities		**(1,340)**	**(993)**
Net increase/(decrease) in cash and cash equivalents		**556**	**30**
Cash and cash equivalents at the beginning of the period	[5.9]	**781**	**751**
Cash and cash equivalents at the end of the period	[5.9]	**1,337**	**781**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the financial year 2020

1. Reporting Entity

The Consolidated Financial Statements of Telefónica Deutschland Holding AG have been prepared as of and for the year ending 31 December 2020 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.

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

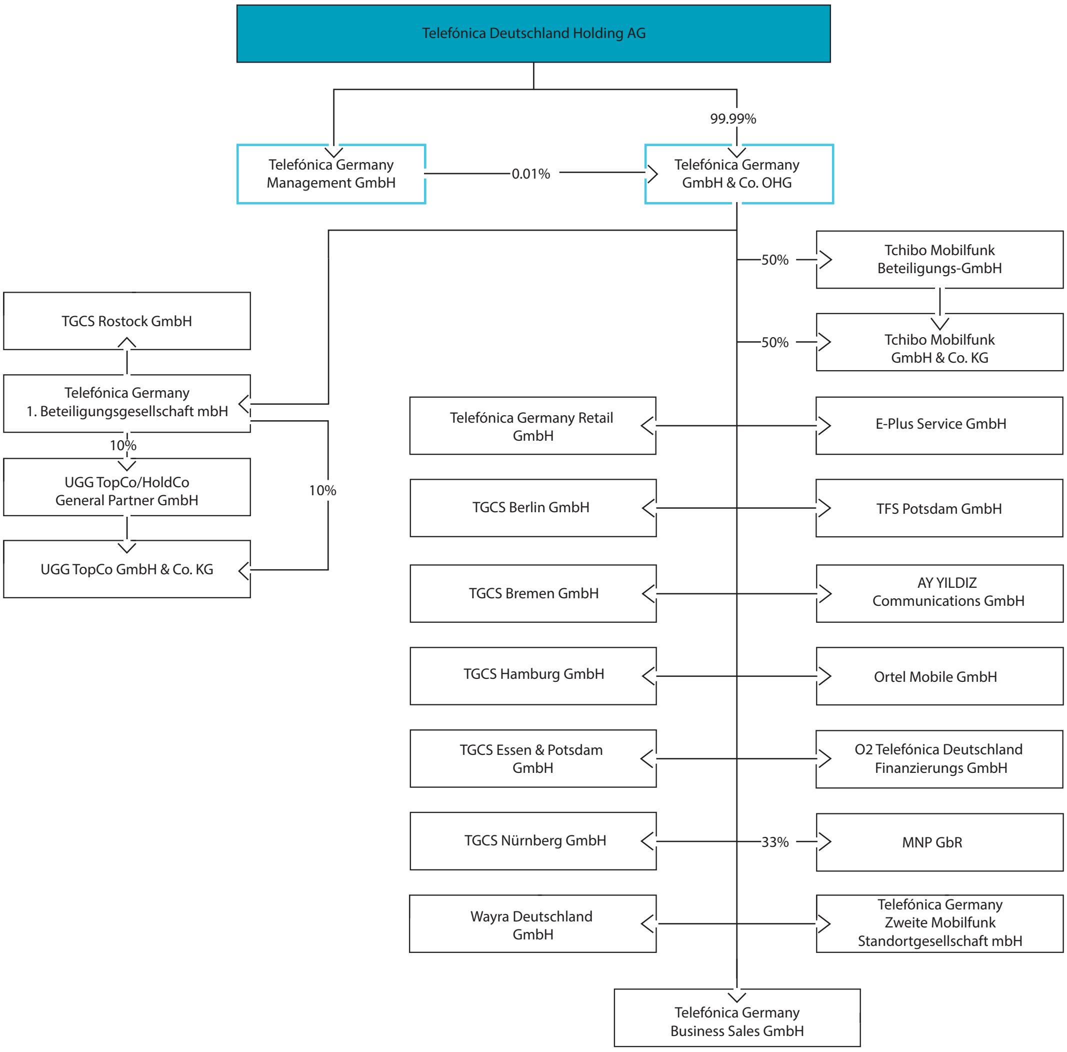
As of 31 December 2020, 30.8% of the shares were in free float. 69.2% were held by Telefónica Germany Holdings Limited, Slough, United Kingdom (Telefónica Germany Holdings Limited), an indirect wholly owned subsidiary of Telefónica, S.A., Madrid, Spain (Telefónica, S.A.).

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

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

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

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



Unless stated otherwise, the ownership interests amount to 100%. For changes in the Group structure, please refer to >NOTE 11, GROUP COMPANIES OF THE TELEFÓNICA DEUTSCHLAND GROUP.

2. Basis of Preparation

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

The accounting policies applied in the published consolidated financial statements of the previous year have also been applied to these consolidated financial statements as of 31 December 2020. Exceptions to this are amendments to 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 Consolidated Financial Statements of Telefónica Deutschland Holding AG were released for publication by the Management Board and submission to the Supervisory Board on 18 February 2021.

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 significant sources of estimation uncertainty at the balance sheet 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 Statement of Financial Position or the income statement (see Note 5. Selected Notes to the Consolidated Statement of Financial Position and Note 6. Selected Explanatory Notes to the Consolidated Income Statement). The estimates and underlying assumptions are based on management’s current available knowledge and are therefore derived from factors considered relevant, such as past experience.

Unforeseeable development 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 2020 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 when the 2020 consolidated financial statements are published.

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

Standards, interpretations and amendments		Mandatory application for financial years beginning on or after
Changes to IFRS 4	Extension of the temporary exemption from the application of IFRS 9	1 January 2021
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Amendments regarding the effects of the IBOR reform (phase 2)	1 January 2021
Annual Improvements, Cycle 2018 – 2020	Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41	1 January 2022[1]
Amendments to IFRS 3 (narrow scope amendments)	Updating of cross-references, introduction of an exception to the recognition requirements, inclusion of an explicit prohibition in the standard text for the recognition of contingent assets	1 January 2022[1]
Amendments to IAS 16 (narrow scope amendments)	Recognition of revenue from sales during the construction phase of an item of property, plant and equipment	1 January 2022[1]
Amendments to IAS 37 (narrow scope amendments)	Determination of the “costs of fulfilling contracts”	1 January 2022[1]
Changes to IAS 1	Classification of liabilities as current or non-current	1 January 2023[1]
IFRS 17 (incl. amendments to IFRS 17)	Insurance Contracts	1 January 2023[1]

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

4. General accounting policies

4.1 Consolidation methods

a) Consolidation principles
The consolidation methods applied are as follows:

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

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

— Consolidation using the equity method of companies over which Telefónica Deutschland Group has a significant influence and 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 the Telefónica Deutschland Group, adjustments are made in consolidation in order to present the Consolidated Financial Statements on a consistent basis.

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

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

b) Subsidiaries
Subsidiaries are companies in which the Telefónica Deutschland Group has control. Control is assumed if the Telefónica Deutschland Group has power over an investee and is exposed to variable returns or has rights to these returns. In addition, the ability must exist to use its power over the investee to affect the returns. The existence and effect of substantial potential voting rights that are currently exercisable or convertible, 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 individually and cumulatively immaterial.

c) 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.

d) 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.

e) Associated companies
The investments in UGG TopCo GmbH & Co. KG and UGG TopCo/ HoldCo General Partner GmbH were classified as associated companies in application of IAS 28.6 in consideration of the specific facts and circumstances. Our appraisal as to the material influence of the Telefónica Deutschland Group over the business and financial policy is based on the Telefónica Deutschland Group's entering into major business transactions with the companies and its involvement in the relevant decision-making processes.

f) Currency translation
The Consolidated Financial Statements are presented in EUR, which is the functional currency of Telefónica Deutschland Holding AG and its subsidiaries.

4.2 Significant accounting policies

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

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

b) 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.

<u>Licences</u>
This mainly 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 within the meaning of 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.

<u>Customer bases</u>
This category is for customer relationships which were acquired through company transactions, and which were therefore capitalised.

They are amortised on a straight-line basis over the estimated duration of the customer relationship.

Software
Software is recognized as a 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 were therefore capitalised. Brand names are amortised on a straight-line basis over the period of their expected economic use.

c) 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 capital 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 it is reasonably certain that Telefónica will fulfil the conditions of the grant and that the grant will be fully granted. In accordance with 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.

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

A lease is defined as an arrangement whereby an identified asset is placed at the disposal of the lessee in exchange for consideration for a specified period of time and the lessee has the right during this period to obtain substantially all the benefits of its use and to determine the nature and purpose of its use. The Telefónica Deutschland Group assumes a 3-year forecast period when determining the contractual term of a lease. This also applies to the assessment of any termination and extension options.

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

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

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

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

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

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

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

e) Investments accounted for using the equity method
Investments in associated companies that are accounted for using the equity method are shown in the consolidated balance sheet as soon as Telefónica Deutschland Gruppe obtains significant influence over the investment. The initial valuation takes place at acquisition costs; ancillary acquisition costs that are directly attributable to the transaction increase the carrying value. The investment carrying value is carried forward in the subsequent periods by the proportional change in equity capital of the associated company. Dividends received reduce the carrying value. The proportional total result of the investment attributable to the Telefónica Deutschland Group is shown as "Result of investments accounted for using the equity method" in the consolidated income statement.

f) Impairment of goodwill and other intangible assets, property, plant and equipment, right-of-use assets from leases and investment carrying values accounted for using the equity method
Goodwill and intangible assets and assets with indefinite useful lives which have not yet been placed in service are tested for impairment annually at the reporting date or if there are any indications of an impairment. Property, plant and equipment, 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 values in associated companies 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 2020, the Telefónica Deutschland Group comprises one single cash-generating unit, the reportable segment Telecommunications. Within the Telefónica Deutschland Group, there are no further identifiable groups of assets below Group level that generate cash inflows that are largely independent of the cash inflows from other assets. An impairment is required if the carrying amount of an asset, the at-equity investment carrying value or a cash-generating unit exceeds its recoverable amount.

Generally, the Telefónica Deutschland Group determines the recoverable amount of a cash-generating unit based on its fair value less costs to sell. The fair value is determined based on the market capitalisation of Telefónica Deutschland Holding AG as of the reporting date. Costs to sell contain costs such as legal and consulting fees that can be directly allocated to the sale of the cash-generating unit.

If the recoverable amount of a cash-generating unit to which goodwill is allocated is less than the carrying amount of the unit, an impairment loss shall be recognised corresponding to the difference. If the impairment loss exceeds the carrying amount of the goodwill, the remainder shall be allocated pro rata on the basis of the respective carrying amounts to the other assets.

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

If the investment carrying value of an associated company exceeds it recoverable amount, the carrying value will be adapted to the recoverable amount. The resulting loss is recorded 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.

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

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

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

h) 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.

i) 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.

<u>Financial assets: Assessment of the cash flow criterion</u>
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.

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

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

<u>Financial assets measured at fair value through profit or loss</u>
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 positive fair values that are not included in hedging relationships are also reported in this category.

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

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

Financial assets measured at fair value through other comprehensive income

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

Impairment of financial assets

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

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

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

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

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

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

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

- It is unlikely that the borrower will settle its loan obligations to the Telefónica Deutschland Group in full without the Telefónica Deutschland Group resorting to measures such as the realisation of collateral (if any).
- The financial asset is 90 days or more past due.
- A debtor is in severe financial difficulty or is unwilling to pay.

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

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

Financial liabilities

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

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

Financial liabilities measured at amortised cost

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

Financial liabilities at fair value through profit or loss

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

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

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

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

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

Offsetting
Financial assets and financial liabilities are offset, and the net amount is reported in the Consolidated Statement of Financial Position, when the 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. In the current financial year, the Telefónica Deutschland Group has an interest rate swap (derivative financial instrument) to hedge interest-rate risks.

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

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

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

j) Provisions

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

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

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

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

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

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

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

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

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

Other provisions including termination benefits
Provisions are recognised when the Telefónica Deutschland Group has a present (legal or constructive) obligation, as a result of a past event that can be estimated reliably and it is probable that an outflow of resources of economic benefits will be required to settle the obligation. If the effect of the time value of money is material, provisions are discounted and the corresponding increase in the provision due to the passage of time is recognised as interest expense. For the purpose of discounting, the Group applies non-risk market interest rates before tax which are matched to the duration. This does not apply to other long-term employee benefits (partial retirement obligations), for which the discount rate is determined on the same basis used for the measurement of pension obligations. Potential risks are fully taken into account in determining the settlement amount. If the Telefónica Deutschland Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset, but only if the reimbursement is virtually certain. The expense relating to any provision is presented, if applicable, net of any reimbursement, in the Consolidated Income Statement.

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

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

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

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

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

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

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

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

k) 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 related carrying amount is mainly realised by a disposal transaction and not by continued use. Non-current assets and disposal groups classified as held for sale are valued at the lower of the carrying amount and fair value less costs to sell. Costs to sell are the additional cost incurred which are directly attributable to the sale of an asset (a disposal group).

The criteria for being classified as an asset or disposal group held for sale is only deemed to be fulfilled if the sale is highly likely and the asset or the disposal group is immediately saleable in the current condition.

Property, plant and equipment and intangible assets classified as held for sale are no longer depreciated on a scheduled basis from the time of classification according to IFRS 5. The same applies to capitalised right-of-use assets from leases.

In the balance sheet, assets and liabilities classified as held for sale are reported separately as current items.

l) Revenues from contracts with customers

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

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

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

Revenues from service and multi-component contracts

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

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

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

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

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

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

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

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 the Consolidated Income Statement on a straight-line basis in other applications over the underlying amortisation period.

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

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

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, various cumulated income adjustments may occur.

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

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

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

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

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

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

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

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

Uncertain income tax items are accounted at the estimated amount of corresponding tax payments.

5. Selected Notes to the Consolidated Statement of Financial Position

5.1. Goodwill

(in EUR million)	2020	2019
Carrying amount of goodwill at 1 January	**1,964**	**1,960**
Additions due to acquisition	–	4
Disposal due to the sale of major parts of the business operations of the rooftop sites to Telxius	(347)	–
Carrying amount of goodwill at 31 December	**1,616**	**1,964**

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. The determination of the recoverable amount may require a certain degree of assumptions and estimates as well as significant judgements. The fair value of goodwill is determined based on the market capitalisation of Telefónica Deutschland Holding AG as of the reporting date.

The decrease compared to the previous year results from the sale of major parts of the business operations of the rooftop sites to Telxius. The disposal of the proportional goodwill is related to the first transaction step (>NOTE 8 DISPOSAL GROUP).

The impairment test carried out at the level of the Telecommunications cash-generating unit did not result in an impairment of goodwill at the end of 2020, as the recoverable amount of EUR 6,629 million (2019: EUR 7,607 million), based on fair value less costs to sell, was higher than the carrying amount of the cash-generating unit. A share price of EUR 2.255 as of 31 December 2020 was used for an impairment test. The Group again did not recognise an impairment charge in financial year 2019.

The impairment test is described in Note 4 General accounting policies - Significant accounting policies.

5.2. Other intangible assets

Other intangible assets are depreciated over their useful lives on a scheduled straight-line basis within the following bandwidths.

	Estimated useful life (in years)
Licences	6 – 21
Customer bases	9 – 15
Software	1 – 5
Brand names	5 – 20

The determination of the useful lives underlying the amortised cost is also mainly based on the estimation of future technological developments or the alternative use of the assets and is thus subject to certain discretionary estimates.

(in EUR million)	Licences and other licences for use	Customer bases	Software	Thereof own work capitalised	Brand names	Others	Construction in progress/ prepayments on intangible assets	Other intangible assets
Cost								
as of 1 January 2019	**11,574**	**3,076**	**1,582**	**201**	**101**	**42**	**344**	**16,719**
Additions	–	9	234	28	–	0	1,428	1,672
Disposals	(0)	(98)	(49)	–	–	(1)	–	(147)
Reclassifications	–	–	2	–	–	–	(2)	–
as of 31 December 2019	**11,574**	**2,988**	**1,769**	**229**	**101**	**42**	**1,770**	**18,244**
as of 1 January 2020	**11,574**	**2,988**	**1,769**	**229**	**101**	**42**	**1,770**	**18,244**
Additions	–	–	266	27	–	0	14	280
Disposals	(8,638)	(1)	(92)	–	–	(0)	–	(8,732)
Reclassifications	1,381	–	5	–	–	–	(1,386)	(0)
as of 31 December 2020	**4,316**	**2,987**	**1,948**	**256**	**101**	**42**	**398**	**9,792**
Accumulated depreciation								
as of 1 January 2019	**(9,291)**	**(1,518)**	**(1,089)**	**(146)**	**(57)**	**(38)**	**–**	**(11,993)**
Additions	(412)	(324)	(272)	(29)	(3)	(3)	–	(1,014)
Disposals	0	98	49	–	–	1	–	147
as of 31 December 2019	**(9,702)**	**(1,745)**	**(1,313)**	**(174)**	**(59)**	**(41)**	**–**	**(12,860)**
as of 1 January 2020	**(9,702)**	**(1,745)**	**(1,313)**	**(174)**	**(59)**	**(41)**	**–**	**(12,860)**
Additions	(449)	(285)	(280)	(27)	(3)	(0)	–	(1,017)
Disposals	8,610	1	91	–	–	0	–	8,702
as of 31 December 2020	**(1,542)**	**(2,028)**	**(1,501)**	**(201)**	**(62)**	**(41)**	**–**	**(5,175)**
Carrying amount								
as of 31 December 2019	**1,872**	**1,243**	**456**	**54**	**42**	**1**	**1,770**	**5,384**
as of 31 December 2020	**2,775**	**958**	**447**	**55**	**39**	**1**	**398**	**4,617**

Licences
As of 31 December 2020, licences consist primarily of the frequency spectrum licences listed below:

In June 2019, Telefónica Germany GmbH & Co. OHG successfully bid on a total of 70 MHz in the 3.6 GHz range. The frequencies in the **3.6 GHz range** will be used from 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 2020 is EUR 1,014 million. In 2019, frequency usage rights were included in “Construction in progress/prepayments on intangible assets” with a carrying amount of 1,044 million. The remaining useful life is 20 years.

In May 2010, Telefónica Germany GmbH & Co. OHG acquired frequency usage rights of approximately 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 2020 is EUR 418 million (2019: EUR 502 million). The remaining useful life is five years.

In June 2015, Telefónica Germany GmbH & Co. OHG successfully bid for 2x10 MHz in the **1.8 GHz range**, which have been used since 1 January 2017 and have a term until December 2033. The carrying amount of the frequency usage rights as of 31 December 2020 is EUR 369 million (2019: EUR 397 million). The remaining useful life is 13 years.

In June 2015, Telefónica Germany GmbH & Co. OHG successfully bid 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 DSS (Dynamic Spectrum Sharing). The carrying amount of the frequency usage rights as of 31 December 2020 is EUR 317 million. In 2019, frequency usage rights were included in “Construction in progress/prepayments on intangible assets” with a carrying amount of 337 million. The remaining useful life is 13 years.

In June 2015, Telefónica Germany GmbH & Co. OHG successfully bid 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 2020 is EUR 295 million (2019: EUR 317 million). The remaining useful life is 13 years.

In May 2010, Telefónica Germany GmbH & Co. OHG acquired frequency usage rights of approximately 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 01 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 and 3G. The frequencies currently used for 3G can also be used for 4G. The carrying amount as of 31 December 2020 is EUR 173 million (2019: EUR 207 million). The remaining useful life is five years.

With the acquisition of the E-Plus Group on 01 October 2014, Telefónica Germany GmbH & Co OHG acquired 2x10 MHz in the **1.8 GHz range**, which are used for 4G and 2G and have a term until December 2025. The carrying amount of the frequency usage rights as of 31 December 2020 is EUR 147 million (2019: EUR 176 million). The remaining useful life is 5 years.

In May 2010, Telefónica Germany GmbH & Co. OHG acquired paired and unpaired frequency usage rights of approximately 50 MHz in the **2.6 GHz range** that will expire in December 2025. As part of the acquisition of the E-Plus Group on 01 October 2014, further paired and unpaired frequency usage rights were acquired in a total amount of 30 MHz in the 2.6 GHz band with terms until December 2025, of which a frequency usage right of 20 MHz was sold in the 2020 financial year. The carrying amount as of 31 December 2020 is EUR 43 million (2019: EUR 51 million). The remaining useful life is five years.

The allocation of all frequency usage rights is technology-neutral. The frequency usage rights are amortised on a straight-line basis over their useful lives.

The disposals with regard to licenses largely relate to UMTS licenses from the auction in 2000, with historical acquisition costs in the amount of EUR 8,491 million, as a result of expiration of their useful lives on 31 December 2020. Other disposals related to spectrum leases for one mobile frequency in the 2.0 GHz range and two mobile frequencies in the 2.6 GHz range.

Customer bases
The customer bases are primarily a result of the acquisition of the E-Plus Group by Telefónica Deutschland. The customer bases acquired in the E-Plus Group acquisition on 01 October 2014 are amortised over their remaining useful lives of mainly three years and four years.

