Telefónica Deutschland

Telefónica Deutschland Holding AG

Reporting year 2023

Cover photo: Evening shot of the O_2 Telefónica headquarters next to the Olympic grounds in Munich.

Magazine

Investor Relations

Financial calendar and contact

2024

For financial details, please go to the [Financial Calendar]

Telefónica Deutschland Holding AG
Investor Relations

Phone
+49 89 2442 1010

E-mail
Institutional investors:
ir-deutschland@telefonica.com
Private shareholders:
shareholder-deutschland@telefonica.com

Website
www.telefonica.de/investor-relations

Foreword by the Management Board

Dear shareholders, ladies and gentlemen,

We can look back on an eventful 2023. The geopolitical situation deteriorated significantly once again in the past financial year. The economic conditions have become more challenging. Despite this environment, we at Telefónica Deutschland have continued to grow profitably. We achieved another record year in terms of operational and financial milestones. We are the growth leader in the German market in many areas. More than 1.3 million net postpaid mobile customers have chosen Telefónica Deutschland. Revenue grew by 4.7 per cent to 8.614 billion euros. Adjusted OIBDA rose by 3.1 per cent to 2.617 billion euros. We increased mobile service revenue (MSR), which is highly regarded in the telecommunications industry, by 2.7 per cent to 5.895 billion euros. Thus, we have further expanded our position as the undisputed number two company in the German market.

As a telecommunications provider, we do what we do best – especially in challenging situations: We connect people. Past crises have shown how important the role of telecommunications is in enabling families and friends to stay in touch. In 2023, for example, we supported the victims of war and natural disasters with free telecommunications services. This applied to Israel and the Palestinian territories, the devastating earthquakes in Turkey and Morocco and the floods in Libya. This humanitarian aid is part of the social responsibility to which we feel committed as a company.

Our vision: We enable digital inclusion

We democratise access to a sustainable digital future to create a better everyday life for all of us. This is our purpose and the core of what we do at Telefónica Deutschland. Telecommunications and digital services are now as much a part of people's basic services as electricity or heating. As Telefónica Deutschland, we can drive digitalisation for people, the economy and administration from a position of strength. Our operational and financial strength enables us to translate our vision of digitalisation into reality. We thus enable digital participation: Telefónica Deutschland's network and offerings have made access to digital services and products affordable for many people in Germany for the first time. Thanks to Telefónica Deutschland, many employees can do their jobs from home, travellers can better navigate their way around unfamiliar cities and grandparents can participate remotely as their grandchildren grow up.

In 2023, we celebrated the 25th birthday of our O_2 Telefónica network. That means a quarter of a century of passion for competition, innovation and customer satisfaction. Our network has become better and better over the past 25 years and today makes a decisive contribution to Germany's digital lifelines with very good quality. After 25 years, we connect more people in mobile communications than anyone else. Together with our customers, we will continue our success story in the coming years and further intensify digitalisation with our investments in network expansion.

The Management Board (from left above): Markus Rolle (Chief Financial Officer), Andreas Laukenmann (Chief Consumer Officer), Nicole Gerhardt (Chief Organisational Development & People Officer), Alfons Lösing (Chief Partner and Wholesale Officer); (from left below): Valentina Daiber (Chief Officer for Legal and Corporate Affairs), Markus Haas (Chief Executive Officer, Chairman of the Management Board Telefónica Deutschland Holding AG), Mallik Rao (Chief Technology and Information Officer)

Mobile network extensively expanded

With over 45 million accesses Telefónica Deutschland is the largest mobile communications provider in Germany. In the financial year 2023, we once again invested more than one billion euros in the expansion of our networks and services. We expanded our entire mobile network in 2023 to offer customers throughout Germany even better coverage and quality. We implemented a total of around 7,000 expansion measures in the reporting period and put more than 750 additional mobile network sites into operation. Telefónica Deutschland's network now operates from more than 28,000 locations throughout Germany. This means that we offer the best and fastest mobile communications coverage in Germany to date.