Software
Software mainly includes developments and licences for IT and office applications. In the financial year 2020, 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 14 years.

Construction in progress/prepayments on intangible assets
Construction in progress/prepayments on intangible assets mainly comprise the frequency blocks in the 2 GHz ranges purchased at auction by the Telefónica Deutschland Group in June 2019. The German Federal Network Agency allocated the frequency blocks in August 2019. The carrying amount of the frequency usage rights as of 31 December 2020 is EUR 381 million. 2 x 5 MHz capacity each of the 2 GHz spectrum will be available from 2021 and 2026. The use of all frequencies 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 useful lives for depreciation purposes. The useful lives are reviewed periodically and, where appropriate, updated based on technological progress. The following bandwidths are currently predominantly used in the 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

As a result of the planned shutdown of the 3G network by the end of 2021, the useful lives of the 3G assets were adjusted during the reporting period. This resulted in an effect on depreciation of EUR 76 million.

(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 2019	**542**	**8,819**	**242**	**112**	**9,715**
Additions	5	764	19	19	807
Disposals	(177)	(515)	(17)	–	(709)
Reclassifications	1	57	1	(58)	1
Other	(1)	79	–	–	78
as of 31 December 2019	**370**	**9,204**	**245**	**73**	**9,891**
as of 1 January 2020	**370**	**9,204**	**245**	**73**	**9,891**
Additions	3	631	24	157	814
Disposals	(39)	(886)	(21)	(0)	(947)
Reclassifications	0	18	1	(19)	(0)
Other	16	159	–	–	176
as of 31 December 2020	**351**	**9,126**	**249**	**210**	**9,935**
Accumulated depreciation					
as of 1 January 2019	**(470)**	**(5,360)**	**(167)**	**–**	**(5,998)**
Additions	(31)	(790)	(31)	–	(851)
Disposals	177	513	17	–	707
Reclassifications	0	(0)	–	–	0
as of 31 December 2019	**(323)**	**(5,638)**	**(181)**	**–**	**(6,142)**
as of 1 January 2020	**(323)**	**(5,638)**	**(181)**	**–**	**(6,142)**
Additions	(15)	(782)	(30)	–	(827)
Disposals	38	679	22	–	739
Reclassifications	0	0	(0)	–	(0)
as of 31 December 2020	**(300)**	**(5,741)**	**(189)**	**–**	**(6,229)**
Carrying amount					
as of 31 December 2019	**47**	**3,566**	**64**	**73**	**3,750**
as of 31 December 2020	**51**	**3,385**	**60**	**210**	**3,706**

As of 31 December 2020, the Telefónica Deutschland Group has mainly capitalised leasehold improvements under land and buildings.

Technical equipment and machinery mainly relate to network equipment.

Office furniture and equipment, tools and miscellaneous mainly include IT equipment.

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

Additions to property, plant and equipment mainly comprised plant and machinery in connection with assets relating to dismantling or retirement obligations amounted to EUR 176 million (2019: EUR 80 million). These are mainly due to the development of interest rates and higher cost estimates.

The disposals of property, plant and equipment mainly relate to the passive infrastructure for rooftop and tower sites and, with a net carrying amount of EUR 203 million, are due to the first step in the transaction governing the sale of major parts of the business operations of the rooftop sites to Telxius (>NOTE 8 DISPOSAL GROUP).

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 2019	**994**	**1,748**	**147**	**2,889**
Additions	77	118	34	230
Disposals	(36)	(41)	(3)	(79)
Reclassifications	–	(1)	–	(1)
as of 31 December 2019	**1,035**	**1,825**	**179**	**3,039**
as of 1 January 2020	**1,035**	**1,825**	**179**	**3,039**
Additions	198	936	24	1,159
Disposals	(305)	(131)	(8)	(444)
Reclassifications	–	–	–	–
as of 31 December 2020	**929**	**2,630**	**195**	**3,755**
Accumulated depreciation				
Additions	(185)	(325)	(40)	(550)
Disposals	5	5	0	10
Reclassifications	–	–	–	–
as of 31 December 2019	**(181)**	**(320)**	**(40)**	**(540)**
as of 1 January 2020	**(181)**	**(320)**	**(40)**	**(540)**
Additions	(162)	(318)	(45)	(525)
Disposals	71	89	3	163
Reclassifications	–	–	–	–
as of 31 December 2020	**(272)**	**(548)**	**(82)**	**(902)**
Carrying amount				
as of 31 December 2019	**855**	**1,505**	**139**	**2,499**
as of 31 December 2020	**657**	**2,082**	**113**	**2,852**

As of 31 December 2020, the Telefónica Deutschland Group capitalised right-of-use assets for land and buildings mainly for roof areas, office and shop areas.

Plant and machinery mainly includes right-of-use assets for radio masts, dark fibre, leased lines and the leasing of areas on the passive infrastructure, including antenna masts.

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

The right-of-use asset is determined on the basis of the discounted lease liabilities. With regard to the assumptions made for the contract term and the incremental borrowing rate used, please refer to the comments under 5.12 Lease liabilities.

Additions to right-of-use assets relating to plant and machinery in the amount of EUR 677 million are due to the leasing of space on the transferred passive infrastructure for the installation and operation of active radio technology following the completion of the first transaction step of the sale of major parts of the business operations of the rooftop sites to Telxius.

This was offset by the disposals of right-of-use assets relating to land from the transfer of lease agreements with third parties to Telxius with a carrying amount of EUR 189 million due to the sale of major parts of the business operations of the rooftop sites (> NOTE 8 DISPOSAL GROUP).

5.5. Trade and other receivables

As of 31 December	2020		2019	
(in EUR million)	**Non-current**	**Current**	Non-current	Current
Trade receivables	157	1,131	104	1,199
Continuing involvement from sale of receivables	–	137	–	117
Receivables from related parties (>NOTE 13 RELATED PARTIES)	–	26	–	37
Other receivables	–	60	–	77
Loss allowance	–	(57)	–	(65)
Trade and other receivables	**157**	**1,297**	**104**	**1,366**

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 587 million (2019: EUR 568 million) and the non-current receivables amount of EUR 157 million (2019: EUR 104 million).

Trade receivables, which are measured at amortised cost, have a gross carrying amount of EUR 544 million (2019: EUR 631 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 112 million (2019: EUR 94 million) is implicitly included in the fair value. The loss allowance of EUR 57 million (2019: EUR 65 million) consists mainly of the impairment of receivables measured at amortised cost of EUR 50 million (2019: EUR 59 million).

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 the days past due and the credit losses actually incurred in prior years. The value also reflects current and forward-looking information and analysis of the expected economic situation during the term of the financial assets from the point of view of the Group. Observable forward-looking information may include disposable income, gross domestic product and inflation indices.

The following table provides information on exposure to credit risk and on expected credit losses for trade receivables (excluding O_2 My Handy) per days past due as of 31 December 2020.

as of 31 December 2020

(in EUR million)	Gross carrying amount	Loss allowance	Average expected default rate
This presentation follows the simplified approach:			
Not due	589	12	1.7%
Overdue for 1 – 30 days	24	2	8.3%
Overdue for 31 – 60 days	6	1	18.5%
Overdue for 61 – 90 days	4	1	33.1%
Receivables at risk of default			
Overdue for 91 – 180 days	14	6	42.3%
Overdue for 181 – 360 days	21	12	58.2%
Overdue for more than 360 days	29	21	70.8%
Total	**687**	**55**	

as of 31 December 2019

(in EUR million)	Gross carrying amount	Loss allowance	Average expected default rate
This presentation follows the simplified approach:			
Not due	724	14	1.7%
Overdue for 1 – 30 days	33	2	6.6%
Overdue for 31 – 60 days	6	1	21.2%
Overdue for 61 – 90 days	5	2	36.3%
Receivables at risk of default			
Overdue for 91 – 180 days	13	7	57.9%
Overdue for 181 – 360 days	16	11	69.8%
Overdue for more than 360 days	31	22	70.4%
Total	**828**	**60**	

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

The gross carrying amount of EUR 687 million (2019: EUR 828 million) is composed of all trade receivables, which are measured at amortized costs (2020: EUR 544 million; 2019 EUR 631 million) and at fair value through other comprehensive income (2020: EUR 143 million; 2019 EUR 197 million), which do not concern O_2 My Handy. In addition there are O_2 My Handy receivables amounting to EUR 712 million (2019: EUR 568 million), for which a separate loss allowance of EUR 107 million (2019: EUR 93 million) has been recorded. In total, this resulted in total receivables of EUR 1,399 million (2019: EUR 1,396 million) for which an impairment of EUR 163 million (2019: EUR 153 million) is recorded.

Compared to the previous year, there were no significant changes in trade receivables in the reporting year, which would lead to a material change in loss allowances for the financial year 2020.

When calculating the expected credit losses, a collection rate of 26% is taken into account in 2020 (2019: 24%).

Collection measures are still continuing for trade receivables with a contractual volume of EUR 60 million (2019: EUR 58 million), which were sent to collection companies during the financial year 2020 and have not yet been paid; enforcement measures are still ongoing.

The breakdown of trade receivables is as follows:

As of 31 December	2020		2019	
(in EUR million)	**Non-current**	**Current**	Non-current	Current
Trade receivables billed	157	841	104	685
Trade receivables unbilled	–	427	–	514
Trade receivables	**157**	**1,131**	**104**	**1,199**

The following table shows the development of the allowances for the years ending as of 31 December 2020 and 2019.

	2020			
	Trade receivables measured at amortised cost		**Trade receivables measured at fair value through other comprehensive income**	
(in EUR million)	**Non-current**	**Current**	**Non-current**	**Current**
as of 1 January 2020	**–**	**(65)**	**(21)**	**(73)**
Addition	–	(22)		(49)
Release	–			
Utilisation	–	29		31
Reclassifications	–		(7)	7
as of 31 December 2020	**–**	**(57)**	**(29)**	**(83)**

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

In 2020 and 2019, the Telefónica Deutschland Group sold instalment receivables in order to optimise the working capital and access an alternative source of funding. The nominal value of transactions concluded in 2020 amounts to EUR 617 million (2019: EUR 682 million), and the carrying amount is EUR 610 (2019: EUR 677 million). The buyers of the receivables take over part of the risk of these receivables. The receivables sold were fully derecognised at the time of sale, with the exception of the continuing involvement of EUR 137 million (2019: EUR 117 Mmillion). In total, a utilisation of EUR 7 million (2019: EUR 6 million) is expected.

The Telefónica Deutschland Group continues to report sold trade receivables on its balance sheet in the amount of its continuing involvement therein. This corresponds to the maximum amount of the Telefónica Deutschland Group's ongoing liability for the associated maximum risk and recognises a corresponding other liability. The maximum risk comprises the credit risk and the risk of late payment. The receivables and the corresponding liability are subsequently derecognised in the amount by which the continuing involvement of the Telefónica Deutschland Group is reduced. The Telefónica Deutschland Group bears the entire risk of late payment and additionally some of the credit risk in all transactions. The remaining credit risk passes to the purchaser of the receivables over the course of the transactions. As a result, the opportunities and risks associated with the sold receivables are neither transferred nor retained. The continuing involvement results from guarantees granted.

All other receivables are subject to the impairment requirements of IFRS 9 and are impaired in the general approach. In the current and previous financial year, there were no significant increases to the credit risk, so that the expected credit loss for all instruments is calculated for 12 months. Regarding other receivables there were no material impairments of other receivables as of 31 December 2020 and 2019.

5.6. Other financial assets

As of 31 December	2020		2019	
(in EUR million)	**Non-current**	**Current**	Non-current	Current
Investments in start-ups	1	–	1	–
Interest rate swaps	–	2	3	2
Reimbursement rights from insurance contracts	77	–	75	–
Silent factoring deposit	38	26	29	10
Deposits	0	–	0	–
Purchase price receivable from the first step in the transaction governing the sale of major parts of the business operations of the rooftop sites	145	33	–	–
Loans	26	0	15	–
Net investment in the lease	14	5	9	5
Other financial assets	**301**	**67**	**133**	**17**

For further information on the investments in start-up companies, see Note 10 Further information on financial assets and financial liabilities.

The interest rate swap is used as a hedging instrument for the bond issued in 2014 (for further information see NOTE 5.11 INTEREST-BEARING DEBT).

The reimbursement rights in 2020 were accrued to cover pension and early retirement benefit obligations and do not constitute plan assets in accordance with IAS 19. This item still comprises a surplus in the amount of EUR 7 million (2019: EUR 7 million) resulting from the offsetting of net defined benefit liabilities against plan assets. The recognised fair values are based on the values received from the insurance company based on its internal calculation models.Other financial assets include current and non-current portions of a deposit that serves as collateral for silent factoring to ensure coverage of the maximum risk (credit and late payment risk) to be borne by the Telefónica Deutschland Group in individual transactions. The security will be paid into a bank account of the Telefónica Deutschland Group that is pledged to the purchaser of the receivables. The deposit provides security for the bank's losses on the sale of receivables. The other financial assets include a total of EUR 178 million (non-current: EUR 145 million; current: EUR 33 million) for the part of the purchase price receivable not yet due from the first step in the transaction governing the sale of major parts of the business operations of the rooftop sites to Telxius (>NOTE 8 DISPOSAL GROUP). The non-current part of the purchase price receivable depends on the development of the inflation rate in the coming years. The receivable is valued using the effective interest method. The expected loss within the next 12 months is recognised as an impairment loss.

The loan receivables as of 31 December 2020 mainly include a loan from the sale of the shares in Shortcut I GmbH & Co KG and from the sale of network equipment and spectrum licenses.

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 is immaterial. For further information on net investment in the lease, see >NOTE 20 LEASES.

All financial assets at amortised costs are subject to the impairment requirements of IFRS 9 and are impaired in the general approach. In the current and previous financial year, there were no significant increases to the credit risk, so that the expected credit loss for all instruments is calculated for 12 months. With regard to other financial assets, there were no indications of material impairment as of 31 December 2020.

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

Other non-financial assets were comprised as follows as of 31 December 2020:

As of 31 December	2020		2019	
(in EUR million)	**Non-current**	**Current**	Non-current	Current
Prepayments	72	67	95	73
Prepayments to related parties	–	1	–	1
Capitalised costs of obtaining contracts	115	363	122	360
Contract asset	2	20	3	21
Other tax receivables	–	0	–	0
Other non-financial assets	**188**	**451**	**220**	**455**

The prepayments mainly relate to prepayments for incidental rental costs for 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.

These are amortised on a straight-line basis in profit or loss over the underlying amortisation period, which is 24 months, as a general rule. In the financial year 2020, an amortisation amount of EUR 486 million (2019: EUR 461 million) was recognised in this connection.

Other non-financial liabilities were comprised as follows as of 31 December 2020:

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 (2019: EUR 1 million) is already recognised directly in the carrying amount. Contract assets exist primarily with private customers.

As of 31 December	2020	2019
(in EUR million)	**Current**	Current
Payroll taxes and social security	10	9
Current tax payables for indirect taxes	40	93
Other taxes	0	1
Other non-financial liabilities	**50**	**103**

5.8. Inventories

As of 31 December

(in EUR million)	2020	2019
Merchandise	131	166
Allowances	(2)	(2)
Inventories	**129**	**165**

Inventories comprise smartphones and accessories in particular.

The total amount of inventories recognised as an expense in financial year 2020 is EUR 1,363 million (2019: EUR 1,312 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.

As of 31 December

(in EUR million)	2020	2019
Cash at bank and in hand	12	14
Cash pooling	1,325	767
Cash and cash equivalents	**1,337**	**781**

The 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. Therefore, no significant credit losses are expected.

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

5.10. Equity

Subscribed capital

As of 31 December 2020, the share capital of Telefónica Deutschland Holding AG remains unchanged at EUR 2,975 million and is divided into 2,974,554,993 no par value registered shares, each accounting for a pro rata amount of the share capital of EUR 1.00 and unchanged compared to 31 December 2019. Each no par value share grants one vote at the Annual General Meeting. 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 non-par value registered shares (Conditional Capital 2019/I). Conditional Capital 2019/I was resolved by resolution of the Annual General Meeting on 21 May 2019 – with Conditional Capital 2014/I being cancelled.

Additional paid-in capital
As a result of cash and non-cash capital increases in connection with the acquisition of the E-Plus Group, which were entered in the commercial register on 18 September and 07 October 2014, additional paid-in capital increased in 2014 by EUR 4,512 million. With the entry in the commercial register on 04 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).

An amount of EUR 288 million was withdrawn during the financial year from the (free) additional paid-in capital and transferred to retained earnings. As of 31 December 2020, the additional paid-in capital amounted to EUR 4,512 million (2019: EUR 4,800 million).

Retained earnings
Retained earnings mainly comprise accumulated results of the previous years and actuarial adjustments to pension provisions, which result in revaluations of post-employment benefits, as well as income tax effects from this. The adjustments made in the wake of the fair value assessment of trade receivables are offset by impairments. In total, these do not give rise to any material effects that would have to be reported separately under retained earnings.

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 (2019: EUR 0.014 million).

Dividend distribution in the financial year
On 20 May 2020, the virtual Annual General Meeting of Telefónica Deutschland resolved to distribute a dividend of EUR 0.17 for each no par value share for financial year 2019, in total around EUR 506 million. The dividend was paid to shareholders by 26 May 2020.

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

5.11. Interest-bearing debt

As of 31 December	**2020**		2019	
(in EUR million)	**Non-current**	**Current**	Non-current	Current
Bonds	597	516	1,098	16
Promissory notes and registered bonds	721	5	721	118
Loans	258	194	333	205
Interest-bearing debt	**1,577**	**715**	**2,153**	**339**

For information regarding the maturity profile of the listed liabilities, please refer to No. 16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT. Long-term interest-bearing debt with a remaining term greater than five years remains in the amount of EUR 249 million (2019: EUR 953 million).

Bonds
In February 2014, O2 Telefónica Deutschland Finanzierungs GmbH placed a bond with a nominal value of EUR 500 million. The bond will mature on 10 February 2021 and is classified as current as of 31 December 2020. The senior unsecured seven-year bond was issued by O2 Telefónica Deutschland Finanzierungs GmbH, Munich, and is guaranteed by Telefónica Deutschland Holding AG. The coupon for the fixed interest bond is 2.375% and the issue price was at 99.624%. The issue spread was 100 basis points over the seven-year euro mid-swap rate, resulting in a yield of 2.434%. O2 Telefónica Deutschland Finanzierungs GmbH, Munich, has made the net proceeds of the bond issue available to Telefónica Germany GmbH & Co. OHG in the form of a loan.

Another bond of the Telefónica Deutschland Group was issued on 05 July 2018 with a nominal value of EUR 600 million. The fixed interest rate is 1.75% and the bond matures on 05 July 2025. The senior unsecured seven-year bond was also issued by O2 Telefónica Deutschland Finanzierungs GmbH, Munich, and is guaranteed by Telefónica Deutschland Holding AG. The bond 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.

Disclosures on hedge accounting

An interest rate swap in the amount of EUR 150 million was concluded on part of the nominal value of the aforementioned bond of February 2014, which is recognised as a fair value hedge. On the basis of this interest rate swap contract, the Telefónica Deutschland Group pays a variable interest rate based on the three-month Euribor on a nominal amount of EUR 150 million and receives a fixed interest rate of 1.268% on the same amount in return. The relationship between the hedge instrument and the underlying transaction as well as the goal and strategy of the hedge were documented at the inception of the hedge. A specific allocation of the hedging instrument to the corresponding liability was made. The existing hedge is continuously monitored for effectiveness. The hypothetical derivative method is used to measure effectiveness. Since there is always an economic relationship between the underlying and hedging transactions (same term or same payment dates, same hedged nominal volume, etc.), there is no significant ineffectiveness. The only driver of possible ineffectiveness is the credit risk adjustment of the derivatives.

The following table summarises the parameters of the transaction.

(in EUR million)		Nominal amount	Maturity	Hedging interest	Carrying amount	Non-current balance sheet item	Current balance sheet item	Cumulative change in value of hedging instruments for determining effectiveness
as of 31 December 2020	**Interest rate swap**	**150**	**10/2/2021 r.**	**3-month EURIBOR**	**2**	**n/a**	**Other financial assets**	**0**
as of 31 December 2019	Interest rate swap	150	10/2/2021 r.	3-month EURIBOR	5	Other financial assets	Other financial assets	3

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

The hedged nominal value of the financial liabilities amounts to EUR 150 million. This means that 14% of the company's bond portfolio was switched from fixed interest to variable interest. No significant ineffectiveness was recorded in the financial year 2020.

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

(in EUR million)		Carrying amount	Non-current balance sheet item	Current balance sheet item	Cumulative change in value of the hedged items used for determining effectiveness	Accumulated amount of the adjustment of the underlying transaction (hedged item)
as of 31 December 2020	**Bond**	**511**	**n/a**	**Interest-bearing debt**	**(0)**	**(0)**
as of 31 December 2019	Bond	513	Interest-bearing debt	Interest-bearing debt	(3)	(3)

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

Promissory notes/registered bonds

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

The promissory notes placed with a volume of EUR 172 million have unsecured tranches with terms of five, eight and ten years, with both fixed and floating interest rates. The first tranche of EUR 113 million was repaid on schedule in March 2020. The average interest rate of the tranches with a fixed interest rate is 1.38% per annum. 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.

In February 2018, the Telefónica Deutschland Group also issued promissory note loans in various tranches and a registered bond with a total volume of EUR 250 million. The promissory note loans placed have tranches with terms of 1 year with fixed interest rates, which are already 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 interest rates of the fixed tranches with 1, 5, 7 and 10 years maturity are 0.03%, 1.051%, 1.468% and 1.962% p.a., respectively. The registered bond has a maturity of 15 years and a fixed interest rate of 2.506% p.a. The interest on the floating tranches is based on Euribor money market conditions plus an agreed margin. All tranches were issued at par.

On 25 April 2019, the Telefónica Deutschland Group issued promissory note loans 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 on the fixed tranches with five, seven and 10-year terms are 0.893%, 1.293% and 1.786% p.a., respectively. The interest on the floating tranches is based on Euribor money market conditions plus an agreed margin. All tranches were issued at par.

Loans

The Group signed a EUR 750 million revolving credit facility (RCF) on 22 March 2016. The syndicated credit facility was cancelled as of 18 December 2019 and replaced with a new, revolving syndicated credit facility in the same amount with a term until 17 December 2024 and two extension options until the end of 2026. In 2020, the first extension option was exercised and the term of the credit facilities was extended until 17 December 2025. The RCF bears a variable interest rate at Euribor money market conditions plus an agreed margin. The margin is also linked, among other things, to the development of an ESG sustainability rating of Telefónica Germany GmbH & Co. OHG. As of 31 December 2020, the credit facility had not been used.

Furthermore, as of 31 December 2020, unused bilateral revolving credit facilities exist with various banks in the amount of EUR 610 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 2020, the Telefónica Deutschland Group has fully utilised this amortising loan with fixed interest 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.

On 18 December 2019, the Group concluded an additional financing agreement with the EIB in the amount of EUR 300 million. This loan has not been drawn as of 31 December 2020.

On 14 January 2020, Telefónica Germany GmbH & Co. OHG and EIB concluded a further loan agreement in the amount of EUR 150 million. This loan has not been drawn as of 31 December 2020.

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

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

Within the scope of cash pooling agreements of the Telefónica Deutschland Group with Telfisa Global B.V., overdraft facilities also exist in the amount of EUR 454 million. As of 31 December 2020, the facility had not been used.

In addition, the Telefónica Deutschland Group had drawn on a short-term bank loan of EUR 119 million as of 31 December 2020.

Reconciliation of debt movements to cash flow from financing activities

As of 1 January to 31 December (in EUR million)	2020	Cash flow from financing activities *	Additions/ disposals	Adjustment to the carrying amount from fair value hedge	Other movements	2020
Bonds	1,114	–	–	(2)	1	1,113
Promissory notes and registered bonds	839	(113)	–	–	(0)	727
Loans	538	(87)	–	–		452
Interest-bearing debt	**2,492**	**(199)**	**–**	**(2)**	**1**	**2,292**
Lease liabilities	**2,489**	**(547)**	**888**	**–**	**11**	**2,841**
Payables – Spectrum	**1,272**	**(87)**	**–**	**–**	**10**	**1,196**

As of 1 January to 31 December (in EUR million)	2019	Cash flow from financing activities *	Additions/ disposals	Adjustment to the carrying amount from fair value hedge	Other movements	2019
Bonds	1,115	–	–	(2)	1	1,114
Promissory notes and registered bonds	554	285	–	–	0	839
Loans	450	88	–	–	0	538
Interest-bearing debt	**2,118**	**373**	**–**	**(2)**	**2**	**2,492**
Lease liabilities	**2,810**	**(484)**	**159**	**–**	**4**	**2,489**
Payables – Spectrum	**–**	**(87)**	**1,356**	**–**	**4**	**1,272**

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

5.12. Lease liabilities

As of 31 December		2020		2019
(in EUR million)	**Non-current**	**Current**	Non-current	Current
Lease liabilities to third parties	1,429	405	1,689	426
Lease liabilities to related parties (NOTE 13 RELATED PARTIES)	897	110	338	36
Lease liabilities	**2,326**	**514**	**2,027**	**462**

The increase in lease liabilities is due in particular to additions of lease liabilities of EUR 677 million from the leasing of space on the transferred passive infrastructure for the installation and operation of active radio technology from Telxius Germany from 1 September 2020.

This was offset by the disposals of right-of-use assets from the transfer of lease agreements with third parties to Telxius in the amount of EUR 180 million due to the first step in the transaction governing the sale of major parts of the business operations of the rooftop sites (> NOTE 8 DISPOSAL GROUP).

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

As of 31 December (in EUR million)	Future minimum lease payment obligations	Unamortised interest expense	2020 Present value of future minimum lease payment obligations
Due within 1 year	514	12	503
Due between 1 and 5 years	1,462	31	1,421
Due in more than 5 years	874	10	864
Total	**2,841**	**53**	**2,788**

As of 31 December (in EUR million)	Future minimum lease payment obligations	Unamortised interest expense	2019 Present value of future minimum lease payment obligations
Due within 1 year	469	8	462
Due between 1 and 5 years	1,248	22	1,226
Due in more than 5 years	811	11	801
Total	**2,529**	**41**	**2,489**

The amount of the lease liabilities is primarily influenced by the largely regular payments during the term of the contract and the discount rate. In this respect, the assessment of if and when potential renewal 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		2020		2019
(in EUR million)	**Non-current**	**Current**	Non-current	Current
Trade payables to third parties	–	1,358	–	966
Accruals	10	772	12	705
Payables to related parties (NOTE 13 RELATED PARTIES)	–	34	–	517
Trade payables	**10**	**2,163**	**12**	**2,188**
Other non-trade payables	–	223	0	213
Other payables to related parties (NOTE 13 RELATED PARTIES)	2	45	3	47
Miscellaneous payables	–	45	–	45
Other payables	**2**	**312**	**3**	**305**
Trade and other payables	**12**	**2,475**	**15**	**2,493**
Deferred income	**219**	**548**	**213**	**497**

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

The other, non-trade payables mainly comprise liabilities from silent factoring and liabilities to personnel.

Miscellaneous payables mainly comprise debtors with credit balances.

For the maturity profile of the listed liabilities, see the disclosures in >NOTE 16 RISK MANAGEMENT AND FINANCIAL INSTRUMENTS.

Deferred income primarily contains contract liabilities from customer payments already made on prepaid credit and other advance payments received for future services. Deferred income also includes the contract liabilities relating to payments received from the customer before the contractual services have been fully performed. For further information, see >NOTE 6.1 REVENUES.

In the previous year, the financing advantage resulting from the interest-free deferral and payment by instalments agreed upon with the representatives of the Federal Republic of Germany for the auction fees to be paid instead of one-time payments for the 2019 frequency auction was reported under deferred income. In return, Telefónica Deutschland Group committed to building additional mobile sites in white spots and improving network coverage with LTE nationwide. In 2019, this government grant was reported at EUR 69 million, corresponding to the financial benefit granted. In financial year 2020, this interest rate advantage was deducted in full from the investments made in network expansion to reduce the associated acquisition costs.

Deferred income also includes customer payments received in connection with the Mobile Bitstream Access Mobile Virtual Network Operator (MBA MVNO) contract, which also represents a contract liability (> Note 6.1 REVENUES).

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	2020		2019	
(in EUR million)	**Non-current**	**Current**	Non-current	Current
Payables - Spectrum	**1,089**	**107**	1,186	86

In financial year 2019, payment obligations in the amount of EUR 1,425 million were incurred in connection with the acquisition of 5G mobile frequency licences. On the basis of the Agreement for the Implementation of the Mobile Communications Summit 2018 concluded with the representatives of the Federal Republic of Germany, it was agreed that the payment obligations from the 2019 frequency auction are deferred until the respective commencement of the frequency allocation periods and paid in annual instalments until 2030, beginning in 2019, instead of one-time payments.

After discounting and taking into account the instalments of EUR 87 million already paid by the end of 2020 (2019: EUR 87 million) the carrying amount of liabilities as of 31 December 2020 is EUR 1,196 million (31 December 2019: EUR 1,272 million). In accordance with IAS 20.24, the interest advantage is deducted from the investments in the network expansion already made, thereby reducing the 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 710 million (2019: EUR 818 million).

5.15. Provisions

As of 31 December	2020		2019	
(in EUR million)	**Non-current**	**Current**	Non-current	Current
Pension obligations	261	–	218	–
Restructuring	9	27	7	20
Asset retirement obligations	480	24	346	75
Other provisions	34	16	54	9
Provisions	**784**	**66**	**624**	**104**

Pension obligations

The Telefónica Deutschland Group has defined benefit plans. These primarily include defined benefit rights against an external provident fund (Gruppen-Unterstützungskasse), which is managed in accordance with its articles of association, and direct commitments.

The overriding investment policy and strategy for the defined benefit plans are based on the goal of generating returns from the plan assets as well as from the reimbursement rights deriving from insurance policies which, together with the contributions, are sufficient to meet the pension obligations.

The plan assets are invested in reinsurance policies that are taken out directly by the Telefónica Deutschland Group or indirectly by the provident fund. The reimbursement rights from insurance policies result from those reinsurance policies, which were not pledged to the employees.

The requirements for the financing of pension obligations arise from the financing strategy of the provident fund and are anchored in its guidelines. The guidelines define that the expected defined benefit obligation will be settled by the provident fund. They are fully financed by the Telefónica Deutschland Group. The Telefónica Deutschland Group provides the provident fund with the necessary financial resources.

However, under its articles of association, the fund must cease or reduce its payments if the company does not make, or no longer makes, the necessary financial resources available to the fund. In this case, the employees can assert their legal right to post-employment benefits against the Telefónica Deutschland Group.

The amount of the committed benefits for the defined benefit pension plans essentially depends on the basic salary of the individual employee during the period of employment. The benefits paid include old age pensions, payments for the inability to work and benefits in the event of death to surviving dependants.

In order to minimise the biometric risks of the committed benefits (such as an early benefits claim through invalidity or death of the beneficiary), the pension or promised retirement capital is covered to the full extent (congruent) or in part by reinsurance policies. In addition, the pledging of the reinsurance policies to the pension beneficiary acts as security for the claims of the beneficiary in the event of the insolvency of the sponsoring company.

This defined benefit plan is subject to actuarial and financial risks such as life expectancy and interest rate risk as well as inflation risk. In addition, all reinsurance policies are essentially concluded with an insurance company.

In financial year 2020, the employer's contribution to the statutory pension insurance amounts to EUR 38 million (2019: EUR 38 million).

Telefónica Deutschland Group concludes additional defined contribution plans. The contribution recorded for the defined contribution plan amounts to EUR 2 million (2019: EUR 2 million).

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

As of 31 December

(in EUR million)	**2020**	2019
Present value of defined benefit obligation from funded plans	(270)	(141)
Present value of defined benefit obligation from unfunded plans	(80)	(162)
Present value of the defined benefit obligation	**(350)**	**(304)**
Fair value of plan assets	95	93
Surplus	**7**	**7**
Pension provisions	**(261)**	**(218)**
Reimbursement rights from insurance contracts	**69**	**68**

The development of the present value of the defined benefit obligations in financial years 2020 and 2019 was as follows:

As of 31 December

(in EUR million)	**2020**	2019
Present value of the defined benefit obligation as of 1 January	**(304)**	**(239)**
Current service costs (personnel expenses)	(10)	(11)
Interest expense (financial result)	(3)	(5)
Remeasurement of the present value of the defined benefit obligation	(37)	(53)
thereof: adjustments for demographic assumptions	–	–
thereof: actuarial gains/(losses) arising from changes in financial assumptions	(31)	(61)
thereof: experience-based adjustments	(6)	8
Benefits paid	4	4
Other	–	–
Present value of the defined benefit obligation as of 31 December	**(350)**	**(304)**

The development of the present value of plan assets in financial years 2020 and 2019 was as follows:

(in EUR million)	**2020**	2019
Fair value of plan assets as of 1 January	**93**	**90**
Return on plan assets excluding amounts included in interest income/(expense)	1	2
Interest income (financial result)	1	2
Employer contributions	3	3
Benefits paid	(2)	(2)
Other	0	(1)
Fair value of plan assets as of 31 December	**95**	**93**

The fair value of the reimbursement rights from insurance contracts developed in financial years 2020 and 2019 as follows:

As of 31 December

(in EUR million)	**2020**	2019
Fair value of reimbursement rights from insurance contracts as of 1 January	**68**	**62**
Return on reimbursement rights excluding amounts included in interest income/(expense)	(5)	–
Interest income (financial result)	1	(1)
Employer contributions	6	7
Benefits paid	(0)	(1)
Other	(0)	1
Fair Value of reimbursement rights from insurance contracts as of 31 December	**69**	**68**

The amounts recognised under 'Other' in 2019 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 2020, as in the previous year, there was no asset ceiling. This year there is a surplus cover of EUR 7 million (2019: EUR 7 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).

	2020	2019
Discount rate	**0.51%**	**0.92%**
Nominal rate of pension payment increase	1.00%; 1.75%	1.00%; 1.75%
Fluctuation rate	6.2%	6.3%

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

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

The mortality tables on which the actuarial calculation of the DBO as of the balance sheet dates is based for 2019 and 2020 are the Heubeck 2018G mortality tables.

(in years)	**2020**	2019
Life expectancy at age 65 for a retiree currently	**22**	**22**
Life expectancy of a currently aged 40 deferred member at age 65	25	25

An increase or decrease in the main actuarial assumptions would have had the following effects on the present value of the defined benefit obligations as of 31 December 2020:

(in EUR million)	Increase in parameters	Decrease in parameters
Discount rate (+0.25%/-0.25%)	(19)	21
Pension change (+0.50%/-0.50%)	16	(14)
Turnover rate (+1.00%/-1.00%)	(0)	(0)
Life expectancy (+1 year)	14	–

Increases and reductions in the discount rate and increases to pension payments do not have the same impact on the determination of the DBO due to the interest rate effects. If several assumptions are changed at the same time, the overall effect will not necessarily correspond to the sum of the individual effects due to the changes in the assumptions. In addition, the sensitivity of a change in the DBO only reflects each specific order of magnitude in the change of assumptions (for example 0.25%). If the assumptions change by a different order of magnitude, the effect on the DBO does not necessarily have to be linear.

The following table contains information regarding the analysis of the due date of expected payments:

1 January to 31 December

(in EUR million)	**2020**	2019
Benefits expected to be paid within year 1	3	3
Benefits expected to be paid within year 2	4	3
Benefits expected to be paid within year 3	4	4
Benefits expected to be paid within year 4	5	4
Benefits expected to be paid within year 5	5	4
Benefits expected to be paid within 6 to 10 years	35	31

The average expected term of the defined benefit obligations is 21.2 years in financial year 2020 (2019: 22.1 years).

The best estimate of the contributions to be paid into the plans in the financial year ending 31 December 2020 is EUR 10 million (2019: EUR 10 million).

Other provisions

(in EUR million)	Restructuring	Asset retirement obligations	Others	Total
as of 1 January 2020	**27**	**421**	**63**	**511**
Additions	28	176	17	221
Utilisation	(14)	(19)	(30)	(63)
Release	(5)	–	–	(5)
Derecognition	–	(75)	–	(75)
as of 31 December 2020	**36**	**503**	**50**	**589**
thereof: non-current	9	480	34	523
thereof: current	27	24	16	66

The provisions for restructuring as of 31 December 2020 mainly relate to obligations from severance agreements and from the cancellation of contracts with business partners (e.g. commercial agents).

As in the previous year, the additions are recognised in personnel expenses and other expenses (for further information, see >Note 6.3 PERSONNEL EXPENSES and >Note 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 future dismantling nor the future payment date are known at the time the contract is concluded, these parameters are estimated. The estimate is mainly made on the basis of contracts with service providers. The additions of EUR 176 million are mainly due to the development of interest rates and higher cost estimates.

In particular, the derecognition of the asset retirement obligations in the amount of EUR 75 million due to the transfer of the passive infrastructure as well as the associated asset retirement obligations in connection with the first transaction step of the sale of major parts of the business operations of the rooftop sites to Telxius (>NOTE 8 DISPOSAL GROUP) had an offsetting effect.

Decisions on the recognition and the valuation of provisions are generally subject to 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 judgements and estimates and can therefore entail uncertainties. These primarily include the assumed salary, length of employment and gardening leave period until the date of departure.

6. Selected Explanatory Notes to the Consolidated Income Statement

In the 2020 financial year, the COVID-19 pandemic had a major negative impact on the global economy. The Telefónica Deutschland Group was not completely immune to the COVID-19 impacts due to the restrictions imposed by the German government. In particular, the continued worldwide travel restrictions led to reduced roaming revenues. In particular, the nationwide closure of O_2 shops between mid-March and the end of April, as well as from mid-December, resulted in weaker trading and muted demand for prepaid services.

Since the beginning of the pandemic, the management team has been monitoring and analysing the development of the COVID-19 related restrictions and their impact on the Telefónica Deutschland Group.

Due to COVID-19 and a possible increased risk of default, the Telefónica Deutschland Group has intensified its risk monitoring measures. However, no significant changes in debt default and in our assessment of default risk were identified.

At this point in time, however, the COVID-19 pandemic has no significant impact on the financial figures of the Telefónica Deutschland Group.

6.1. Revenues

1 January to 31 December

(in EUR million)	**2020**	2019
Rendering of services	6,092	6,042
Other revenues	1,440	1,357
Revenues	**7,532**	**7,399**

Revenues from the rendering of services include mobile service revenues as well as revenues from fixed line/DSL business. The other revenues include handset revenues and miscellaneous other revenues.

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

None of the Telefónica Deutschland Group's customers accounts for more than 10% of total revenues.

1 January to 31 December

(in EUR million)	**2020**	2019
Mobile business	6,730	6,647
Mobile service revenues	5,307	5,301
Handset revenues	1,423	1,346
Fixed line/DSL business revenues	785	741
Other revenues	17	11
Revenues	**7,532**	**7,399**

Mobile service revenues

The mobile service revenues are largely based on basic fees and the fees levied for voice (including incoming and outgoing calls), messaging (including SMS and MMS) and mobile data services as well as service contracts. Alongside roaming revenues, mobile service revenues include access and interconnection fees that are paid for by other service providers for calls and SMS messages delivered via our network. In addition, one-time connection charges are included insofar as these have been allocated to mobile communications services.

Handset revenues

Handset revenues include the income from the sale of mobile phones as part of the "O_2 My Handy" model, and revenue from cash sales. Also included are revenues from the sale of mobile devices to distributors and partners and from the sale of accessories.

With the "O_2 My Handy" model, the customer can choose whether to pay the entire price of the mobile phone up front or to make an initial payment to start with and pay the remaining purchase price in 6, 12, 24, 36 or 48 monthly instalments.

Fixed line/DSL business revenues

Fixed line/DSL business revenues comprise mainly revenues from DSL services for private customers, DSL activation fees for private customers, revenues from DSL mobile devices and non-recurring items (e.g. fees for change of address, number transfers, etc.), revenues from the sale of DSL products, services and mobile devices to other service providers, who re-bundle these and sell them on to end customers, and data traffic revenues from 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. DSL revenues also include fixed line revenues.

Other revenues

Other revenues relate to income from operating leases as well as to new business, such as advertising and financial services, e.g. the mobile service offering O_2 Money.

Contract assets and Contract liabilities from customer contracts

(in EUR million)	31 December 2020	31 December 2019
Contract asset	22	24
Contract liabilities	654	486

(in EUR million)	2020	2019
Amounts recognised in contract liabilities at the beginning of the period that resulted in revenue in the reporting period.	460	495

The Telefónica Deutschland Group receives payments from customers on the basis of a billing schedule which is part of the individual contracts. The contract asset refers to the entitlement to consideration for the performance of the contractual services to be rendered. The contract asset contains contracts for which Telefónica Deutschland Group satisfied its performance obligations by transferring mobile devices and performing mobile services or fixed line/DSL services before consideration was paid or became due. Amounts already reported as receivables are not taken into account in the recognition of the contract asset.

Receivables are recognised when the right to receive the consideration becomes unconditional, as the payment due date is dependent only on the course of time.

The contract liability relates to payments received prematurely, i.e. before the contractual services have been fully performed. Contract liabilities are recognised as revenue as soon as (or when) the Telefónica Deutschland Group provides the contractual services.

The changes in the contract assets or contract liabilities mainly result from the (not yet effected) satisfaction of the respective performance obligations.

Future revenues from (partially) unsatisfied performance obligations

as of 31 December

(in EUR million)	2020		2019	
	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	**1,099**	**293**	1,047	266

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.

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

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

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

Determination of the average term of the lease:

The Telefónica Deutschland Group offers customers the option of concluding contracts with a fixed minimum term. When concluding such a term contract, both the Telefónica Deutschland Group and the customer are initially bound by the respective contract term. However, the 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)	**2020**	2019
Own work capitalised	106	105
Net gain on disposal of assets	414	2
Others	22	77
Other income	**542**	**183**

In the reporting period, other income includes the net gain on disposal from the first transaction step of the contractually agreed sale of major parts of the business operations of the rooftop sites to Telxius in the amount of EUR 407 million (>NOTE 8 DISPOSAL GROUP).