5G expanded in record time

One focus of the nationwide expansion of Telefónica Deutschland's network is 5G: Since the beginning of the year, we have added the modern 5G standard to more than 3,000 locations. We currently reach around 95 per cent of the population with 5G – doing so in a mere three years after the 5G network launch in October 2020. Telefónica Deutschland is thus making faster progress with 5G expansion than has been the case with any other mobile technology before. Within a short space of time, we have made the 5G standard accessible to many mobile phone users and created an important basis for them to actually use data-intensive applications such as artificial intelligence. We want to provide the entire population in Germany with 5G by the end of 2025 at the latest.

In the financial year 2023, we commercially launched "5G Plus" in our network. O_2 customers can now use "5G Standalone" for the first time alongside the previous "5G Non-Standalone". Here, the mobile signals are transmitted from the antenna to the core network via 5G. With 5G non-standalone, the antennas transmit with 5G, while data processing uses the 4G core network. O_2 customers have had access to both 5G variants since October 2023 – depending on which tariff and which end device they use. We made 5G ready for the mass market in 2023. We have opened the majority of our tariffs for 5G. The proportion of 5G-capable devices we sold was 99 per cent of all sales at the end of 2023. This is the beginning of a new technology era.

Connect honors O_2 network with "very good" for the fourth time

We grew in all key performance indicators in the financial year 2023. We have a stronger network than ever before, first-class brands, award-winning service and a very good price-performance ratio. As a result, we are shaping the market in Germany from a position of strength and are very well situated for the future.

The network test conducted by the trade magazine connect proves that the investments in network expansion are having an impact on customers' everyday lives. For the fourth time in a row, connect has awarded the O_2 network a "very good" rating.[1]

Our products and services meet people's needs. In the financial year 2023, we acquired more than 1.3 million new mobile

[1] Source: connect Mobilfunk- und 5G-Netztest, issue 01/2024: Overall rating "very good" (895 points) for O_2; overall, the following was awarded: twice "very good" (926 and 895 points) and once "outstanding" (967 points). 5G is available for suitable devices at a growing number of locations.

contract customers, more than any of our competitors. All of our business areas contributed to this growth, which was once again spearheaded by our core brand O_2. We continue to see strong customer loyalty here: Only 1.0 per cent of O_2 customers switched to another provider each month in the financial year 2023.

Our customers' level of satisfaction is bolstered by our further improved service. In 2023, connect's experts awarded the O_2 shops[2] and the O_2 fixed-line hotline a "very good" rating[3]. The "Mein O_2" app received an "outstanding" rating[4]. Our focus on higher-value contracts is paying off. The average revenue per customer of the O_2 brand increased by 2 per cent on an adjusted basis compared to the previous year.

In the fixed network, we gained around 90,000 net customers in 2023. This means that we are also growing faster than most of our competitors in the fixed network. This development was mainly driven by demand for cable and fibre optic lines.

Transatel decides to partner with Telefónica Deutschland

Our partner business developed very well in the financial year 2023. No other network operator in Germany has as many different and successful partnerships and wholesale cooperations as Telefónica Deutschland. They include secondary brands and partners such as ALDI TALK, Tchibo MOBIL, NettoKOM, AY YILDIZ and Ortel Mobile and service providers such as Freenet. The provider 1&1 procures national roaming services, which were expanded to include 5G in the financial year 2023.

In the reporting period, we gained an important new partner in the global mobile provider Transatel, which will be using our network in future. Together, we will expand the range of connectivity solutions on the German market, such as for the automotive industry. Among other things, Transatel will offer Internet-of-Things and machine-to-machine applications for industrial companies via our mobile network.

The offerings of our secondary and partner brands also received awards in the financial year 2023. ALDI TALK was the overall winner in the "Handelsblatt" business newspaper in the private user category, while O_2 Business won in the business customer category.[5]

Good growth achieved with business customers

The business customer segment delivered good growth in the financial year, driven by strong business with small and medium-sized enterprises. We were also successful in numerous public tenders in the public sector and acquired new customers, including Stadtreinigung Hamburg, Stromnetz Berlin and the IT service provider ekom21. The latter will network administrative sites in Hesse on a large scale via a wide area network, or SD-WAN. This will allow local authorities to flexibly organise their digitalisation.

The highest standards of data security are important for collaboration in the energy, finance, healthcare and public sectors. TÜV Nord certified that we fulfil these standards in the financial year 2023. This opens doors for further growth in the business customer and partner business in future.