The position Others mainly includes claims for damages and penalties, as was also the case in 2019.

6.3. Personnel expenses

In the financial year 2020 personnel expenses totalled EUR 461 million (2019: EUR 592 million). Thereof, EUR 519 million (2019: EUR 499 million) related to wages and salaries, social security EUR 79 million (2019: EUR 80 million), and EUR 13 million (2019: EUR 13 million) to pensions. Personnel expenses from share-based payments are presented in >NOTE 14 SHARE-BASED PAYMENTS; personnel expenses relating to pension plans are presented in >NOTE 5.15 PROVISIONS.

In addition, restructuring expenses of EUR 28 million (2019: EUR 5 million) were recognised in personnel expenses (>NOTE 5.15 PROVISIONS).

6.4. Other expenses

1 January to 31 December

(in EUR million)	2020	2019
Other third-party services	1,965	1,921
Other operating expenses	63	81
Allowance for current assets	9	8
Advertising	240	239
Other expenses	**2,276**	**2,249**

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

Other expenses include restructuring expenses of EUR 10 million as of 31 December 2020 (2019: EUR 17 million) (>NOTE 5.15 PROVISIONS).

6.5. Depreciation and amortisation

1 January to 31 December

(in EUR million)	2020	2019
Amortisation of intangible assets	1,017	1,014
Depreciation of property, plant and equipment	827	851
Depreciation of right-of-use assets	525	550
Depreciation and amortisation	**2,369**	**2,416**

6.6. Financial result

1 January to 31 December

(in EUR million)	2020	2019
Interest expenses/income from financial assets	(2)	3
Interest expenses from lease liabilities	(14)	(11)
Interest expenses from financial liabilities	(46)	(44)
Interest component from measurement of provisions and other liabilities	(5)	(3)
Other exchange (losses)/gains	0	0
Financial result	**(66)**	**(55)**

Interest expenses from financial liabilities mainly comprise interest on the bonds issued in February 2014 and July 2018, on the promissory notes and registered bonds issued in March 2015, February 2018 and April 2019, and on the financing agreement with the European Investment Bank (EIB) signed on 13 June 2016.

6.7. Income tax

Consolidated income tax group

As of 31 December 2020, the consolidated income tax group of the Telefónica Deutschland Group comprised 15 (2019: 17) companies. The Group tax rate used in the deferred and current tax calculation is a full tax rate of 32% (previous year 32%), which comprises the corporate tax rate and solidarity surcharge of 15.825% (2019: 15.825%) and the weighted trade tax rate of 16.175% (2019: 16.175%).

The Telefónica Deutschland Group recorded positive taxable income in 2020 after proportionate offsetting with tax losses carried forward and consequently recognised income tax payables in the amount of EUR 15 million. The taxable income is significantly influenced by the spin-off and the first step in the transaction governing the sale of major parts of the business operations of the rooftop sites. With the spin-off, hidden reserves were realised for tax purposes and subjected to tax within the minimum tax regime (proportional taxation with 60% utilisation of tax losses carried forward). Without the aforementioned transaction, no current tax would have been payable.

Current and deferred taxes

1 January to 31 December

(in EUR million)	2020	2019
Current tax expense	(15)	(0)
Deferred tax income/(expense)	95	(33)
Income tax	**80**	**(33)**

The movements in deferred tax assets are as follows:

(in EUR million)	2020	2019
as of 1 January	**–**	**27**
Deferred tax income/(expense)	95	(33)
Amount of deferred taxes recognised directly in equity or in other comprehensive income as shown in the Consolidated Statement of Comprehensive Income	13	17
Adjustment due to initial application of IFRS 16 (2019)	–	(8)
Recognised in equity as part of the acquisition of companies	–	(3)
as of 31 December	**108**	**0**

The tax income of EUR 80 million reported in the financial year 2020 includes tax expenses of EUR 15 million for income tax liabilities and tax income of EUR 95 million from changes in deferred taxes. In addition to other effects, the deferred tax income includes the expected taxable income and the associated proportional use of the tax losses carried forward for the spin-off in 2021 of other major parts of the business operation of the rooftop sites to Telefónica Germany Zweite Mobilfunk Standortgesellschaft mbH that was contractually agreed as part of the second transaction step. In the previous period, deferred taxes resulted in an expense of EUR 33 million.

The tax effects from the sale of parts of the business operations of the rooftop sites were not attributable to the disposal group, as the tax effects were already realised in Telefónica Germany GmbH & Co. OHG and its shareholders as part of the spin-off in the run-up to the sale.

Tax loss carried forward and temporary differences

The tax losses carried forward, for which no deferred tax assets were recognised as of 31 December 2020, amount to EUR 14,145 million for corporate tax and EUR 13,618 million for trade tax (2019: EUR 14,712 million and EUR 14,280 million).

For companies or the consolidated income tax group that generated a negative result in the previous year, a deferred tax asset was capitalised after netting with deferred tax liabilities in the amount of EUR 473 million (2019: EUR 314 million), as the future realisation of this tax asset is expected on the basis of tax profit planning. The total deferred tax assets and liabilities amount to EUR 108 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 (in EUR million)	2020 Deferred tax assets	2020 Deferred tax liabilities	2019 Deferred tax assets	2019 Deferred tax liabilities
Goodwill and other intangible assets	112	(342)	297	(428)
Tangible assets	–	(151)	–	(157)
Right-of-use assets	–	(913)	–	(800)
Non-current depreciable costs of obtaining a contract	–	(37)	–	(36)
Other non-current financial liabilities	1	(28)	–	(18)
Current depreciable costs of obtaining a contract	–	(116)	–	(115)
Other current financial assets	–	(2)	16	(2)
Trade and other receivables	26	(12)	3	(17)
Financial liabilities, trade and other payables	2	(18)	5	(5)
Provisions including pension provisions	213	(6)	157	(11)
Non-current lease liabilities	744	–	649	–
Other non-current financial liabilities	4	–	(0)	–
Current lease liabilities	164	–	152	–
Other current financial liabilities	–	(7)	0	(5)
Tax losses carried forward	473	–	314	–
Deferred tax assets/(liabilities) gross	**1,740**	**(1,632)**	**1,593**	**(1,593)**
thereof: non-current	1,575	(1,508)	1,424	(1,471)
thereof: current	164	(124)	169	(121)
Offsetting	(1,266)	1,266	(1,279)	1,279
Deferred tax assets/(liabilities) after netting according to Consolidated Statement of Financial Position	**473**	**(365)**	**314**	**(314)**
Total deferred tax assets/(liabilities)	108	–	–	–

Taxable temporary differences recognised in previous years were realised in the spin-off in the run-up to the sale of parts of the business operations of the rooftop sites, the carrying amounts of which were mainly recognised in fixed assets.

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 to measure the recoverability of deferred tax assets. Taxable income projections are currently drawn up on a six-year basis.

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.

Reconciliation of earnings before tax to income tax expense recognised

1 January to 31 December

(in EUR million)	**2020**	2019
Profit/(loss) before tax	**248**	**(179)**
Tax expense at the prevailing statutory rate (32%)	(79)	57
Use of tax losses carried forward	22	–
Non-deductible expenses	(13)	(12)
Change in unrecognised temporary differences and tax losses carried forward	150	(78)
Other	0	(0)
Income tax	**80**	**(33)**
Current tax income/(expense)	(15)	0
Deferred tax income/(expense)	95	(33)
Income tax	**80**	**(33)**
Effective total tax rate	-32%	-18%

The taxable income is largely influenced by the spin-off of major parts of the business operations of the rooftop sites to Telefónica Germany Mobilfunk Standortgesellschaft mbH in the run-up to the sale of major parts of the business operations of the rooftop sites. With the spin-off, hidden reserves were realised for tax purposes and subjected to tax as regular taxable income after offsetting against temporary differences being realised deductible temporary differences within the minimum tax regime (proportional taxation with 60% utilisation of tax losses carried forward). Without the aforementioned transaction, no current tax would be recognised.

7. Business Combinations

All participations acquired by the Telefónica Deutschland Group in financial year 2020 are recognised using the equity method. No other business combinations occurred during the financial year, such that there were no other effects on the group of consolidated companies.

One company was acquired by the Telefónica Deutschland Group in the financial year 2019. Due to the merger of the acquired company with a subsidiary of the Telefónica Deutschland Group that took place in the same financial year, there was no effect on the group of consolidated companies as of 31 December 2019. The merger became effective upon entry in the commercial register on 18 November 2019.

8. Disposal Group

Sale of major parts of the business operations of the rooftop sites
On 8 June 2020, the Telefónica Deutschland Group singed a comprehensive conglomerate of agreements with Telxius Telecom, S.A. ("Telxius"), an affiliate company of Telefónica, S.A. Group, for the sale of substantial parts of the business operations of the rooftop sites.

This includes the spin-off and sale of a large part of its passive infrastructure on approximately 10,080 mobile communications sites, consisting of around 10,000 rooftop sites and up to 80 tower sites, including the related lease relationships, associated assets and liabilities, know-how and other legal arrangements, at a nominal purchase price of EUR 1.5 billion.

The active radio technology at the transferred stations remains the property of the Telefónica Deutschland Group and will continue to be used by the company, unchanged, for operation of the mobile communications network.

The transaction takes place in two steps: on 19 August 2020, approximately 60% of the sites (5,975 rooftop sites and 58 tower sites) were spun off into Telefónica Germany Mobilfunk Standortgesellschaft mbH ("TGMS"), which was established in the first half of 2020. The shares in this company were transferred to Telxius on 01 September 2020. Subsequently, TGMS was renamed Telxius Towers Erste GmbH and merged into Telxius Towers Germany GmbH ("Telxius Germany").

A further approx. 40% of the sites are expected to be spun off in the second half of 2021 into Telefónica Germany Zweite Mobilfunk Standortgesellschaft mbH, which was also newly founded in the reporting period and whose shares will then also be transferred to Telxius. The sites affected by this cannot be determined as of the publication date, as the specific selection of the individual transmission site is not expected to take place until the end of the second quarter of 2021.

The specific selection of the individual sites to be transferred takes place on the basis of the technical condition of the individual locations and economic criteria. The negotiations with the landlords are not yet completed.

Due to the specific selection of the individual transfer sites prospectively only at the end of the second quarter of 2021, the related assets and liabilities cannot be identified individually at the end of the reporting period, so that no presentation is made of the transferable assets and liabilities as “held for sale” in accordance with IFRS 5.

The purchase price receivable, taking into consideration the purchase price adjustment from the first step of the transaction, amounts to EUR 945 million, thereof EUR 766 million was already paid in the reporting period. The portion of the purchase price receivable not yet due in the amount of EUR 179 million is due for payment in 2021 with a share of EUR 33 million. A further EUR 146 million will become due for payment in 2025.

The sale of major parts of the business operations of the rooftop sites to Telxius had the following effects on the net assets and financial position of the Telefónica Deutschland Group in the reporting period:

(in EUR million)	
Goodwill	(347)
Property, plant and equipment	(203)
Right-of-use assets	(189)
Other non-financial assets	(1)
Lease liabilities	180
Provisions	75
Deferred income	0
Net amount from assets and liabilities	**(486)**
Receivables from TGMS	0
Liabilities to TGMS	(34)
Purchase price receivable from Telxius Telecom, S.A.	179
Transaction costs	(20)
Effect on net assets without cash and cash equivalents	**(360)**
Remuneration received in cash	766
Cash and cash equivalents disposed of	(0)
Net cash effect of cash and cash equivalents	**766**
Net gain on disposal (before tax)	**407**

The disposal of the proportional goodwill is related to the first transaction step. For the calculation of the proportional goodwill, an approach was selected that is based on the relative ratio of notional goodwill for the sold part of the business operations of the rooftop sites of the Telefónica Deutschland Group.

Since the transfer of Telefónica Germany Mobilfunk Standortgesellschaft mbH to Telxius, the Telefónica Deutschland Group leases areas on the transferred passive infrastructure from Telxius for the installation and operation of its active radio technology. The Telefónica Deutschland Group will lease further areas in the future following the spin-off of further locations to Telefónica Germany Zweite Mobilfunk Standortgesellschaft mbH and subsequent transfer to Telxius.

Furthermore, the processing and charging on of services between Telefónica Germany GmbH & Co. OHG and Telefónica Germany Mobilfunk Standortgesellschaft mbH was agreed for a transitional phase.

9. 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)	**2020**	2019
Total profit/(loss) attributable to equity holders of the parent for basic = diluted earnings	328	(212)
Weighted average number of ordinary shares issued (in million units)	2,975	2,975
Earnings per share in EUR (basic = diluted)	**0.11**	**(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.

10. Further information on financial assets and financial liabilities

In the following tables, the fair values of all financial assets and financial liabilities of the Telefónica Deutschland Group are disclosed in accordance with the measurement categories as determined by IFRS 9 with regard to the requirements of IFRS 13.

As of 31 December 2020, the carrying amount of current financial assets and financial liabilities represents an appropriate approximation of fair value.

In addition, the tables show the categorisation of the financial assets and financial liabilities in accordance with the importance of the input factors that were used for their respective measurement. The review is performed successively from level to level. The first stage is given priority and the subsequent stages are only used for evaluation if the requirements for the input factors of the first stage could not be fulfilled. For this purpose, three levels or measurement hierarchies are defined:

- **Level 1:** Input factors at this level are quoted (unadjusted) prices for identical assets or liabilities in active markets accessible to the entity at the measurement date.

- **Level 2:** Second level input factors are market prices other than those quoted at level one that are observable either directly or indirectly for the asset or liability.

- **Level 3:** Input factors that are not observable for the asset or liability.

							Measurement hierarchy			
							as of 31 December 2020 Financial assets			
(in EUR million)	**Hedging relationships (no measure-ment category according to the meaning of IFRS 9)**	**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**
Non-current trade and other receivables (Note 5.5)	–	–	157	–	–	157	–	157	–	157
Other non-current financial assets (Note 5.6)	–	1	–	209	92	302	–	226	1	227
thereof: derivatives	–	–	–	–	–	–	–	–	–	–
thereof: investments in start-ups	–	*1*	–	–	*2*	*3*	–	–	*1*	*1*
thereof: net investment in the lease	–	–	–	–	*14*	*14*	–	*14*	–	*14*
thereof: other	–	–	–	*209*	*77*	*286*	–	*212*	–	*212*
Current trade and other receivables (Note 5.5)	–	–	587	708	1	1,297	–	587	–	n/a (*)
Other current financial assets (Note 5.6)	2	–	–	60	5	67	–	2	–	n/a (*)
thereof: derivatives	*2*	–	–	–	–	*2*	–	*2*	–	*n/a (*)*
thereof: net investment in the lease	–	–	–	–	*5*	*5*	–	–	–	*n/a (*)*
thereof: other	–	–	–	*60*	–	*60*	–	–	–	*n/a (*)a*
Cash and cash equivalents (Note 5.9)	–	–	–	1,337	–	1,337	–	–	–	n/a (*)a
Total	**2**	**1**	**744**	**2,314**	**99**	**3,160**	**–**	**972**	**1**	**384**

as of 31 December 2019
Financial assets*

(in EUR million)	Hedging relationships (no measurement category according to the meaning of IFRS 9)	Financial assets measured at fair value through profit or loss	Financial assets measured at fair value through other comprehensive income	Financial assets measured at amortised cost	Not in the scope of IFRS 7 (**)	Total carrying amount	Measurement hierarchy Level 1 (Quoted prices)	Level 2 (Significant other observable input parameters)	Level 3 (Significant unobservable input parameters)	Total fair value
Non-current trade and other receivables (Note 5.5)	–	–	104	–	–	104	–	104	–	104
Other non-current financial assets (Note 5.6)	3	1	–	45	84	133	–	57	1	58
thereof: derivatives	*3*	–	–	–	–	*3*	–	*3*	–	*3*
thereof: investments in start-ups	–	*1*	–	–	–	*1*	–	–	*1*	*1*
thereof: net investment in the lease	–	–	–	–	*9*	*9*	–	*9*	–	*9*
thereof: other	–	–	–	45	75	120	–	45	–	45
Current trade and other receivables (Note 5.5)	–	–	568	796	1	1,366	–	568	–	n/a
Other current financial assets (Note 5.6)	*2*	–	–	*10*	*5*	*17*	–	–	–	*n/a*
thereof: derivatives	*2*	–	–	–	–	*2*	–	*2*	–	*n/a*
thereof: net investment in the lease	–	–	–	–	5	5	–	–	–	–
thereof: other	–	–	–	10	–	10	–	–	–	n/a
Cash and cash equivalents (Note 5.9)	–	–	–	781	–	781	–	–	–	n/a
Total	**5**	**1**	**672**	**1,632**	**91**	**2,401**	**–**	**729**	**1**	**162**

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

As of 31 December 2020, EUR 2 million of the current financial assets are included in a hedging relationship. As of 31 December 2019, EUR 3 million of non-current and EUR 2 million of current other financial assets were included. These relate to the swap that the Group entered into in connection with a bond issuance (for further information, see Note 5.6 Other financial assets).

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

In addition, EUR 1 million (2019: EUR 1 million) of other non-current financial assets are classified as financial assets measured at fair value through profit or loss. These relate primarily to investments in start-ups. These assets were measured according to Level 3. The fair value measurement is based on existing business plans with numerous assumptions made regarding future business development.

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 that the carrying amount approximates fair value. For current and non-current receivables, fair value mainly results from a risk discount based on credit risk.

All other financial assets as of 31 December 2020 were categorised as financial assets measured at amortised cost.

(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			as of 31 December 2020 Financial liabilities
Non-current interest-bearing debt (Note 5.11)	1,577	–	1,577	639	1,026	–	1,665
Non-current trade and other payables (Note 5.13)	10	2	12	–	10	–	10
Non-current payables - Spectrum (Note 5.14)	1,089	–	1,089	–	1,129	–	1,129
Current interest-bearing debt (Note 5.11)	715	–	715	501	–	–	n/a (*)
Current trade and other payables (Note 5.13)	2,433	41	2,474	–	–	–	n/a (*)
Current payables - Spectrum (Note 5.14)	107	–	107	–	–	–	n/a (*)
Total	**5,931**	**43**	**5,974**	**1,140**	**2,165**	**–**	**2,804**

(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			as of 31 December 2019 Financial liabilities
Non-current interest-bearing debt (Note 5.11)	2,153	–	2,153	1,142	1,095	–	2,237
Non-current trade and other payables (Note 5.13)	12	3	15	–	12	–	12
Non-current payables - Spectrum (Note 5.14)	1,186	–	1,186	–	1,202	–	1,202
Current interest-bearing debt (Note 5.11)	339	–	339	–	–	–	n/a (*)
Current trade and other payables (Note 5.13)	2,451	42	2,493	–	–	–	n/a (*)
Current payables - Spectrum (Note 5.14)	86	–	86	–	–	–	n/a (*)
Total	**6,227**	**45**	**6,272**	**1,142**	**2,310**	**–**	**3,452**

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

As of 31 December 2020, EUR 150 million of the current interest-bearing debt (31 December 2019: EUR 152 million of non-current interest-bearing debt) are included in a hedge accounting relationship. These relate to a portion of the bond, which is accounted for with an interest rate swap as a fair value hedge (for further information see NOTE 5.11 INTEREST-BEARING DEBT).

The fair value of the bonds (non-current and current interest-bearing debt) is determined based on primary market values (unadjusted quoted prices in active markets, Level 1). The fair value of the other non-current interest-bearing debt is 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 the Telefónica Deutschland Group and taken into consideration in the discounting, matched to the duration.

In addition to bonds, non-current and current interest-bearing debt as of 31 December 2020 includes promissory note loans and registered bonds with a total nominal value of EUR 727 million (2019: EUR 835 million), a loan from the European Investment Bank (EIB) of EUR 333 million (2019: EUR 408 million) and short-term utilisation of credit lines in the amount of EUR 119 million (2019: EUR 130 million).

The non-current and current trade and other payables are categorised as financial liabilities at amortised cost.

Please see the respective notes for further information.

The following table shows the net gains and losses per measurement category in accordance with IFRS 9:

		Amortised cost		At fair value through profit or loss	At fair value through other comprehensive income
1 January to 31 December 2020 (in EUR million)	Financial assets	Financial liabilities	Financial assets	Financial liabilities	Financial assets
Net result from disposals	–	–	–	–	–
Result from valuations	1	(1)	(0)	–	–
Impairment/reversal of impairment losses	(20)	–	–	–	(49)
Effective interest income	3	–	–	–	–
Effective interest expense	(1)	(50)	–	–	–
Fee income/expenditure	–	–	–	–	–
Total	**(17)**	**(51)**	**(0)**	**–**	**(49)**

		Amortised cost		At fair value through profit or loss	At fair value through other comprehensive income
1 January to 31 December 2019 (in EUR million)	Financial assets	Financial liabilities	Financial assets	Financial liabilities	Financial assets
Net result from disposals	–	–	–	–	–
Result from valuations	0	(0)	0	–	–
Impairment/reversal of impairment losses	(28)	–	–	–	(48)
Effective interest income	2	–	–	–	–
Effective interest expense	–	(43)	–	–	–
Fee income/expenditure	–	–	–	–	–
Total	**(26)**	**(43)**	**0**	**–**	**(48)**

Offsetting

Financial assets and financial liabilities are offset, and the net amount is reported in the Consolidated Statement of Financial Position, when the Group currently has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The following table presents the amounts of financial assets and financial liabilities that are offset as of 31 December 2020.

	as of 31 December 2020	
(in EUR million)	**Trade receivables**	**Trade payables**
Gross amounts	1,483	2,232
Amounts set off in the Consolidated Statement of Financial Position in accordance with IAS 32.42	(58)	(58)
Net amounts presented in the Statement of Financial Position	**1,425**	**2,173**

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

11. Group companies of the Telefónica Deutschland Group

In accordance with sections 285 and 313 of the German Commercial Code (HGB), the following table lists the companies making up the Telefónica Deutschland Group as of 31 December 2020.

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 Düsseldorf in the fourth quarter of the financial year.

Telefónica Germany 1. Beteiligungsgesellschaft mbH also acquired 10% of UGG TopCo GmbH & Co. KG and UGG TopCo/HoldCo General Partner GmbH in the fourth quarter of the financial year. The latter is the general partner of UGG TopCo GmbH & Co.KG. Both investments are classified as associated companies as per IAS 28.6 in consideration of the specific facts and circumstances. Our appraisal as to the material influence of the Telefónica Deutschland Group over the business and financial policy is based on the Telefónica Deutschland Group's entering into major business transactions with the companies and its involvement in the relevant decision-making processes. UGG TopCo GmbH & Co. KG is not yet operational as of 31 December 2020.

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

as of 31 December 2020

Company name, registered office	Country	Consolidation	Share in %	Equity 31 December 2019 (EUR million)[5]	Result in FY 2019 (EUR million)[5]
Parent company					
Telefónica Deutschland Holding AG, Munich	Germany	n/a	n/a	6,534	(212)
Subsidiaries					
Telefónica Germany Management GmbH, Munich[2]	Germany	Full financial year	100%	11	0
Telefónica Germany GmbH & Co. OHG, Munich [1,5]	Germany	Full financial year	100%	5,724	22
Telefónica Germany 1. Beteiligungsgesellschaft mbH, Munich [2,4]	Germany	Full financial year	100%	86	-*
TGCS Rostock GmbH, Munich [2]	Germany	Full financial year	100%	15	-*
Telefónica Germany Business Sales GmbH, Düsseldorf[2]	Germany	Full financial year	100%	29	-*
Telefónica Germany Retail GmbH, Düsseldorf[2]	Germany	Full financial year	100%	107	-*
Wayra Deutschland GmbH, Munich [2]	Germany	Full financial year	100%	2	-*
O2 Telefónica Deutschland Finanzierungs GmbH, Munich	Germany	Full financial year	100%	0	-*
TGCS Bremen GmbH, Munich [2]	Germany	Full financial year	100%	2	-*
TGCS Hamburg GmbH, Munich[2]	Germany	Full financial year	100%	2	-*
TGCS Nürnberg GmbH, Munich[2]	Germany	Full financial year	100%	4	-*
E-Plus Service GmbH, Düsseldorf[2]	Germany	Full financial year	100%	78	-*
TGCS Essen & Potsdam GmbH, Potsdam[2]	Germany	Full financial year	100%	3	-*
TGCS Berlin GmbH, Düsseldorf[2]	Germany	Full financial year	100%	1	-*
AY YILDIZ Communications GmbH, Düsseldorf[2]	Germany	Full financial year	100%	5	-*
Ortel Mobile GmbH, Düsseldorf[2]	Germany	Full financial year	100%	5	-*
TFS Potsdam GmbH, Potsdam[2]	Germany	Full financial year	100%	0	-*
Telefónica Germany Zweite Mobilfunk Standortgesellschaft mbH, Munich[2]	Germany	from May 2020	100%	–	–
Joint operations					
TCHIBO Mobilfunk Beteiligungs-GmbH, Hamburg	Germany	Full financial year	50%	0	0
TCHIBO Mobilfunk GmbH & Co. KG, Hamburg	Germany	Full financial year	50%	12	1
Associated companies					
UGG TopCo/HoldCo General Partner GmbH, Ismaning	Germany	from December 2020	10%	–	–
UGG TopCo GmbH & Co. KG, Ismaning	Germany	from December 2020	10%	–	–
Other investments[3]					
MNP GbR, Düsseldorf [4]	Germany	Full financial year	33%	0	0

[1] This entity uses the exemption provisions pursuant to section 264b HGB.

[2] These entities use the exemption provisions pursuant to section 264 (3) HGB.

[3] Other investments are not included in the consolidation.

[4] The company makes use of the exemption provision of Section 291 and waives the preparation of (sub-) consolidated financial statements.

[5] Equity and result for last financial year for which financial statements are available.

*After transfer of profits or losses.

12. 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.

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.

As part of the joint operation in TCHIBO Mobilfunk GmbH & Co. KG, Telefónica Germany GmbH & Co. OHG reimburses the company for sales and marketing services provided by the latter, on the one hand, and supplies the company with mobile communications devices, on the other.

13. Related Parties

Related parties within the meaning of IAS 24 are defined as natural persons and companies that can be influenced by the Telefónica Deutschland Group, that can exercise a material influence over the Telefónica Deutschland Group, or that are materially influenced by another related party of the Telefónica Deutschland Group.

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

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

Note 11 of the Telefónica Deutschland Group provides an overview of the companies (>NOTE 11 GROUP COMPANIES OF THE TELEFÓNICA DEUTSCHLAND GROUP). In 2019 and 2020, the following were related parties from the perspective of the Telefónica Deutschland Group:

— Telefónica, S.A. and its subsidiaries as well as significant shareholdings of the Telefónica, S.A. Group (>NOTE 13.1. TRANSACTIONS WITH THE TELEFÓNICA, S.A. GROUP),

— Members of the Management Board and Supervisory Board of the Telefónica, S.A. Group and members of the Management Board and Supervisory Board of the Telefónica Deutschland Group (>NOTE 13.2 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 stated separately for joint ventures or associates, the transactions relate exclusively to Telefónica, S.A. and its subsidiaries.

Intercompany charges are based on cost-plus or similar allocation methods.

13.1. Transactions with the Telefónica, S.A. Group

Assets with and liabilities to the Telefónica, S.A. Group

The Telefónica Deutschland Group reports the following assets with and liabilities to the companies belonging to the Telefónica, S.A. Group:

as of 31 December

(in EUR million)	2020	2019
Assets with the Telefónica, S.A. Group	**2,534**	**1,178**
that are recognised in the following items in the Consolidated Statement of Financial Position:		
Right-of-use assets	1,004	373
Trade and other receivables	26	38
Other financial assets	178	–
Cash and cash equivalents (cash pooling)	1,325	767
Liabilities to the Telefónica, S.A. Group	**1,087**	**940**
that are recognised in the following items in the Consolidated Statement of Financial Position:		
Interest-bearing debt	–	0
Lease liabilities	1,007	374
Trade and other payables	80	567

Right-of-use assets
The right-of-use assets mainly comprise the space leased from Telxius Germany on the transferred passive infrastructure for the installation and operation of active radio technology. As of 31 December 2020, the Telefónica Deutschland Group has no right-of-use assets vis-à-vis Telefónica, S.A.

Trade and other receivables
These receivables result from transactions in goods and services such as roaming and commissions for insurance services, as well as licence agreements, as well as licence agreements between Telefónica Deutschland Group and the Telefónica, S.A. Group. As of the reporting date of 31 December 2020, the line item contains receivables from Telefónica, S.A. of EUR 3 million (2019: EUR 4 million).

Other financial assets
Other financial assets include the 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 (>NOTE 8 DISPOSAL GROUP).

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 in particular grants an overdraft facility of EUR 454 million, which was not utilised as of 31 December 2020. For further details, please refer to section 5.9 "Cash and cash equivalents".

Lease liabilities
The lease liabilities relate essentially the space leased from Telxius Germany on the transferred passive infrastructure for the installation and operation of active radio technology. The Telefónica Deutschland Group has no lease liabilities to Telefónica, S.A. as of 31 December.

Trade and other payables
As of 31 December 2020, the item contains other payables to Telefónica, S.A. of EUR 11 million (2019: EUR 7 million). In addition, the item includes payables from licence agreements and social security benefits to the Telefónica, S.A. Group.

Furthermore, payables to Telxius Germany of EUR 34 million are included due to the withdrawal of Telefónica Germany Mobilfunk Standortgesellschaft mbH from the group of consolidated companies, which essentially include net liabilities related to the demerger and sale of significant areas of the business operations of the roof sites to Telxius (>NOTE 8 DISPOSAL GROUP).

In the financial year 2019, this item mainly comprised liabilities sold by Telefónica Germany GmbH & Co. OHG suppliers to Telefónica Factoring España, S.A., in which Telefónica, S.A. holds a participating interest.

Telefónica Factoring España, S.A. is an associated company of the Telefónica, S.A. Group.

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

1 January to 31 December	Revenues, other income and interest income		Expenses, depreciation of right-of-use assets, interest expenses	
(in EUR million)	**2020**	2019	**2020**	2019
Telefónica, S.A. Group	440	35	(175)	(148)

Other income includes the net gain on disposal from the sale of major parts of the business operations of the rooftop sites to Telxius in the amount of EUR 407 million. Revenues and other income are additionally generated from goods and services such as roaming and mobile phone insurance, of which EUR 0 million (EUR 0 million in 2019) is attributable to Telefónica, S.A. in the financial year.

Expenses include Group fees totalling EUR 32 million in 2020 (EUR 34 million in 2019), of which EUR 17 million (EUR 16 million in 2019) relate to Telefónica, S.A. In addition, EUR 79 million (EUR 78 million in 2019) result from expenses from the purchase of goods, services and other expenses, of which EUR 1 million (EUR 0 million in 2019) relate to Telefónica, S.A. Furthermore, expenses from the depreciation of right-of-use assets amounting to EUR 64 million in 2020 (EUR 37 million in 2019) are attributable to the leasing of space on the transferred passive infrastructure for the installation and operation of active radio technology from Telxius Germany.

Dividend distribution to Telefónica, S.A. Group
A dividend of EUR 0.17 per no par value share, in the total amount of EUR 350 million, was distributed to Telefónica Germany Holdings Limited, an indirect wholly owned subsidiary of Telefónica, S.A., for financial year 2019.

13.2. Transactions with Management Board and Supervisory Board

a) Management Board

In financial year 2020, 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

— Mallik Rao

The remuneration system of Telefónica Deutschland Group for the members of the Management Board and the Supervisory Board is described in further detail in the Combined Management Report, Remuneration Report. The new virtual performance share plan, which replaces the previous deferred bonus plan as Bonus II for all new grants from the 2020 financial year onwards, includes an option between payment in cash or share issue. These share-based payment transactions are accounted for as equity-settled share-based payment transactions. This virtual performance share plan has an immaterial impact on the financial year.

In the financial years to which the Consolidated Financial Statements relate, the members of the Management Board have not carried out any transactions with the Telefónica Deutschland Group other than as part of the normal trading and business activities of the Telefónica Deutschland Group.

In accordance with section 314 (1) no. 6a HGB, the total remuneration granted to the Management Board of Telefónica Deutschland Holding AG for the financial year ended 31 December 2020 amounted to EUR 7,122 thousand (2019: EUR 6,628 thousand). In the reporting year, the total remuneration includes share-based compensation with a fair value of EUR 1,517 thousand (2019: EUR 707 thousand) at the grant date for 161,454 (2019: 132,620) shares.

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)	2020	2019
Total remuneration	**7,776**	**8,381**
thereof:		
Short-term employee benefits	5,605	5,921
Other long-term employee benefits	769	1,279
Share-based payments	896	528
Service cost	506	653

The following changes took place regarding the conditional rights to the free transfer of shares (bonus shares) for Telefónica, S.A.'s share options for the Management Board members (for further information see the > MANAGEMENT REPORT, REMUNERATION SYSTEM FOR BOARD MEMBERS):

(In units)	2020	2019
Share options as of 1 January	**237,635**	**105,556**
Forfeited share options	–	(541)
Change to the composition of the Management Board[1]	(38,640)	–
Newly issued share options	161,454	132,620
Share options as of 31 December	**360,449**	**237,635**

[1] Applies to members of the Management Board who left in 2019

The defined benefit liability for members of the Management Board amounted to EUR 4,688 thousand in financial year 2020 (2019: EUR 3,355 thousand).

As of 31 December 2020, the net defined benefit liability for members of the former management and their surviving dependants amounted to EUR 19,286 thousand (2019: EUR 17,587 thousand).

Further details regarding the pension obligations of the Telefónica Deutschland Group can be found in the Notes. (>NOTE 5.15 PROVISIONS).

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

b) Supervisory Board

Name	Member of the Supervisory Board	Remuneration (in EUR) 2020	Remuneration (in EUR) 2019
Peter Löscher[1]	since 01 April 2020	73,989	–
Laura Abasolo García de Baquedano[2]	from 12 May 2015 to 31 March 2020	2,000	2,000
Christoph Braun	since 01 July 2016	50,000	40,000
Sally Anne Ashford[3]	from 18 September 2014 to 25 September 2020	31,604	20,000
Martin Butz	since 17 May 2018	40,000	20,000
Pablo de Carvajal González	since 25 July 2018	2,000	2,000
Patricia Cobián González[3]	from 18 September 2012 to 25 September 2020	2,000	2,000
Peter Erskine	since 19 May 2016	30,000	20,000
María García-Legaz Ponce[4]	since 07 June 2018	2,000	2,000
Ernesto Gardelliano[5]	since 05 October 2020	–	–
Cansever Heil	since 03 April 2019	30,000	14,959
Christoph Heil	from 03 June 2013 to 17 May 2018; since 03 April 2019	30,000	14,959
Sandra Hofmann	from 17 May 2018 to 18 February 2019	–	2,685
Michael Hoffmann[6]	since 05 October 2012	78,481	70,000
Julio Linares López	since 16 October 2017	30,000	20,000
Stefanie Oeschger[7]	since 03 October 2020	7,377	–
Thomas Pfeil	since 03 June 2013	40,000	20,000
Joachim Rieger[8]	since 31 October 2014	34,500	24,500
Dr. Jan-Erik Walter	since 03 June 2013	37,500	20,000
Claudia Weber	since 03 June 2013	37,500	20,000

1 Peter Löscher was appointed by the court as shareholder representative to the Supervisory Board with effect from 01 April 2020 and confirmed in office by the Annual General Meeting on 20 May 2020. From 02 April 2020 he was also Chairman of the Supervisory Board and was confirmed in this office by the Supervisory Board on 27 May 2020, also after the Annual General Meeting.

2 Laura Abasolo García de Baquedano resigned from office with effect from the end of 31 March 2020.

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

4 María García-Legaz Ponce succeeded Laura Abasolo García de Baquedano as a member of the Remuneration Committee on 01 April 2020.

5 Ernesto Gardelliano was appointed by the court to the Supervisory Board as a shareholder representative with effect from 05 October 2020 and elected as a member of the Audit Committee on 10 October 2020.

6 Michael Hoffmann was elected as a member and Chairman of the Remuneration Committee with effect from 25 September.

7 Stefanie Oeschger was appointed by the court to the Supervisory Board as a shareholder representative with effect from 03 October 2020.

8 In addition to the remuneration pursuant to Section 20 of the articles of association of Telefónica Deutschland Holding AG, Joachim Rieger received an annual remuneration in the amount of EUR 4,500 for his activities as a member of the Supervisory Board of the subsidiary TGCS Essen & Potsdam GmbH, which is already taken into account in the table.

The members of the Supervisory Board received remuneration for their work on the Supervisory Board of Telefónica Deutschland Holding AG and its subsidiaries amounting to EUR 559 thousand in 2020 (2019: EUR 315 thousand).

Members of the Supervisory Board who are also employees of the Telefónica Deutschland Group also receive remuneration from their employment relationship, including entitlements from share-based payment agreements, subject to compliance with the requirements for participation in each individual case, and acquire entitlements as part of pension schemes. This remuneration comprises the following for the period of appointment to the Supervisory Board:

1 January to 31 December

(in EUR thousand)	**2020**	2019
Total remuneration	**726**	**656**
thereof:		
Short-term employee benefits	671	603
Share-based payments	32	31
Service cost	23	22

As of 31 December 2020, the 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.

Amendment of the articles of association

A resolution in favour of the amendment of Article 20 of the articles of association 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. Other resolutions in favour of amendments of the articles of association which are not of relevance for the purposes of this Annual Report were also adopted.

14. Share-based payments

As of 31 December 2020, the Telefónica Deutschland Group had concluded various agreements regarding share-based payments. Share-based payment transactions are accounted for as equity-settled share-based payment transactions. The financial effects of the share-based remuneration systems are, however, of minor importance for the Telefónica Deutschland Group:

- In financial year 2020, personnel expenses resulting from share-based payment transactions amounting to EUR 3 million (2019: EUR 2 million) were recognised in this connection.
- As of 31 December 2020, liabilities resulting from share-based payment transactions to the Telefónica, S.A. Group amounting to EUR 6 million (2019: EUR 4 million) are recognised.
- As of 31 December 2020, retained earnings resulting from equity-settled share-based payment transactions amounting to EUR 0 million (2019: EUR 0 million) were recognised in this connection.

15. Information Regarding Employees

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

Average headcount	**2020**	2019
Office staff	7,852	8,202
thereof: from joint operations	12	12
Temporary staff	419	388
Total	**8,271**	**8,590**

16. 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 risks from 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 2020 and 2019 would have been as follows:

1 January to 31 December

	2020		2019	
(in EUR million)	Risk position	+/(-) 10%	Risk position	+/(-) 10%
USD	(5.9)	0.5/(0.7)	(4.9)	0.4/(0.5)
GBP	1.0	(0.1)/0.1	0.0	(0.0)/0.1

There are no material direct effects from exchange rate fluctuations on the equity of the 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 2020 and 2019 are shown below. There is no impact recognised directly in equity. This analysis assumes that all other variables remain unchanged.

1 January to 31 December

(in EUR million)	**2020**	2019
+100bp	9	5
-100bp	(11)	(9)

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 date 31 December 2020 are disclosed below.

1 January to 31 December

(In Millionen EUR)	**2020**	2019
+100bp	7	–
-100bp	(7)	–

Liquidity risk

On the balance sheet date on 31 December 2020, the Telefónica Deutschland Group had unused credit lines from current overdraft facilities, loans and revolving credit facilities with a total volume of EUR 2,314 million; on 31 December 2020 the unused credit lines amounted to EUR 2,264 million.

Cash and cash equivalents amounted to EUR 1,337 million as of 31 December 2020 and EUR 781 million as of 31 December 2019.

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

as of 31 December 2020 (in EUR million)	Total carrying amount	Gross cash outflow	Remaining term < 1 year	Remaining term 1–5 years	Remaining term > 5 years
Non-current interest-bearing debt	1,577	1,678	–	1,407	271
Non-current lease liabilities	2,326	2,327	–	1,452	874
Non-current trade and other payables	12	12	–	12	–
Non-current payables - Spectrum	1,089	1,164	–	454	710
Current interest-bearing debt	715	726	726	–	–
Current lease liabilities	514	514	514	–	–
Current trade and other payables	2,475	2,475	2,475	–	–
Current payables - Spectrum	107	108	108		
Financial liabilities	**8,816**	**9,005**	**3,824**	**3,325**	**1,856**

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

17. 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-relevant performance indicators.

The Telefónica Deutschland Group monitors the capital structure using the net leverage ratio.

The net leverage ratio compares the net financial debt level with an operational success parameter (OIBDA adjusted for exceptional effects for the past 12 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 and applicable since 1 January 2019 remains unchanged at 2.5x (>MANAGEMENT REPORT – MANAGEMENT SYSTEM).

18. 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.

Lawsuits against 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 in particular lead to a tightening of the service provider obligation (obligation of the Telefónica Deutschland Group to negotiate with suitable service providers on the shared use of signal capacities). Three lawsuits filed by service providers were dismissed in the final instance. Whether a constitutional complaint has been filed against this is not known, but cannot be ruled out. The complaint of another service provider was dismissed. Its appeal before the Federal Administrative Court was permitted. Another complaint by a service provider has not been decided yet by the court of first instance. Furthermore, the legal actions of Telekom and Vodafone were dismissed in the last instance by the Federal Administrative Court. Whether a constitutional complaint has been filed against this is not known, but cannot be ruled out. However, the appeal proceedings of Telefónica were admitted and are not yet concluded. The proceedings of 1&1/Drillisch are still pending with the court of first instance. If 1&1/Drillisch is successful, this could lead to a tightening of currently existing negotiation obligations through the obligation to allow Drillisch to participate in the Telefónica Deutschland Group network (e.g. roaming).