Sustainability is an integral focus of our actions

Sustainability is an integral part of Telefónica Deutschland's corporate responsibility. In the spirit of responsible corporate governance, the company keeps an eye on the impact of its business activities on people and the environment. The aim is to ensure our sustainability goals along the entire value chain and at all levels of the company. We are pursuing the ambitious goals of our Responsible Business Plan 2025, which is the central steering instrument for sustainability management and the framework for the sustainability goals and activities of our specialist departments and company locations.

The goals of the Responsible Business Plan 2025 include achieving net-zero emissions by 2040 with the help of a green network and aligning the network and products even more closely with the principles of circular economy. By 2025 at the latest, the company's own direct emissions (Scope 1) and indirect emissions caused by electricity purchases (Scope 2) as well as emissions from travel activities (Scope 3) are to be neutralised. In 2023, total electricity consumption will be covered by 100 per cent green electricity. Electricity efficiency is to increase by at least 87 per cent by 2025, and the quality of green electricity is to be improved through agreements on electricity purchases and self-generated electricity.

Some of the plan's objectives are backed up by quantitative and qualitative targets that are relevant to bonuses. These include increasing customer satisfaction, strengthening the company's reputation, reducing CO_2 emissions and expanding the proportion of women in management positions.

As a company, we have made digital participation one of our guiding principles. For example, we offer basic digital training for our employees. This teaches basic knowledge and concepts of the most important technologies and trends in digital transformation in order to increase the "digital fluency", i.e., the "basic digital understanding" of the workforce. In this way, Telefónica Deutschland is enabling all of its employees to participate in the digital transformation, seize opportunities and realise their full potential.

At Telefónica Deutschland, we are convinced that diversity not only enriches society but also collaboration. The company is actively involved in the Telefónica Group's Global Diversity Council and promotes diversity in a variety of ways: People from 77 nations, young talents and members of older generations work at the Telefónica Deutschland Group.

World's best ESG rating achieved for telecommunication companies

Telefónica Deutschland is listed in numerous ratings and indices dedicated to the achievement of environmental, social and governance (ESG) targets. In important ratings such as Sustainalytics, Morgan Stanley Capital International (MSCI), ISS ESG and S&P Global, Telefónica Deutschland once again improved or remained stable in the reporting year, achieving good to very good ratings. At Sustainalytics, the company earned the best ESG risk score of all telecommunications companies in Germany and was awarded the "ESG Industry Top Rated" seal for the second time in a row. With a risk score of 10.6, Telefónica Deutschland Group ranks first out of 233 companies in the category worldwide.

Our strategy: "Accelerated Growth & Efficiency"

With our "Accelerated Growth & Efficiency" strategic plan, we laid the foundations in 2023 to generate profitable growth combined with a strong cash flow by 2026. The plan also takes into account planned compensation for the expected decline in cash flow from the ending cooperation with the provider 1&1. In August 2023, 1&1 announced that the company would change its network operator based on an exclusive national 5G roaming agreement with an expected term of five years by 1 October 2024 at the

[2] Source: connect Mobilfunk-Shoptest, issue 11/2023: Overall rating "very good" (444 points) for O_2; overall, the following was awarded: once "outstanding" (49 points), three times "very good" (164, 86 and 107 points) and once "good" (38 points).
[3] Source: connect Festnetz-Hotlinetest DACH 2023: Overall rating "very good" (886 points) for O_2; overall, the following was awarded: four times "very good" (912, 901, 889 and 886 points)
[4] Source: connect Service-App Test, issue 10/2023: Overall rating "outstanding" (954 points) for O_2; overall, the following was awarded: once "outstanding" (300 points) and twice "very good" (188 and 466 points).
[5] Source: Handelsblatt, issue 2. October 2023, SWI Finance Study commissioned by Handelsblatt: Overall rating "very good" (88,6 points) for ALDI TALK; overall, the following was awarded for the total result private customers: four times "very good", sixteen times "good"; Overall grade "very good" (89,0 points) for O_2 Business; overall, the following was awarded for the total result business customers: twice "very good", four times "good".

latest – from Telefónica Deutschland to a competitor. Due to the development of our own mobile network, we as a company had already anticipated a gradual reduction in our partner's revenue. We now assume that the announced change will accelerate this development.