Regarding the frequency allocations at 3.6 GHz, a (new) appeal by EWE TEL GmbH against the frequency allocation 3540 MHz - 3610 MHz to Telefónica Deutschland Gruppe of 24 September 2020 is pending. Should the appeal be successful, this could result in the reallocation 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.

Estimates, assumptions and discretionary judgements 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.

19. Purchase and other contractual obligations

The following expected maturities apply to purchase and other contractual obligations:

(in EUR million)	as of 31 December 2020	as of 31 December 2019
Less than 1 year	1,630	1,272
1 to 5 years	1,103	1,381
Over 5 years	152	148
Purchase and other contractual obligations	**2,885**	**2,801**

The purchase and other contractual obligations also include short-term leases and leases of assets of low value.
Purchase and other contractual obligations comprise EUR 609 million in property, plant and equipment and EUR 12 million in intangible assets.

The new investment in UGG TopCo GmbH & Co. KG results in an obligation of EUR 100 million for approximately six years.

The Telefónica Deutschland Group provides absolute guarantees to secure rental obligations primarily for antenna sites. These guarantees are granted by external financial counterparts.

The guarantees amounted to EUR 83 million as of 31 December 2020. (2019: EUR 146 million).

Telefónica Holding AG has submitted a financing commitment to the German Federal Network Agency in the context of the 5G auction procedure. As part of this agreement, Telefónica Holding AG undertakes to ensure, without restriction and on a permanent basis, that Telefónica Germany GmbH & Co. OHG has access to all funds required to fulfil a bid submitted for the acquisition of a frequency in the auction procedure. This letter of comfort, which has already been issued, replaces the issuance of a new letter of comfort within the framework of the contract on the implementation of the Mobile Communications Summit 2018. In it, Telefónica Germany GmbH & Co. OHG clarifies that the letter of comfort issued in the context of the 2019 frequency auction also applies to secure any claims of the Federal Republic of Germany under this agreement.

For contractual obligations arising from further leases, please refer to Note 20 LEASES.

20. Leases

Leases

The Consolidated Income Statement shows the following income and expenses in connection with leases:

1 January to 31 December

(in EUR million)	**2020**	2019
Income from operating leases	16	10
Income/expenses from finance leases	(1)	(0)
Expenses relating to short-term leases	(21)	(24)
Expenses relating to leases of low-value assets	(2)	(7)
Depreciation of right-of-use assets	(525)	(550)
Interest expenses from lease liabilities	(14)	(11)

The total cash outflows for leases in the financial year 2020 amounted to EUR 583 million (2019: EUR 525 million).

For additions to right-of-use assets in financial year 2020 and the carrying amount of the right-of-use assets as of 31 December 2020 by class of underlying assets, please refer to >NOTE 5.4 RIGHT-OF-USE ASSETS.

Numerous leases exist at the Telefónica Deutschland Group, which include cancellation options, extension options and automatic extension options. The various contractual agreements are not taken into consideration in the lease liabilities recognized as of 31 December 2020 for the calculation of the possible future payment obligations resulting from the options and area included as follow.

- If contracts contain extension options which have not yet expired or have already been drawn, the value of the possible payment obligations will be taken into consideration for the entire period of all future extension options – generally between 1 month and 5 years.
- For all contracts, for which no future extension options exist and automatic extensions are agreed instead, these are taken into consideration in the calculation with the first automatic extension that is not already included in the lease liability.
- Irrespective of extension options and automatic extensions, for contracts whose prospective end is less than the minimum term due to a reasonably certain unilateral termination option, the remaining period will be taken into account for the calculation until the minimum term has expired.

This results in possible future payment obligations for the Telefónica Deutschland Group in the amount of EUR 1,582 million.

The Telefónica Deutschland Group has various lease contracts that have not yet commenced as of 31 December 2020. The future possible cash outflows for those lease contracts are EUR 182 million (EUR 63 million as of 31 December 2019).

Lessor

As lessor, the Telefónica Deutschland Group has entered into several sublease agreements for shops and cell sites with antenna towers. Where sublease is classified as a finance lease, the Group recognises Other financial assets at the value of the net investment in the lease.

Future cash inflows from minimum lease payments under finance leases are comprised as follows:

as of 31 December 2020

(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	11	0	12
Due in more than 5 years	2	0	2
Total net investment in lease	**19**	**0**	**19**

as of 31 December 2019

(in EUR million)	Future minimum lease payments	Unearned finance income	Present value of the minimum lease payments
Due within 1 year	5	0	5
Due between 1 and 5 years	8	0	8
Due in more than 5 years	1	0	1
Total net investment in lease	**15**	**0**	**15**

As the lessor of operating leases, the Group recognises the right-of-use assets in the Consolidated Statement of Financial Position. The lease payments received are recognised in the Consolidated Income Statement. Future income from operating leases is comprised as follows:

(in EUR million)	**as of 31 December 2020**	as of 31 December 2019
Less than 1 year	3	4
1 to 5 years	5	6
Over 5 years	3	5
Future minimum lease payments receivables from operating leases	**11**	**15**

As lessor, the Telefónica Deutschland Group has entered into several sublease agreements for cell sites with antenna towers and shops.

As a rule, only part of the antenna masts for proprietary use are leased. The shops are mainly leased spaces, which are accounted for under right-of-use assets. Where operating leases exist, the Telefónica Deutschland Group continues to include the leased assets in its balance sheet. The lease payments received are recognised in profit or loss.

The following table shows the historical acquisition costs, the cumulative depreciation and the residual book value of the relevant assets in the consolidated balance sheet as of 31 December 2020, which are subject to subleases in the form of an operating lease agreement:

(in EUR million)	**Cost**	**Accumulated depreciation**	**Residual book value as of 31 December 2020**
Property, plant and equipment	121	(76)	45
Right-of-use-assets	143	(32)	112

21. Total Auditor's Fees

In the financial years 2020 and 2019, the services listed below provided by the Group's auditors, PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, are recognised in the Consolidated Income Statement.

Because the Telefónica Deutschland Group conducts all of its business in Germany, the entire amount is incurred in Germany.

1 January to 31 December

(in EUR million)	**2020**	2019
Types of fee:		
Audit services	2	2
Other certification services	0	0
Total fee	**2**	**2**

The auditor's fees include especially the fees for auditing the Consolidated Financial Statements of Telefónica Deutschland Holding AG and fees for auditing the annual financial statements of the subsidiaries. Other audit-related services were performed in financial years 2020 and 2019 only to a minor extent.

22. Subsequent Events

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

On 19 January 2021, Telefónica Deutschland announced that it had concluded a bilateral letter of intent with Deutsche Telekom and a corresponding agreement with Vodafone with regard to active joint use of their networks in so-called "grey spots". In total, it is intended that at least 1,200 locations will be shared. Furthermore, Telefónica Deutschland is participating in the trilateral passive sharing arrangement entered into by German mobile network operators for the joint fulfilment of the industrial supply requirements imposed in the context of the spectrum auction in 2019. As announced in November 2019, each of the participating parties will construct an equal share of the total of 6,000 locations in "white spots".

On February 10, 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.

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

23. 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 25 September 2020. 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-and-articles.html.**

Munich, 18 February 2021

Telefónica Deutschland Holding AG

The Management Board

Markus Haas

Markus Rolle

Valentina Daiber

Nicole Gerhardt

Alfons Lösing

Wolfgang Metze

Mallik Rao

FURTHER INFORMATION

Further Information
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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, 18 February 2021

Telefónica Deutschland Holding AG

The Management Board

Markus Haas

Markus Rolle

Valentina Daiber

Nicole Gerhardt

Alfons Lösing

Wolfgang Metze

Mallik Rao

The following copy of the auditor's report also includes a „Report on the audit of the electronic renderings of the consolidated financial statements and the group 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 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 2020, 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 1 January to 31 December 2020, 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 2020. 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 2020, and of its financial performance for the financial year from 1 January to 31 December 2020, 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 2020. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In our view, the matters of most significance in our audit were as follows:

❶ Appropriateness of revenue recognition

❷ Sale of material portions of the rooftop sites operation

Our presentation of these key audit matters has been structured in each case as follows:

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

Hereinafter we present the key audit matters:

❶ **Appropriateness of revenue recognition**

① In the Company's consolidated financial statements, revenue of EUR 7.5 billion is reported in the consolidated statement of profit and loss. This comprises revenues from the provision of services (mobile service revenues and fixed-line/DSL business), revenues from the sale of handsets, and other revenues. This significant item in terms of amount is subject to particular risk in view of its complexity (e.g., principal versus agent considerations, accounting treatment of multiple-element arrangements, recognition of contract acquisition costs) as well as the number of systems necessary for the accurate recording and allocation of revenue, the constantly changing price and tariff models, and the use of multiple-element arrangements. In addition, revenue recognition is based to a large extent on estimates and assumptions made by the executive directors. Against this background, the accounting treatment of revenue was of particular significance in the context of our audit.

② In the knowledge that the high degree of complexity and the estimates and assumptions to be made by the executive directors give rise to an increased risk of accounting misstatements, as part of our audit we initially assessed the systems used by the Company and the processes and controls established for the purpose of recording and allocating revenue. This also included an evaluation of the IT systems environment, from the transfer of data from the mediation systems, via the measurement and billing systems, down to entry in the general ledger. As part of this process, we assessed whether revenue had been recognized fully and accurately and verified whether it had been allocated to the correct periods or correctly deferred. In addition, we examined the accounting effects of the multiple-element arrangements and the reporting of business relationships with dealers and business partners. We assessed among other things the appropriateness of the procedure used to account for revenue, and assessed the estimates and judgments made by the executive directors with respect to revenue recognition and deferral. We also examined customer invoices and the associated contracts and receipts

of payment on a test basis and verified that the receivables reported as at the reporting date for private and business customers were substantiated. We applied consistent audit procedures for the audit of the operating subsidiaries to ensure that we responded appropriately to the inherent audit risk in the audit area. In addition, we verified the consistency of the methods used to recognize revenue in the Group.
We were able to satisfy ourselves that the systems, processes and controls in place are appropriate and that the estimates and assumptions made by the executive directors are sufficiently documented and substantiated to ensure that revenue is appropriately accounted for.

③ The Company's disclosures on revenue are contained in sections "4.2 l) Significant Accounting Policies / revenues from contracts with customers" as well as "6.1 Revenues" of the notes to the consolidated financial statements.

❷ Sale of material portions of the rooftop sites operation

① A disposal gain of EUR 407 million is reported for the financial year in the consolidated statement of profit or loss under "other income". This disposal gain was recognized in connection with the sale of material portions of Telefónica Germany GmbH & Co. OHG's rooftop sites operation.
On 8 June 2020, Telefónica Germany GmbH & Co. OHG, Munich, Germany – a 99.99% subsidiary of Telefónica Deutschland Holding AG – entered into a comprehensive set of agreements with Telxius Telecom, S.A. Madrid, Spain – an affiliate of Telefónica, S.A. Madrid, Spain – concerning the sale of material portions of the rooftop sites operation. Among other things, this agreement included the spin-off and sale of a large portion of Telefónica Germany GmbH & Co. OHG's passive infrastructure, including the relevant leases, assets and liabilities, know-how, processes and other legal arrangements, for approximately EUR 1.5 billion. No employees were transferred in connection with the transaction. The transaction comprised two steps: on 19 August 2020, approximately 60% of the relevant sites were spun off to Telefónica Germany Mobilfunk Standortgesellschaft mbH, Munich, which was newly formed in the first half of 2020. The shares in this company were transferred to Telxius Telecom S.A., Madrid, Spain, on 1 September 2020. A further 40% (approximately) of the relevant sites are expected to be spun off in the second half of 2021 to Telefónica Germany Zweite Mobilfunk Standortgesellschaft mbH, Munich, which was also formed during the reporting period; shares in this entity will also be transferred to Telxius Telecom S.A. The purchase price receivable relating to the first stage of the transaction amounted to EUR 945 million. A separate presentation and the measurement of the assets and liabilities in accordance with IFRS 5 was not performed for the second stage of the transaction, as the relevant requirements for classification as a disposal group had not been met. In our view, this matter was of particular significance for our audit given the high degree of complexity involved in calculating the disposal gain and in the accounting treatment of the deconsolidation resulting from the first stage of the transaction, as well as given the executive directors' assessment that the requirements of IFRS 5 pertaining to classification of the second stage of the transaction as a disposal group had not been met.

② As part of our audit and together with the support of our internal specialists from Capital Markets & Accounting Advisory Services (CMAAS), we first obtained an understanding of the underlying contractual agreements and assessed their effects on the consolidated financial statements. As part of this process, we assessed, among other things, the accounting treatment for the first stage of the transaction as a disposal group. In addition, we assessed the completeness and accuracy of the disclosures required in accordance with IFRS 5. In that connection, we verified how the carrying amounts were determined for the disposed assets and liabilities including the partial suspension of depreciation, costs of disposal and the notional disposal gain were calculated, taking into account the agreed purchase price. To assess whether or not the requirements had been met for classifying the assets and liabilities associated with the second stage of the transaction as "assets held for sale" and "liabilities held for sale" during the course of the year, we evaluated in particular the relevant classification requirements set out in IFRS 5, discussed with the responsible persons of the Group involved in the transaction and obtained further evidence. We have been able to satisfy ourselves that the recognized disposal gain and the treatment of the first stage of the transaction in the Group's financial accounts as well as that the executive directors' view that the requirements had not been met for reporting the assets and liabilities relating to the second stage of the transaction separately in accordance with IFRS 5 are sufficiently documented and substantiated.

③ The Company's disclosures relating to the first stage of the transaction are contained in section 8 "Disposal group" of the notes to the consolidated financial statements.

Other Information

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

— the statement on corporate governance pursuant to § 289f HGB and § 315d HGB included in section "Management Declaration" of the group management report

— the separate non-financial report pursuant to § 289b Abs. 3 HGB and § 315b Abs. 3 HGB

The other information comprises further the remaining parts of the annual report – excluding cross-references to external information – with the exception of the audited consolidated financial statements, the audited group management report and our auditor's report.

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

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

— is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or

— otherwise appears to be materially misstated.

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

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

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

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

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

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

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

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

— Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

— Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.

— Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

— Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

— Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.

- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.

- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

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

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

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

OTHER LEGAL AND REGULATORY REQUIREMENTS

Assurance Report in Accordance with § 317 Abs. 3b HGB on the Electronic Reproduction of the Consolidated Financial Statements and the Group 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 consolidated financial statements and the group management report (hereinafter the "ESEF documents") contained in the attached electronic file [TelefonicaDE-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 consolidated financial statements and the group 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 consolidated financial statements and the group 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 consolidated financial statements and the accompanying group management report for the financial year from 1 January to 31 December 2020 contained in the "Report on the Audit of the Consolidated Financial Statements and on the Group Management Report" above.

Basis for the Reasonable Assurance Conclusion

We conducted our assurance engagement on the reproduction of the consolidated financial statements and the group 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 410) [if considered to be beneficial for the understanding of the separate report on ESEF compliance in an international context: and the International Standard on Assurance Engagements 3000 (Revised)]. Accordingly, our responsibilities are further described below in the "Group 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 consolidated financial statements and the group management report in accordance with § 328 Abs. 1 Satz 4 Nr. 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 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 consolidated financial statements and audited group 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.

Group 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 consolidated financial statements and to the audited group management report.

- Evaluate whether the tagging of the ESEF documents with Inline XBRL technology (iXBRL) enables an appropriate and complete machine-readable XBRL copy of the XHTML reproduction.

Further Information pursuant to Article 10 of the EU Audit Regulation

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

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

We have provided the following services in addition to the audit of the consolidated financial statements to the audited entity and its controlled undertakings, which have not been disclosed in the consolidated financial statements or the group management report: We have audited the annual financial statements of the Company and performed several financial statement audits of subsidiaries. We have 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)	(sgd. ppa. Gabor Krüpl)
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

SUPERVISORY BOARD REPORT FOR THE 2020 FINANCIAL YEAR

Dear Shareholders,

Peter Löscher

Chairman of the Supervisory Board of Telefónica Deutschland Holding AG

The fiscal year 2020 was economically a very successful year for Telefónica Deutschland despite all the challenges posed by the global pandemic and the associated economic challenges. Telefónica Deutschland gained significant momentum. Strategic partnerships were concluded in the fixed-network segment. This enabled the company to achieve the largest broadband coverage of households in Germany. At the same time, the mobile network was significantly strengthened and rolled-out. At the end of the financial year, this resulted in the first-ever „very good“ rating for the network from the professional magazine Connect. Customer loyalty, which has risen to an all-time high, underscores this achievement. The company once again gained several hundred thousand new net customers. At the same time, the churn rate reached historic lows. Telefónica Deutschland rolled out its 5G network in over 15 cities in time for the market launch of popular 5G end devices. By end of 2025, the entire country is to be covered by the new mobile technology.

The first virtual Annual General Meeting in the company's history as well as major strategic projects such as the spin-off and sale of significant parts of the business operations of the rooftop sites of approx. 10,080 mobile network locations for a nominal purchase price of EUR 1.5 billion as well as the co-founding of a joint venture (Unsere Grüne Glasfaser (UGG)) to roll-out fibre optic connections for households (FTTH) in Germany were successfully implemented or agreed by the company. Telefónica Deutschland also announced its intention to become climate-neutral by 2025. The “Deutschland Test” study rated Telefónica Deutschland as the most valuable telecommunications company in Germany in terms of responsibility/sustainability. The Management Board acted with exemplary responsibility towards its employees during the pandemic, as evidenced by over 90 percent approval ratings in internal surveys. Furthermore, the management has set the course for a more flexible, digital and results-oriented way of working.

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 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 2020 financial year, the Supervisory Board consisted of the following members: Laura Abasolo García de Baquedano (Chairperson), Christoph Braun (Deputy Chairperson) as well as the Supervisory Board members Sally Anne Ashford, Martin Butz, Pablo de Carvajal González, Patricia Cobián González, Peter Erskine, María García-Legaz Ponce, Cansever Heil, Christoph Heil, Michael Hoffmann, Julio Linares López, Thomas Pfeil, Joachim Rieger, Dr Jan-Erik Walter and Claudia Weber.

There were three personnel changes on the Supervisory Board during the reporting period:

On 3 February 2020, Laura Abasolo García de Baquedano resigned from her roles as Supervisory Board member and Chair of the Supervisory Board with effect from end of 31 March 2020. In the spirit of a seamless transition, Peter Löscher became a new member of the Supervisory Board by court appointment with effect from 1 April 2020. Following respective pre-dealing in a meeting, the Supervisory Board elected Peter Löscher as its new Chairman with effect from 2 April 2020.

In accordance with the recommendation of C.15 sentence 2 of the German Corporate Governance Code, Mr. Löscher was appointed by court. At the Annual General Meeting on 20 May 2020, Peter Löscher was elected, in accordance with the legal requirements, as a member of the Supervisory Board for the remaining term of office of the resigned Supervisory Board member Laura Abasolo García de Baquedano and thus until the end of the Annual General Meeting in 2022. The Supervisory Board subsequently confirmed Mr. Löscher once again in his office as Chairman of the Supervisory Board.

Supervisory Board members Sally Anne Ashford and Patricia Cobián González resigned as members of the Supervisory Board with effect from the end of the Supervisory Board meeting on 25 September 2020. As their respective successors, Stefanie Oeschger and Ernesto Gardelliano were appointed by the court with effect from 3 October and 5 October 2020 respectively, following respective pre-dealing by the Nomination Committee and the Supervisory Board. Stefanie Oeschger is – along with Peter Löscher and Michael Hoffmann – one of three independent members on the shareholder side of the Supervisory Board.

The members of the Supervisory Board as of 31 December 2020 were: Chairman Peter Löscher, Deputy Chairman Christoph Braun and Supervisory Board members Martin Butz, Pablo de Carvajal González, Peter Erskine, 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. Further information, including curricula vitae of the members of the Supervisory Board, can be found on the Company's website at www.telefonica.de/aufsichtsrat.

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 Executive Board, is the Chairman of the Audit Committee and an independent financial expert on the Supervisory Board. Ernesto Gardelliano brings further financial expertise with material expertise within the meaning of sec. 100 para. 5 German Stock Corporation Act (AktG) as successor to Patricia Cobián González.

Composition of the Management Board

In the financial year 2020, 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).

There were no changes in the composition of the Management Board during the reporting period.

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 with advice 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 Chairperson 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, as well as the progress of ongoing important projects, strategy, business policy, corporate planning, risks and opportunities and its management, as well as compliance and governance topics. Furthermore, there is a lively exchange between the Chairperson of the Supervisory Board and the CEO outside of regular meetings. The Chairperson 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 current light of developments and for each Management Board department and discussed in an informal setting. All members of the Supervisory Board and Management Board participated in the strategy workshop.

Meetings of the Supervisory Board

In 2020, five regular meetings of the Supervisory Board were held, namely on 17 February (meeting on the financial statements for the 2019 financial year; “Bilanzsitzung”), 27 April, 23 July, 26 October and 17 December 2020.

Furthermore, there were five internal meetings of the Supervisory Board in which internal Supervisory Board topics such as the effectivity survey and further training of the Supervisory Board, the composition and composition of its committees as well as Management Board remuneration topics were dealt with. The internal meetings were held on 17 February, 27 March, 23 July, 26 October and 17 December 2020.

In addition, there was an extraordinary Supervisory Board meeting on 25 September 2020.

There have been two Supervisory Board meetings so far in 2021. An extraordinary meeting of the Supervisory Board was held on the evening of 18 January 2021 in anticipation of an IR Capital Market Update on the following day.

The meeting on the financial statements for the 2020 financial year was held on 22 February 2021. In addition to financial topics, the meeting on the financial statements also dealt with corporate governance topics and preparations of the Annual General Meeting.

Material topics dealt with by the Supervisory Board

The first meeting of the Supervisory Board in the financial year 2020 was the meeting on the financial statements for the 2019 financial year, which took place on 17 February 2020. The focus of this meeting was the review and approval of the annual and consolidated financial statements and the combined management report for the 2019 financial year as well as the treatment of the dependency report and the non-financial statement and consideration of profitability. In addition to these topics, the Supervisory Board dealt in particular with the strategic priorities for 2020 in general and in particular in the areas of CTIO, business partner business and customer service / B2C as well as human resources. Furthermore, the agenda of the Annual General Meeting on 20 May 2020 and its proposed resolutions, including the distribution of the balance sheet profit and corporate governance topics were discussed.

In an internal meeting on the same day, the Supervisory Board dealt in particular with the court appointment of Peter Löscher as successor to Laura Abasolo García de Baquedano, new legal requirements (ARUG II) and Management Board remuneration issues.

In an extraordinary, internal Supervisory Board meeting on 27 March 2020, the Supervisory Board dealt in particular with the succession for the Supervisory Board chairmanship and committee appointments. At this meeting, the Supervisory Board also established a new resolution passing committee of the Supervisory Board, the Related Party Transactions Committee, in accordance with the provisions of the German Stock Corporation Act (SRD II). Furthermore, the Supervisory Board also dealt with the topic of a possible virtual Annual General Meeting due to the Covid-19 situation as well as the extraordinary agenda items (amendment of the Articles of Association including adjustment of Supervisory Board remuneration and election of Peter Löscher to the Supervisory Board).

The Supervisory Board meeting on 27 April 2020 dealt in particular with the Covid-19 situation in general and specifically the effects on the company as well as measures taken. Other items on the agenda included financial topics (in particular Q 1 results and the annual financial statements of the direct subsidiaries), an update on network topics and the German Corporate Governance Code 2020. The Supervisory Board furthermore dealt with audit and risk management, including the audit plan for 2020, regulatory topics, as well as the upcoming first virtual Annual General Meeting 2020.

Furthermore, the Supervisory Board dealt with updates on strategic projects, in particular the spin-off and sale of significant parts of the business operations of the rooftop locations, as well as wholesale projects. During the meeting, the Supervisory Board also discussed with the Management Board the public perception and the company's contribution to global megatrends such as digitalisation, climate change & sustainability, connectivity, urbanisation and demographic change.

The meeting on 23 July 2020 dealt, among other things, with the half-year financial figures, CTIO topics (in particular fulfilment of the roll-out obligations from the 4G frequency auction, roll-out and dealing with US trade sanctions in connection with Huawei), B2P and HR topics – here in particular new organisational principles and "ways of working" after Corona. During this meeting, an update was also given on a project concerning a new fibre-optic company.

In the internal meeting of the Supervisory Board on the same day, the Supervisory Board dealt in particular with corporate governance issues, including the preliminary adoption of the Declaration of Compliance 2020 and the upcoming annual effectivity survey of the Supervisory Board.

In an extraordinary meeting on 25 September 2020, the Supervisory Board dealt in particular with the succession for the two departing members Sally Anne Ashford and Patricia Cobián González in an initially Supervisory Board-internal part. Furthermore, the Supervisory Board passed a resolution on the 2020 Declaration of Compliance – after detailed pre-dealing by the Remuneration Committee on the new remuneration recommendations of the German Corporate Governance Code 2020. In the internal part of the meeting, the Supervisory Board dealt with further corporate governance topics such as independence and the responsibility of the Remuneration Committee for boards´ say on pay. In the part of the meeting held jointly with the Management Board, the Supervisory Board dealt, among other things, with a possible transport network contract for a new fibre-optic company and the broadband contract with Deutsche Telekom.

At the meeting on 26 October 2020, the Supervisory Board dealt in particular with the Q3 results and the long-term business plan pre-discussed at the strategy workshop on 21 October 2020, in addition to the usual market and CTIO updates. The Supervisory Board held a strategic discussion on the possible participation in the fibre optic project as a wholebuy customer and investor. Furthermore, there was an operational update on the B2P and B2B areas as well as information on the so-called "5 bold moves" on the way to the working world of tomorrow. The Corporate & Legal Affairs update dealt with legal and regulatory requirements such as the amendment to the Telecommunications Act, sustainability and responsible business plan.

An internal meeting of the Supervisory Board was also held on 26 October 2020, in which, among other things, the results of the efficiency survey of the Supervisory Board, the further training of the Supervisory Board and its working methods in the changing world of work as well as Management Board remuneration topics were discussed.

At the Supervisory Board meeting on 17 December 2020, the topics discussed included a review of the successful year 2020 for the company, the priorities for 2021, the agenda for the 2021 Annual General Meeting and financial topics. Furthermore, an update was given on the CTIO and business partner areas of the Management Board. The subsequent internal meeting of the Supervisory Board dealt with Management Board remuneration topics (including peer group) and a training plan for the Supervisory Board.

Where necessary, the Supervisory Board also passed resolutions outside of meetings, in particular by e-mail. For example, the final agenda for the 2020 Annual General Meeting and its implementation, taking into account the facilitations resulting from the Act on Measures in Company, Cooperative, Association, Foundation and Condominium Law to Combat the Effects of the COVID 19 Pandemic ("Gesetz über Maßnahmen im Gesellschafts-, Genossenschafts-, Vereins-, Stiftungs- und Woh-nungseigentumsrecht zur Bekämpfung der Auswirkungen der COVID-19-Pandemie") after respective pre-dealing in meetings held in person and in committees (where relevant). The election of Peter Löscher as Chairman of the Supervisory Board also took place by e-mail resolution, and the same applies to the appointment of Ernesto Gardelliano as a member of the Audit and Nomination Committee following court appointment.

Committees of the Supervisory Board

As of 31 December 2020, 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 and the Remuneration Committee meet regularly, the other committees meet when there is a reason.

The **Audit Committee** is inter alia responsible for preparing the resolution of the Supervisory Board regarding the approval of the financial statements, discusses the quarterly and half-year reports with the Management Board, monitors the accounting processes and auditing, compliance and the effectivity of internal control systems (including risk management and internal audit systems) and the auditor's review of the financial statements. It furthermore is responsible for the coordination with and selection of the auditor.

During the reporting year, the audit committee consisted of the following members:

- Michael Hoffmann (chairman; independent financial expert)
- Martin Butz
- Ernesto Gardelliano (financial expert; member since 10 October 2020;
  until 25 September 2020: Patricia Cobián González) and
- Thomas Pfeil.

In 2020, the Audit Committee met four times, on 17 February, 27 April, 23 July and 26 October 2020, to discuss, among other things, the financial results, audit, risk management and integrity services including compliance and cyber security, and the assessment of the audit work. Furthermore, the Supervisory Board's meeting on financial statements and corresponding recommendations to the full board were prepared.

Outside of meetings, the Chairman of the Audit Committee also maintained during the reporting year close contact with the auditors and internal (especially finance) departments as well as the Management Board 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 (member and chairman since 25 September 2020; independent;
  until 25 September 2020: Sally Anne Ashford)
- María García-Legaz Ponce (since 1 April 2020
  until 31 March 2020: Laura Abasolo García de Baquedano)
- 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. Since 25 September 2020, the Remuneration Committee is also responsible for preparing Supervisory Board remuneration topics, insofar as these fall within the remit of the Supervisory Board, particularly in the context of the new "say on pay" requirements. The Remuneration Committee makes recommendations to the full Supervisory Board in this regard.

The Remuneration Committee met three times in 2020, on 12 February, 7 September and 23 November 2020. Among other things, it dealt intensively with legal provisions regarding management remuneration in accordance with the German Stock Corporation Act in accordance with SRD II and dealt in detail with the remuneration-related recommendations of the German Corporate Governance Code 2020, including the publication of a peer group for future Management Board contracts - before respective resolution passing by the Supervisory Board.

In 2021, a meeting of the Remuneration Committee was held on 1 February 2021. The focus of the meeting was the preparation of the Management Board remuneration system, which will be presented to the Annual General Meeting 2021 in accordance with the legal requirements.

The members of the Remuneration Committee also participated in various preparatory meetings outside the meetings of the Remuneration Committee (including an informal Q&A session on the topic of Say on Pay). Furthermore, the Remuneration Committee also passed during the reporting period resolutions by e-mail outside of meetings.

The **Nomination Committee** proposes suitable candidates to the Supervisory Board for election proposals to the Annual General Meeting. As of 31 December 2020, the Nomination Committee consisted of the following members:

- Peter Löscher (member since 2 April 2020; chairman since 25 September 2020;
  independent;
  beforehand member until 31 March 2020: Laura Abasolo García de Baquedano;
  Chairperson until 25 September 2020: Patricia Cobián González)
- Ernesto Gardelliano (since 10. Oktober 2020;
  beforehand until 25 September 2020: Patricia Cobián González) and
- Pablo de Carvajal González.

In the reporting year, the Nomination Committee dealt with the succession topics of the Supervisory Board and proposed Peter Löscher, Stefanie Oeschger and Ernesto Gardelliano to the Supervisory Board as suitable candidates for succession to the Supervisory Board. For the succession proposal, the Nomination Committee has always considered the requirements of the German Stock Corporation Act (AktG) as well as of the German Corporate Governance Code including the competence profile, the composition criteria and the diversity concept as determined by the Supervisory Board. Based on these requirements and in anticipation of the Annual General Meeting on

20 May 2020, the Nomination Committee recommended Peter Löscher to the full Supervisory Board as a suitable candidate for the Supervisory Board's election proposal to the Annual General Meeting. The Nomination Committee dealt with this inter alia in a meeting of the Nomination Committee on 5 February 2020. Furthermore, considering the legal requirements and with support of external HR consultant expertise, the members of the Nomination Committee dealt extensively with the succession for Sally Anne Ashford and Patricia Cobián González. After respective pre-dealing, the nomination committee made its recommendations to the Supervisory Board.

On 27 March 2020, the Supervisory Board established a new resolution-passing committee, the **Related Party Transactions Committee**, in accordance with the requirements of sec. 107 para. 2 sentence 3 of the German Stock Corporation Act (AktG), so the majority of its members have in general no conflicts of interest with regard to the controlling shareholder. The Related Party Transactions Committee monitors and resolves on certain transactions with affiliated companies, in particular transactions with affiliated companies pursuant to sec. 111a, b German Stock Corporation Act (AktG), instead of the full Supervisory Board.

The Related Party Transactions Committee consists of the following five members:

— Peter Löscher (member and chairman since 25 September 2020;
beforehand member until 25 September 2020: Sally Anne Ashford)

— Christoph Braun

— Pablo de Carvajal González

— Michael Hoffmann (until 25 September 2020 chairman) and

— Thomas Pfeil.

The Related Party Transactions Committee met four times in 2020, on 4 May, 3 June, 25 September and 26 October 2020. The Related Party Transactions Committee dealt with governance and the internal control system in accordance with SRD II, with quarterly monitoring of transactions with related parties and with two transactions (spin-off and sale of significant parts of the business operations of the roof-top locations of approx. 10,080 mobile sites and the co-founding of a joint venture (Unsere Grüne Glasfaser (UGG)) to expand fibre-to-the-home (FTTH) connections in Germany).

As of 31 December 2020, the **Mediation Committee** with the responsibilities as defined in section 31 Co-Determination Act (MitbestG) consisted of the following members:

— Peter Löscher (chairman, since 2 April 2020;
Beforehand until 31 March 2020: Laura Abasolo García de Baquedano)

— Julio Linares López

— Christoph Braun and

— Christoph Heil.

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 2020 was as follows:

Member of the Supervisory Board	Number of Meetings*	Attendance	Non-Attendance	Attendance Quota
Peter Löscher (since 01.04.2020)	10	10	0	100%
Laura Abasolo García de Baquedano (until 31.03.2020)	5	5	0	100%
Christoph Braun	15	15	0	100%
Sally Anne Ashford (until 25.09.2020)	11	10	1	91%****
Martin Butz	14	14	0	100%
Pablo de Carvajal González	16	15	1	94%****
Patricia Cobián González (until 25.09.2020)	11	8	3	73%**
Peter Erskine	11	9	2	82%***
María García-Legaz Ponce	13	12	1	92%****
Ernesto Gardelliano (since 05.10.2020)	5	5	0	100%
Cansever Heil	11	11	0	100%
Christoph Heil	11	11	0	100%
Michael Hoffmann	20	20	0	100%
Julio Linares López	11	11	0	100%
Stefanie Oeschger (since 03.10.2020)	4	4	0	100%
Thomas Pfeil	19	19	0	100%
Joachim Rieger	11	11	0	100%
Dr. Jan-Erik Walter	14	12	2	86%***
Claudia Weber	14	14	0	100%
Total	**226**	**216**	**10**	**96%**

* 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 member was excused for personal reason on one day on which three meetings were held. The member participated in the passing of resolutions by submitting a written vote.

*** The member was excused for personal reason on one day on which two meetings were held. The member participated in the passing of resolutions by submitting a written vote.

**** The member was excused for personal reason on one meeting. The member participated in the passing of resolutions by submitting a written vote.

The overview on the individual meeting attendance is also available on the Company´s website at www.telefonica.de/investor-relations-en/company/supervisory-board/members-attendance-at-meetings.html.

Corporate Governance

Good corporate governance is essential for corporate success and is therefore in the interest of the company's shareholders. Further details on the corporate governance of Telefónica Deutschland Holding AG can be found in the Management Declaration pursuant to section 289f in connection with 315d German Commercial Code (HGB) in the Annual Report and on the company's website at www.telefonica.de/management-declaration-2020.

On 25 September 2020, the Management Board and the Supervisory Board approved a new Declaration of Compliance pursuant to section 161 German Stock Corporation Act (AktG). The Declaration of Compliance was published on the company's website at www.telefonica.de/declaration-of-compliance-2020. Previous versions of the Declaration of Compliance can be also found at the website.

Six of the 16 members of the Supervisory Board hold positions in the administrative, management and supervisory bodies of the majority shareholder or its affiliated companies. Both the Supervisory Board members and the Management Board members disclose potential conflicts of interest promptly to the Supervisory Board. In the reporting period, no conflicts of interest within the meaning of the German Corporate Governance Code arose.

As of 31 December 2020, the Supervisory Board comprised four female and twelve male members. Thus the Supervisory Board continues to fulfil the requirements of sec. 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, respectively three, female members on the shareholder representative side.

The minimum gender diversity quota for the Management Board is 25%. It was met throughout the whole financial year 2020 (two of seven members are female).

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. Any training and further development requirements of the Supervisory Board are regularly assessed during the course of its work. In the reporting year, general and legal training courses were held, in particular on corporate governance issues and new legal framework. Furthermore, relevant literature was made available when required and so-called noting papers were prepared on individual topics (e.g. new publication obligations).

Review of the Financial Statements 2020

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 2020 and provided each with an unqualified audit opinion. The annual financial statement of Telefónica Deutschland Holding AG and the combined management report for Telefónica Deutschland Holding AG and the Telefónica Deutschland Group were prepared in accordance with German commercial law. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as they are applied in the European Union (EU) and the additional requirements which have to be applied in accordance with section 315e para 1 German Commercial Code (HGB). The auditor carried out the audit in accordance with section 317 German Commercial Code (HGB) considering German principles of proper auditing set by the Institute of Public Auditors in Germany (IDW).

The financial statement documentation of Telefónica Deutschland Holding AG and the Group, the separate non-financial declaration for Telefónica Deutschland Holding AG for the financial year 2020 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 22 February 2021 ("Bilanzsitzung"). The Audit Committee and the full Supervisory Board thoroughly reviewed the Annual Financial Statement ("Jahresabschluss"), the Group financial statements, the combined Management Report for Telefónica Deutschland Holding AG and the Group, the separate combined non-financial declaration, the respective auditor´s reports and the Management Board proposal for the distribution of profit and discussed the documents in detail together with the auditor on 22 February 2021. The auditor also reported on scope, material aspects and results of his audit. There was no report on material weaknesses of the internal control system and the risk management system. Management Board explained in this meeting the risk management system besides the annual financial statement of Telefónica Deutschland Holding AG and the Group, the combined management report and the separate non- financial declaration. The Supervisory Board approved the auditor's findings in the audit reports and had no objections after its own assessment.

At its meeting on 22 February 2021, 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 2020 financial year; the financial statement of Telefónica Deutschland Holding AG is thereby adopted.

Relations to affiliated companies

The report on relations to affiliated companies (dependency report) as prepared by the Management Board pursuant to section 312 of the German Stock Corporation Act was also audited by the auditor. With respect thereto, the auditor issued the following unqualified opinion ("Uneingeschränkter Bestätigungsvermerk"):

"Based on our audit and assessment, which were carried out in accordance with professional standards, we confirm that

1. the factual statements made in the report are correct, and
2. the payments made by the company in connection with legal transactions detailed in the report were not unreasonably high."

The dependency report as prepared by the management board and audited by the auditor as well as the audit report on the dependency report were submitted to the Supervisory Board and discussed in detail in the meeting on 22 February 2021 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 thanks again former Supervisory Board Chairperson Laura Abasolo García de Baquedano who resigned with effect from 31 March 2020, for the good and trusting cooperation. She has done an outstanding job on the Supervisory Board of Telefónica Deutschland over the past years. The Supervisory Board would also like to thank the other Supervisory Board members who left in the 2020 financial year, Patricia Cobián González and Sally Anne Ashford, for the good collaboration.

The Supervisory Board thanks the whole Management Board for the excellent management in the challenging business year 2020 and for the always trustful collabotion. Furthermore, the Supervisory Board thanks also all employees of Telefónica Deutschland who showed an outstanding commitment in these special times and contributed materially to the success of the Company.

Munich, 22 February 2021

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)

1. Declaration of Compliance in accordance with Section 161 of the German Stock Corporation Act (AktG)

Pursuant to section 161 of the German Stock Corporation Act (AktG), the Management Board and the Supervisory Board of a listed stock corporation are required to declare annually that the Company has complied and is complying with the recommendations of the "Government Commission for the German Corporate Governance Code", as published in the official part of the Federal Gazette by the Federal Ministry of Justice, or, alternatively, are to declare which recommendations the Company has not followed or does not follow and why not. The declaration shall be published permanently on the Company's website.

On 25 September 2020, the Management Board and Supervisory Board of Telefónica Deutschland Holding AG ("Company") issued a declaration of compliance pursuant to section 161 paragraph 1 German Stock Corporation Act (AktG). The present declaration of compliance refers to German Corporate Governance Code as amended on 16 December 2019 ("GCGC") and published in the Bundesanzeiger (Federal Gazette) on 20 March 2020.

Management Board and Supervisory Board of the Company declare pursuant to sect. 161 para. 1 of the German Stock Corporation Act that since the issuance of the last compliance declaration the Company has complied, and will in the future comply, with the recommendations of the GCGC with the following exceptions:

1. As G.3 GCGC is new, the composition of the peer group has not been disclosed so far. It is intended to implement the recommendation in the future.

2. In G.7 the GCGC recommends that the Supervisory Board shall establish performance criteria for the forthcoming financial year for each Management Board member covering all variable remuneration components; besides operating targets, such performance criteria shall be geared mainly to strategic targets. This recommendation was and will be partially deviated from with regard to timing. As the end of the previous financial year is waited for first in order to be able to adjust performance criteria accordingly if necessary, the Supervisory Board will not establish said criteria before a given financial year but at the beginning of a given financial year only.

3. In G.8 the GCGC recommends that subsequent changes to the target values or comparison parameters shall be excluded. This recommendation was and will be deviated from, because the way in which contracts are drafted does not exclude subsequent changes to the targets or comparison parameters. In the view of the Supervisory Board and of the Management Board, this is necessary because the Company is operating in an extremely volatile and innovative market environment and because, in the interest of the Company's sustainable development, changes to the Company's strategy must also be possible during an assessment period for the variable remuneration components. Such changes to the company policy the necessity of which is in the best interest of the Company shall not be hindered or delayed by pecuniary interests of the Management Board members. For this reason, it is in particular the Supervisory Board that is of the opinion that flexibility in relation to the targets and comparison parameters is necessary.

4. In G.9 the GCGC recommends that target achievement shall be comprehensible in terms of both its rationale and amount. This recommendation was and will be deviated from. As regards comprehensibility, the Company will not make any statements that exceed the statutory obligations (in particular section 162 AktG), because in the case of strategically important targets, comprehensibility may be op-posed by confidentiality interests of the Company.