The "Accelerated Growth & Efficiency" strategic plan contains specific measures to compensate for the effects of our partner's reorganisation. Among other things, it provides for the development of new business, the expansion of existing activities, a quality promise with a very good network on a par with competitors, state-of-the-art IT infrastructure and efficiency gains. Our company's ambition to continue to grow profitably remains unchanged.

Conservative financial policy provides flexibility

Telefónica Deutschland pursues a conservative financial policy and relies on a strong balance sheet with low debt and a comfortable liquidity position. Our low level of debt, especially compared to our competitors, gives us sufficient financial flexibility for investments even in times of rapidly changing conditions. In autumn 2023, Fitch Ratings confirmed the "BBB" investment grade rating for our company with a stable outlook. Based on the business and financial development of Telefónica Deutschland in the financial year 2023, the Management Board intends to propose a dividend of 18 euro cents per share for the financial year 2023 to the Annual General Meeting.

Offer to acquire shares in Telefónica Deutschland made

In November 2023, Telefónica S.A. announced an offer to acquire shares in Telefónica Deutschland via its subsidiary Telefónica Local Services GmbH. The offer document was published in December 2023. The offer document and further publications are available on the internet at www.td-offer.com. The Management Board and the Supervisory Board of Telefónica Deutschland have independently reviewed the offer document and have submitted their recommendation to the shareholders. Among other things, the review included the relationship to the stock exchange price prior to the announcement of the offer, the medium to long-term value potential of the company, the bidder's intentions as set out in the offer and the potential impact of the offer on the company's other stakeholders, including employees, customers and business partners.

The Management Board and the Supervisory Board, each having conducted their own independent review, were of the opinion that the offer consideration of EUR 2.35 in cash per Telefónica Deutschland share was within the range of what was financially reasonable for the shareholders of Telefónica Deutschland and recommended that the shareholders of Telefónica Deutschland accept the acquisition offer. The acceptance period ended on 17 January 2024. 7.86% of the shares in Telefónica Deutschland were tendered during the acceptance period. Telefónica S.A. directly and indirectly holds around 94.12% of Telefónica Deutschland after the acquisition offer in accordance with the voting rights notification of 31 January 2024.

We have set ourselves ambitious targets for the financial year 2024, which we will do our utmost to achieve in the interests of all our stakeholders. We would like to thank our customers, employees, business partners and you, our shareholders, for the trust you have placed in us.

Yours sincerely,
The Management Board

Highlights of the financial year 2023

G 01 - MOBILE ACCESSES (POSTPAID/PREPAID) (IN MILLION)

G 02 - REVENUES (IN EUR MILLION)

G 03 - OIBDA (IN EUR MILLION)

Adjusted for exeptional effects

G 04 - OIBDA-MARGIN (IN %)

Adjusted for exeptional effects

Telefónica Deutschland continued its robust growth path in the financial year 2023 in a dynamic and still rational environment. The company achieved sustained good operational and financial performance and further expanded its market share in mobile service revenues with a clear "value-over-volume" focus. The sustained business momentum is based on the high attractiveness of the O_2 brand supported by successfully launched new tariff portfolios in all market segments, normalised churn rates and improved network and service quality. In the connect network test[1], the O_2 mobile network once again attained impressive results, achieving a "very good" rating with an improved score for the fourth time in a row. The renowned connect magazine[2] continued to rate the O_2 shops and the O_2 landline hotline as "very good", while the "Mein O_2" App even received an "outstanding" rating.

These successes are reflected in both the operational and financial performance of Telefónica Deutschland.

At the same time, Telefónica Deutschland continuously advanced its ESG strategy as part of its "Responsible Business Plan 2025". By 2025 at the latest, Telefónica Deutschland strives to conduct all of its own business operations (Scope 1 and 2) in a net CO_2 neutral manner and along the entire value chain (Scope 3) by 2040. Moreover, social responsibility and digital inclusion are an indispensable part of the corporate identity as well.

Operating performance

In total, Telefónica Deutschland recorded +1,350 thousand postpaid net additions (+1,228 thousand in 2022) and +164 thousand M2M net additions (+83 thousand in 2022) in the financial year 2023 on the back of the positive development of the retail business in combination with robust partner business. In contrast, the development in prepaid (–748 thousand), was characterised by an ongoing "prepaid-to-postpaid" migration trend.

As a result, the number of mobile customer accesses amounted to 45.1 million at the end of 2023, an increase of +1.7% year-on-year. Postpaid (excluding M2M) was once again the growth driver, with accesses increasing to 27.7 million (+5.1% year-on-year), corresponding to 61.4% of the total mobile access base (+2.0 percentage points year-on-year). As expected, postpaid churn in the financial year 2023 almost returned to the low level prior to the introduction of the EECC Directive in the German Telecommunications Act on 1 December 2021. The implied annualised churn rate for the O_2 brand was 11.6% (13.1% in 2022, 11.1% in 2021), primarily reflecting sustainable quality and service improvements as well as our focus on customer retention.

O_2 postpaid ARPU continued its growth path in the financial year 2023 with +1.4% year-on-year. The good demand for high value tariffs in combination with the successful launch of the new "O_2 Mobile" portfolio more than offset the effect of the further reduction in mobile termination rates (MTR).

Financial performance

Telefónica Deutschland's sustained focus on profitable growth also resulted in a good financial performance.

Revenues grew by +4.7% year-on-year to EUR 8,614 million in the financial year 2023, exceeding the financial outlook upgraded with the interim report for the first half of 2023. This reflects the strong increase in handset sales (+13.3% year-on-year to EUR 1,872 million) as well as the sustained growth in mobile service revenues[3] (+2.7% year-on-year to EUR 5,895 million), which is largely due to ongoing commercial traction of the O_2 brand and a solid contribution from partner business. Overall, this more than offset the expected negative impacts from the reduction in mobile termination rates.

At EUR 827 million, fixed revenues were (+2.7%) above the previous year's level.

OIBDA[4] adjusted for exceptional effects increased by +3.1% year-on-year to EUR 2,617 million in the reporting year and was thus slightly above the financial outlook upgraded after the first half of 2023. The adjusted OIBDA margin amounted to 30.4%, a decrease of –0.5 percentage points year-on-year. This mainly reflects the strong growth in largely margin-neutral handset revenues. However, the margin quality of mobile service revenues increased, and Telefónica Deutschland successfully countered anticipated inflationary cost increases.

Investments

Capital expenditure (CapEx)[5] decreased by –6.3% to EUR 1,133 million in the financial year 2023 (previous year: EUR 1,209 million) with a CapEx/Sales ratio of 13.2% (previous year: 14.7%). The investment focus was on network densification and further roll-out of the 5G network[6] within the expected normalised investment envelope. Telefónica Deutschland achieved around 95% of 5G population coverage by the end of 2023 and is well on track to achieve nationwide 5G population coverage by the end of 2025 at the latest.

[1] Source: connect Mobilfunk- und 5G-Netztest, issue 01/2024: Overall rating: "very good" (895 points) for O_2; overall, the following was awarded twice "very good" (926 and 895 points) and once "outstanding" (967 points).
[2] Source: connect Mobilfunkshop Test DACH 2023, connect Festnetz-Hotlinetest DACH 2023, connect Service-App-Test DACH 2023
[3] 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.
[4] In financial year 2023 exceptional effects amounted to EUR –16m (EUR –11m of restructuring costs and EUR –5m expenses related to non-operating transactions).
[5] CapEx includes additions to property, plant and equipment and other intangible assets, while investments for spectrum licenses and additions from capitalised right-of-use assets are not included.
[6] The selected population-based evaluation includes not only the household-based coverage calculation with a fixed location reference as reported to the German Federal Network Agency. It also includes commuter flows within the population, with the result that some of the population are counted both in their residences and in their workplaces (maximum population). In doing this, Telefónica Deutschland Group takes into account that the services are not only in demand at home but also when travelling. This value is the value for the end of 2023, which indicates the availability of mobile telecommunications services outside of buildings (outdoors).