5. In G.10 the GCGC recommends that granted long-term variable remuneration components shall be accessible to Management Board members only after a period of four years. This recommendation was and will be deviated from. As the Company is operating in an extremely volatile and innovative market environment, enabling the Management Board members to avail themselves of the granted long-term variable remuneration components before expiry of a period of four years is appropriate.

6. In G.12 the GCGC recommends that, in the event of termination of a Management Board member's contract, the disbursement of any remaining variable remuneration components attributable to the period up until contract termination shall be based on the originally agreed targets and comparison parameters, and on the due dates or holding periods stipulated in the contract. This recommendation was and will be partially deviated from because in share-based programs of Telefónica, S.A. Management Board members are entitled to participate in due to their service agreement, this is provided for otherwise. In the view of the Management Board and of the Supervisory Board, a participation of the Management Board members in share-based programs of Telefónica, S.A. is strategically reasonable.

7. In G.17 the GCGC recommends that the remuneration shall take appropriate account of the larger time commitment related to chairing and being a member of committees. This is partly deviated from. All members and chairpersons of the committees with regular meetings (Audit Committee and Remuneration Committee) receive additional remuneration. In the view of the Company, a distinction compared to other committees that are active only occasionally is appropriate.

This Compliance Declaration and previous declarations of compliance are available on the Company's website, for 2020 at www.telefonica.de/declaration-of-compliance-2020.

2. Relevant disclosures of management practices

Telefónica Deutschland Holding AG and its administrative bodies are committed to efficient, sustainable and transparent corporate management as well as to values that form the basis of common business principles described in the Company's code of ethics called "Our Business Principles". This code includes various fundamental principles and guidelines aimed to direct both management and employees in their daily work. It provides valuable help, particularly with respect to business situations in which legal and/or ethical conflicts of interest arise so that decisions can be taken with integrity and professionalism, both in the design and implementation of work processes and in the manner in which the Company interacts with customers, shareholders, employees, suppliers and other stakeholders.

The Company's business principles are available on the Company's web site at www.telefonica.de/geschaeftsgrundsaetze.

Compliance with the business principles is of eminent significance since the Company's reputation is built on and affected by decisions and actions taken by its administrative bodies and employees. It is therefore carefully monitored by means of close cooperation between the functions Compliance, Human Resources, Internal Audit, Corporate Responsibility and Legal.

The Company's compliance program includes the main areas of anti-corruption with clear guidelines and procedures, competition law and the avoidance of ethically inappropriate behaviour. 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).

Risk Management and Internal Control System

For the Management and Supervisory Board of Telefónica Deutschland Holding AG, internal control and risk management are fundamental tools. The handling of risks arising in the course of business is of great importance for the Company´s success and for a professional management. The Management Board and the Supervisory Board, in particular the Audit Committee, receive regular reports on current risks, action plans and developments. The risk management process is designed to timely identify, evaluate and mitigate corporate risks through constant communication with the relevant stakeholders. As part of the risk management, the suitability and the efficacy of the internal control system (IKS) to ensure the reliability of financial reporting is evaluated by the Management Board of Telefónica Deutschland and monitored especially by the audit committee. The risk management system is reviewed by the external auditor and is continuously improved.

You may find further details in the Sections "Report on Risks and Opportunities" respectively "Accounting-Related Internal Control and Risk Management 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 suspected breaches of law e.g. via an external whistleblower system, the Ombudsman, in a protected manner.

The compliance program focuses on behaviours protecting fair competition, avoiding corruption and conflicts of interests as well as on ethically appropriate behaviour. These topics are covered by mandatory online trainings, as are the areas of data protection, anti-discrimination and information security. Each employee is required to complete certain mandatory training sessions in regular intervals based on his or her job responsibilities. Clear guidelines and policies were established for the most important compliance matters.

The existing Compliance Management System is continuously enhanced in order to adjust it to the changing legal and economic conditions of business operations. The Management Board and the Supervisory Board (especially the Audit Committee which is in charge of monitoring internal control systems and compliance) is informed regularly on compliance activities.

In this overall context, the Company has also a Capital Market Law department in the General Counsel area which ensures that the insider rules are complied with (including trainings and maintaining insider lists registering persons who act for the Company and have authorised access to inside information in accordance with the Market Abuse Regulation, MAR).

Management as well as Supervisory Board deal with the topic of compliance on a regular basis.

The Company's Data Protection Officer monitors compliance with data protection legislation. This is a top priority for the Company. The department "Compliance, Corporate Security & Data Protection" and Internal Audit as well as the department General Counsel reported directly to the Management Board in the financial year 2020.

3. Composition and Working Procedures of the Management Board, Supervisory Board and the Supervisory Board's Committees

In the business year 2020, 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).

In the business year 2020, there were no changes to the composition of Management Board.

After having first been appointed as a member of the Company's Management Board in October 2014, Markus Haas was reappointed and appointed as the new Chief Executive Officer (CEO) of Telefónica Deutschland Holding AG with effect from 1 January 2017 until the end of 31 December 2019. The appointment was extended with effect from 1 January 2020 until the end of 31 December 2022. The Management Board members Markus Rolle, Wolfgang Metze, Alfons Lösing, Valentina Daiber and Nicole Gerhardt were appointed with effect from 1 August 2017 until the end of 31 July 2020 and reappointed as Management Board members of the Company until the end of 31 July 2023. 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.

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 the previous year 2019 (e.g. in the Supervisory Board meetings in May 2019 and at a workshop on 16 July 2019), the Supervisory Board concentrated on requirements (skills and knowledge) to Management Board members with a view of a sustainable development in the best interest of the Company. In this context Supervisory Board also made use of external expertise, inter alia for benchmarks. Here they established the criteria (experience and skills) to be considered for each role. In the financial year 2020, the Supervisory Board considered new legal developments in this context (female gender quota in Management Boards). In course of a regular discussion, the Supervisory Board will revisit the topic of long-term succession planning in detail in 2021.

In accordance with its business principles, the Company has committed explicitly to diversity and equal opportunities in the Company. Supervisory Board and Management Board are convinced that diversity sustainably serves the Company´s best interest. The Diversity Concept for the Management Board consists of the following diversity criteria detailed pursuant to sect. 289f para. 2 no. 6 German Commercial Code (HGB).

Members of Management Board shall especially provide longstanding leadership from different areas relevant to the Company. At least one member shall have international work or educational experience and the Management Board as a body shall have longstanding experience in telecommunications, finance, sales and staff management.

The supervisory board determined in December 2017 in accordance with section 111 paragraph 5 German Stock Corporation Act (AktG) a gender diversity quota of at least 25% for the Management Board, to be met by 30 June 2022, which was fulfilled during the entire financial year 2020 (two of seven members are female).

Also considering the abovementioned minimum gender quota and taking into account the age limit of 62 years for members of the management board as determined in the Management Board service agreements, the Company aims at competencies, skills and experience complementing each other in the best interest of the Company for the boards.

Such targets 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 and in accordance with section 76 para. 4 of the German Stock Corporation Act (AktG), the management board has voluntarily set targets for the female quota of the management level below the Management Board, reporting level 1. The target of 30% to be met by 30 June 2022 shall be achieved via the Company´s diversity strategy. In the reporting period as of 31 December 2020 the share of female members of reporting level 1 could be increased to 27.7% (In the previous year: 22.4% as of 31 December 2019).

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, Company policy, investment and financial planning as well as all investments significantly exceeding the annual budget approved by the Supervisory Board have to be decided by the entire Management Board. Furthermore, every Management Board member 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. Resolutions of the Management Board may also be passed outside of meetings, in particular by e-mail.

The Management Board reports regularly to the Supervisory Board on the Company's course of business, inter alia by providing the Supervisory Board with written reports each month covering key performance indicators for the Company's business. Moreover, the Management Board must report to the Supervisory Board any transactions of possible material significance to the Company's profitability or liquidity. Finally, the Management Board must report to the Supervisory Board any important events or affairs subject to section 90 para. 1 sentence 3 of the German Stock Corporation Act (AktG). The Management Board performs these measures as required by law.

The **Supervisory Board** comprises sixteen members, eight shareholder and eight employee representatives.

In the beginning of the financial year 2020, the Supervisory Board comprised the following members: Laura Abasolo García de Baquedano (Chairperson), Christoph Braun (Deputy Chairperson) and the Supervisory Board members Sally Anne Ashford, Martin Butz, Pablo de Carvajal González, Patricia Cobián González, Peter Erskine, María García-Legaz Ponce, Cansever Heil, Christoph Heil, Michael Hoffmann, Julio Linares López, Thomas Pfeil, Joachim Rieger, Dr. Jan-Erik Walter and Claudia Weber.

There were three changes to members to Supervisory Board:

With effect as of 31 March 2020, Laura Abasolo García de Baquedano resigned from her offices in the Supervisory Board including the Supervisory Board chair. Peter Löscher was appointed as her successor by court resolution with effect as of 1 April and on 2 April 2020 he was elected as chairperson by the Supervisory Board. He was confirmed as a Supervisory Board member by the AGM on 20 May 2020 and hereafter by the Supervisory Board as its chair. With effect as of 25 September Sally Anne Ashford and Patricia Cobián González respectively resigned from their offices in the Supervisory Board. Stefanie Oeschger was appointed with effect as of 3 October 2020 and Ernesto Gardelliano with effect as of 5 October as their successors.

As of 31 December 2020, the Supervisory Board members were: Peter Löscher (Chairperson), Christoph Braun (Deputy Chairperson) Martin Butz, Pablo de Carvajal González, Peter Erskine, María García-Legaz Ponce, Ernesto Gardelliano, Cansever Heil, Christoph Heil, Michael Hoffmann, Julio Linares López, Thomas Pfeil, Stefanie Oeschger, Joachim Rieger, Dr. Jan-Erik Walter and Claudia Weber. Further information including Curriculum Vitae of the members of the Supervisory Board, are available at the website of the Company at www.telefonica.de/supervisory-board.

As of 31 December 2020, the Supervisory Board consisted of four female and twelve male members. Therewith Supervisory Board continued to fulfil the requirements of section 96 para 2 German Stock Corporation Act (AktG) as also determined by the Supervisory Board for itself (30% minimum gender diversity quota), such quota to be fulfilled separately by shareholder and employee representatives following a resolution by the shareholder representatives. This quota was fulfilled with two female members on the employee representative side and two respectively three female members on the shareholder representative side throughout the whole financial year.

The criteria of the diversity concept of the Supervisory Board consist of the competence profile and the composition targets 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 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

— It should not include any persons who hold an office (e.g. at a significant competitor) which may create a material and not only temporary conflict of interest.

— At least 30% of the members of the Supervisory Board should be female, at least 30 % male.

— At least one third of the Supervisory Board members to be elected by the General Meeting should have international working experience, knowledge of the English language as well as an understanding of global economic contexts ("internationality").

— The standard term of office of supervisory members should end with the Annual General Meeting following the supervisory board 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 fulfil other composition criteria.

Moreover, in the Supervisory Board´s (shareholder side) opinion, in accordance with the stipulations of C.7 and C.9 of the German Corporate Governance Code, a number of at least two members of the shareholders independent of the controlling shareholder and a number of at least five independent of Telefónica Deutschland and the Management Board is appropriate.

As of 31 December 2020, there were three members of the shareholder representatives in the Supervisory Board who were independent of the controlling shareholder as well as of Telefónica Deutschland and the Management Board: Peter Löscher, Michael Hoffmann and Stefanie Oeschger.

The other members of the shareholder side are also independent of Telefónica Deutschland and its Management Board, i.e. Pablo de Carvajal González, Peter Erskine, María García-Legaz Ponce, Ernesto Gardelliano and Julio Linares Lopéz.

One of the independent members shall act as the financial expert with the expertise required pursuant to section 100 para 5 of the German Stock Corporation Act. In accordance with the recommendation of C.10 of the German Corporate Governance Code Michael Hoffmann as a member independent of the controlling shareholder, the Company and the Management is chairperson of the audit committee as well as independent financial expert in the Supervisory Board. Ernesto Gardelliano also adds financial expertise pursuant to sect. 100 para 5 AktG succeeding Patricia Cobián González.

Supervisory Board is convinced that these concrete targets also reflect the shareholder structure appropriately. Supervisory Board currently considers these concrete targets and the competence profile to have been met. The abovementioned competence profile and the composition criteria 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 (concrete objectives) when recommending candidates to the Annual General Meeting and thus implement the diversity concept of the Supervisory Board.

The requirements defined by the diversity concept were met in the reporting period as evidenced by the Curricula Vitae of the Supervisory Board members detailing professional and personal backgrounds including current mandates, published under www.telefonica.de/supervisory-board. Furthermore, the respective office duration to each member is published there. The general age limit established for members of the Supervisory Board is 75 years.

The Supervisory Board advises and monitors the Management Board in the management of the Company on an ongoing basis and must be consulted in all matters outside the ordinary course of business which are of material importance to the Company. The Supervisory Board appoints and dismisses the members of the Management Board and determines the remuneration of the Management Board. The Supervisory Board Chairperson coordinates the activities of the Supervisory Board and cooperation with the Management Board. The principles governing the work of the Supervisory Board and its cooperation with the Management Board are essentially described in the by-laws for the Supervisory Board 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, 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 2020. 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 2020 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, wwww.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, discusses the quarterly and half-year reports with the Management Board, monitors the accounting processes and auditing, compliance and the effectiveness of internal control systems (including risk management and internal audit systems) and the auditor's review of the financial statements. It furthermore is responsible for the coordination with and selection of the auditor as well as the evaluation of the audit work. As of 31 December 2020, the audit committee consisted of the following members:

— Michael Hoffmann (Chairperson) (independent, financial expert)

— Martin Butz

— Ernesto Gardelliano (since 10 October 2020) (financial expert) and

— Thomas Pfeil.

Patricia Cobián González resigned from her office as member of the Audit Committee with effect as of the end of the supervisory board meeting on 25 September 2020.

The **Remuneration Committee** is mainly responsible for the preparation of all board compensation topics in context of board remuneration and gives recommendations to the Supervisory Board in this regard. As of 31 December 2020, the members of the Remuneration Committee were:

— Michael Hoffmann (Chairperson) (since 25 September 2020) (independent)

— María García-Legaz Ponce (since 1 April 2020)

— Dr. Jan-Erik Walter and

— Claudia Weber.

Sally Anne Ashford resigned from her office as member of the Remuneration Committee with effect as of the end of the supervisory board meeting on 25 September 2020, Laura Abasolo García de Baquedano had resigned from her office as member of the Remuneration Committee with effect as of 31 March 2020.

The **Nomination Committee** proposes suitable candidates to the Supervisory Board for election proposals to the Annual General Meeting.

As of 31 December 2020, the Nomination Committee consisted of the members:

— Peter Löscher (Chairperson) (since 2 April 2020)[16] (independent)

— Ernesto Gardelliano (since 10 October 2020) and

— Pablo de Carvajal González.

Patricia Cobián González resigned from her office as member of the Nomination Committee with effect as of the end of the supervisory board meeting on 25 September 2020, Laura Abasolo García de Baquedano had resigned from her office as member of the Nomination Committee with effect as of 31 March 2020.

As of 31 December 2020, the **Mediation Committee** with the responsibilities as defined in section 31 Co-Determination Act (MitbestG) consisted of the following members:

— Peter Löscher (Chairperson) (since 2 April 2020) (independent)

— Christoph Braun

— Christoph Heil and

— Julio Linares López.

Laura Abasolo García de Baquedano belonged to the Mediation Committee until 31 March 2020.

The **Related Party Transactions Committee** was implemented by the Supervisory Board in accordance with the stipulations of section 107 para. 2 s.3 AktG on 27 March 2020. There are no conflicts of interest with regard to the controlling shareholder for the majority of the members in general. 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 AktG. As of 31 December 2020, the Related Party Transactions Committee consisted of the following members:

— Peter Löscher (Chairperson) (since 25 September 2020)

— Christoph Braun

— Pablo de Carvajal González

— Michael Hoffmann and

— Thomas Pfeil.

Sally Anne Ashford resigned from her office as member of the Related Party Transaction Committee with effect as of the end of the supervisory board meeting on 25 September 2020. Michael Hoffmann resigned from his office as Chairperson of the Related Party Transactions Committee with effect as of the end of the supervisory board meeting on 25 September 2020.

Further details on composition and activities of the committees of the Supervisory Board are available in the Supervisory Board Report.

Relevant Shareholdings of Management and Supervisory Board

Some members of the Management Board and the Supervisory Board hold shares of Telefónica Deutschland Holding AG. No member of the board holds options on shares of Telefónica Deutschland Holding AG.

As per 31 December 2020, the Management Board held approximately 0.01% of the shares of Telefónica Deutschland

[16] With a short interruption from 21 May until 26 May 2020 after election by AGM until the confirmation as a chair by election by Supervisory Board

Holding AG. These shareholdings were obtained through the stock market and are published – if applicable – as managers´ transactions.

As per 31 December 2020, the Supervisory Board held approximately 0.0001 % of the shares of Telefónica Deutschland Holding AG. These shareholdings were obtained through the stock market and are published – if applicable – as managers´ transactions.

Relationship to Shareholders and the General Meeting

The shareholders are generally informed four times a year about the financial and earnings situation and business development. The Company provides for further information on its website www.telefonica.de/investor-relations, especially the financial calendar. Furthermore, analyst conferences, roadshows and meetings with analysts take place

Other information relevant for shareholders such as ad hoc notifications, information on managers´ transactions and corporate news as well as the Company´s Articles of Association is also available at this site.

The shareholders exercise their rights according to the law and the Articles of Association before and during the General Meeting, especially by exercising their voting rights (amongst others on profit distribution, discharge and the election of the auditor).

17 February 2021	17 February 2021
Management Board	Supervisory Board

GLOSSARY

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

ADA	Advanced Data Analytics
AktG	Aktiengesetz (German Stock Corporation Act)
ARPU	Average Revenue per User
Art.	Article
Augmented Reality	Computer-aided augmentation of reality
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
FMS	Fixed-Mobile Substitution: replacing fixed network services with mobile telephony services
FTE	Full-time equivalent
FTR	Fixed network termination rates
FttB	Fibre To The Building or Fibre To The Basement. In telecommunications FttB means that the fibre-optic cable is terminated in the user's house (basement).
FttH	Fibre to the Home. In telecommunications FttH means that the fibre-optic cable is terminated right in the user's home or apartment.
GB	Gigabyte
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), Düsseldorf
IFRS	International Financial Reporting Standards
ICS	Internal control system
IoT	Internet of Things
ISIN	International Securities Identification Number
IT	Information Technology
Joint Venture	A joint agreement under which the parties having joint control have rights to the net assets of the agreement
SME	Small- and Medium-sized Enterprises
KPI	Key Performance Indicator
KPN	Koninklijke KPN N.V., The Hague, Netherlands
LTE	Long-term evolution: further development of the UMTS/HSPA mobile communications standard
M2M	Machine-to-Machine communication: automatic exchange of information between machines
MBA	Mobile Bitstream Access
Mbit	Megabit
MHz	Megahertz
ms	Milliseconds
MSR	Mobile service revenue
MTR	Mobile network termination rates
MVNO	Mobile Virtual Network Operator: Virtual network operator
Net Adds	Net new customers: New customers for the period less those customers leaving are designated as net additional customers
NPS	Net Promoter Score
O2 (Europe) Limited	O2 (Europe) Limited, Slough, United Kingdom
O_2 My Handy	Monthly payment model for mobile phones and other devices
O_2 Free	The O_2 Free data plan allows customers to remain online with speeds of up to 1 Mbit/s even after they have used all of their high-speed data
OIBDA	Operating Income before Depreciation and Amortisation
OpCF	Operating Cash Flow
OTT	Over-the-top – IP-based and platform-independent services and application (WhatsApp, Facebook, etc.)
PIP	Performance and Investment Plan
Prepaid/Postpaid	In contrast to postpaid contracts, prepaid contracts purchase the credit balance in advance without a fixed contractual commitment
PSP	Performance Share Plan
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 functionalities
Smart watch	A mobile device which consists of an electronic watch with additional computer functions, attached to a brace-let.
SMS	Short Message Service
SoHo	Small office/Home office
SOX	Sarbanes-Oxley Act: US 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, also known as the "last mile"
UMTS	Universal Mobile Telecommunications Service: international mobile communications standard of the third generation which unites mobile multi-media and telematics service under the frequency spectrum of 2GHz.
VATM	Association of Telecommunications and Value-Added Service Providers, Berlin
VDSL	Very High Data Rate Digital Subscriber Line (see DSL)
Vectoring	Vectoring is a noise-cancelling technology that removes the electro-magnetic interference between lines, enabling higher bit rates.
Virtual reality	Computer-generated representation of a world (in real time)
vzbv	Federation of German Consumer Organisations, Berlin
Wearables	Wearable computers or wearables are miniature electronic devices that are worn under, with, or on top of clothing
Wholesale	Selling services to third parties who sell them to their own end customers either directly or after further processing

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The annual financial statements are available online at
www.telefonica.de

Concept and Design
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