Our share

The Telefónica Deutschland Investor Relations department connects the company with the capital market. Our capital market communication aims to inform the public regularly and transparently about the strategy and the operational and financial development of the company.

Economic situation and capital market environment

The global economy was in a weak phase last year. In particular, high inflation rates and the subsequent restrictive monetary policy of the central banks led to a deterioration in economic conditions. In addition, geopolitical crises clouded the economic picture.

Thus, the International Monetary Fund calculated a global growth rate for 2023 below the historical average. Economic momentum in emerging and developing markets in particular failed to return to the pre-COVID-19 growth path. Among industrialised economies, however, the USA stood out with robust economic figures, so that the probability of a soft economic landing without a recession has recently increased. In contrast, economic data for the Eurozone was disappointing. Within the Eurozone, Germany ranked at the bottom and recorded a decline in economic output. This was due in particular to weakening demand from trading partners, including China.

According to calculations by the Federal Statistical Office, Germany's economic output in 2023 was –0.1% below the previous year, adjusted for price and calendar effects. The main reason for the weak growth was the manufacturing industry, which plays a more important role in Germany than in other countries. The number of unemployed in Germany increased only slightly from around 2.5 million in December 2022 to around 2.6 million at the end of 2023, which corresponds to an unemployment rate of 5.7%.

Despite geopolitical conflicts, the crisis at regional banks in the USA, temporarily high inflation rates and restrictive monetary policy coupled with economic pessimism, many companies were able to beat their forecasted earnings. Furthermore, technology stocks benefited from the field of artificial intelligence. Later in the year, falling inflation rates led to an interest rate peak being defined, fuelling hopes of interest rate cuts by central banks in 2024. Against this backdrop, many stock markets recorded significant gains last year.

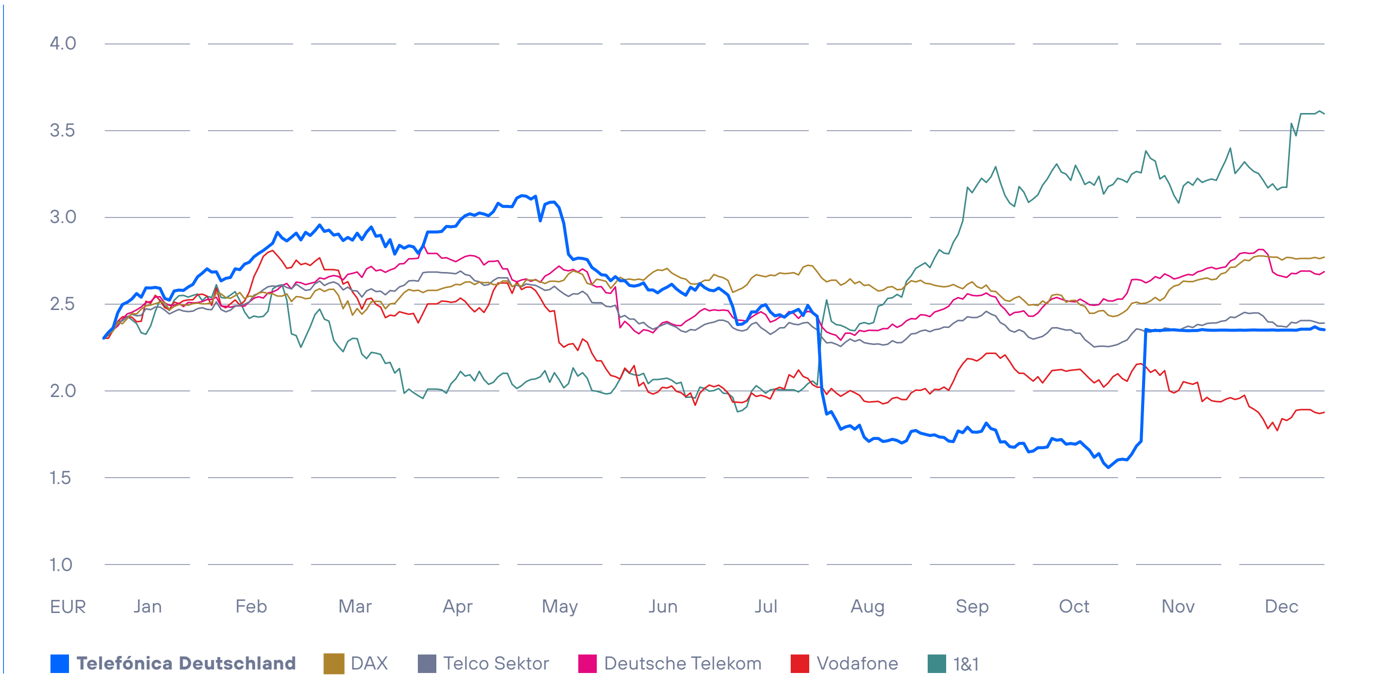
The leading German index DAX started 2023 slightly better than the STOXX Europe 600. Until late summer, the DAX continued its positive performance compared to the STOXX Europe 600. However, the STOXX Europe 600 proved to be more stable than the DAX during the subsequent general phase of weakness, during which the two indices recorded their respective lows for the year. In the year-end rally that began at the end of October, the DAX again outperformed the STOXX Europe 600 and closed the year up +20.3%, while the STOXX Europe 600 ended the year up +12.7%. The indices reached their highs for the year in mid and end of December of last year.

Until mid-April of last year, the European telecommunications sector outperformed the two leading indices DAX and STOXX Europe 600. In the following months, however, the STOXX Europe 600 Telecommunications fell significantly. The upward trend that began after the end of October was weaker in the European telecommunications sector than in the DAX and the STOXX Europe 600. Accordingly, the STOXX Europe 600 Telecommunications closed with a slight gain of +3.8%, underperforming the STOXX Europe 600 and the DAX.

The Telefónica Deutschland share was on a continuous upward trend in the first four months of the past year and reached its high for the year of EUR 3.15 during the course of the day on 4 May 2023. Following the company's Annual General Meeting in mid-May 2023 and the subsequent dividend discount of EUR 0.18 per share, the Telefónica Deutschland share was dragged down by the negative market sentiment in the telecommunications sector, which was also fuelled by the public security debate regarding the use of Chinese vendors. This downward trend was not halted even when the outlook for the financial year 2023 was narrowed to the upper-range – on the back of a half-year 2023 performance and continued momentum – at the end of July. Following 1&1's announcement on 2 August 2023 that it would cooperate with another competitor for national roaming in future, the Telefónica Deutschland share price fell by more than 30% and recorded its low for the year of EUR 1.55 during the course of the day on 26 October 2023. During the subsequent slight price recovery, Telefónica, S.A. announced its intention to make a voluntary public acquisition offer to the shareholders of Telefónica Deutschland Holding AG. As a result, the Telefónica Deutschland share jumped to a price level equal to the offer price of EUR 2.35, where it remained until the end of the year. The year-end price of EUR 2.35 corresponds to a plus of +2.1%. Taking into account the dividend of EUR 0.18 per share distributed in May 2023, the annual return on the Telefónica Deutschland share was +9.9%.

On 7 November 2023, Telefónica, S.A. announced its intention to make a voluntary public acquisition offer to the shareholders of Telefónica Deutschland Holding AG. The corresponding offer document was published on 5 December 2023. The Management Board and the Supervisory Board of Telefónica Deutschland Holding AG assessed the offer price of EUR 2.35 per share as fair from a financial point of view after their own and independent review. The offer price corresponded to a premium of 37.6% on the closing price of the share on 6 November 2023, the day before the public offer announcement. Both bodies recommended to the shareholders of Telefónica Deutschland Holding AG to accept the acquisition offer. During the acceptance period from 5 December 2023 to 17 January 2024, 7.86% of the outstanding Telefónica Deutschland shares were tendered. As of 31 January 2024, Telefónica, S.A. held 94.12% of the Telefónica Deutschland shares.

G 05 - SHARE PRICE PERFORMANCE 2023 (1 JANUARY TO 31 DECEMBER, REBASED)



Shareholder remuneration at Telefónica Deutschland

With a sustained good operational and financial performance, Telefónica Deutschland continued its robust growth path in the financial year 2023. Following the rapid expansion of high-performance 5G infrastructure in the previous year, the investment focus in 2023 was on network densification and network capacity expansions within the expected normalised investment envelope.

With the distribution of a dividend of EUR 0.18 per share for the financial year 2022, Telefónica Deutschland reaffirmed its strong commitment to attractive shareholder remuneration while keeping the company's financial flexibility as a top priority. The focus is on a strong balance sheet with low debt. The leverage ratio (net financial debt / OIBDA) of 1.2x remains well below the company's self-defined upper limit of 2.5x. This leaves the company comfortable leverage headroom with regards to the BBB investment grade rating with a stable outlook by Fitch Ratings.

Activities of the Telefónica Deutschland Investor Relations department

The work of the Telefónica Deutschland Investor Relations department is focused on timely and transparent communication. Active and regular dialogue with shareholders, analysts, potential investors and other national and international capital market participants is at the centre of our daily work. Our aim is to provide transparent and understandable information about the company's business model, strategy and operational and financial development. This approach was consistently continued in 2023. Since the COVID-19 pandemic, the form in which meetings are held has changed. Some of the face-to-face meetings have been replaced by virtual conferences, roadshows and meetings. In the financial year 2023, the Management Board and the Investor Relations team again held approximately 300 investor meetings (2022: around 300).

Telefónica Deutschland holds a conference call on the occasion of the publication of its financial year and quarterly results, providing investors and analysts with the opportunity to address their questions directly to the Management Board. Recordings of these conferences are subsequently available on the company's website for one year.

Further information on the company and the Telefónica Deutschland share are available via the contact details provided on page 17.

T 01 - TELEFÓNICA DEUTSCHLAND BONDS

Issue date	Currency	Volume	Tenor	Coupon	Instrument rating	Listing
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

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Published by
Telefónica Deutschland Holding AG
Georg-Brauchle-Ring 50
80992 München
Phone: +49 89 2442 0
www.telefonica.de

Investor Relations
Telefónica Deutschland Holding AG
Georg-Brauchle-Ring 50
80992 München
Phone: +49 89 2442 1010
E-mail for private investors: shareholder-deutschland@telefonica.com
E-mail for institutional investors: ir-deutschland@telefonica.com
Website: www.telefonica.de/investor-relations

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Telefónica Deutschland

Annual Report

Telefónica Deutschland Holding AG
Reporting year 2023

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The figures in the following have been rounded in accordance with established commercial practice. Therefore, recalculations may slightly differ from the totals shown in the tables. We also advise that absolute amounts smaller than EUR 500,000 are stated either as “0” or “(0)”, depending on whether a plus or minus sign appears before it. A nil notification using “-” is indicated for items that do not have a value.

Combined Management Report

for Financial Year 2023

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Telefónica Deutschland Group at a Glance

T 01 – FINANCIAL OVERVIEW

1 January to 31 December

(in EUR million)	**2023**	**2022**	**% change**
Revenues	**8,614**	**8,224**	**4.7**
Mobile service revenues	5,895	5,742	2.7
Operating income before depreciation and amortisation (OIBDA), adjusted for exceptional effects[1]	**2,617**	**2,539**	**3.1**
OIBDA margin, adjusted for exceptional effects[1]	*30.4%*	*30.9%*	*(0.5%-p.)*
Operating income before depreciation and amortisation (OIBDA)	**2,601**	**2,523**	**3.1**
OIBDA margin	*30.2%*	*30.7%*	*(0.5%-p.)*
CapEx	**(1,133)**	**(1,209)**	**(6.3)**
Investment ratio (CapEx/Sales ratio) in %	**13.2**	**14.7**	**(10.5)**
Free cash flow (FCF)	**1,304**	**1,093**	**19.3**
Mobile accesses (in thousands)[2]	45,072	44,307	1.7
Net adds in mobile prepaid business excl. M2M (in thousands)[2]	(748)	(2,698)	72.3
Net adds in mobile postpaid business excl. M2M (in thousands)	1,350	1,228	9.9
Total mobile ARPU (in EUR)[2]	**10.8**	**10.1**	**6.5**

As of 31 December	**2023**	**2022**	**% change**
Net leverage ratio	**1.2x**	**1.3x**	**(4.1)**
Net financial debt	3,177	3,212	(1.1)

[1] Exceptional effects in financial year 2023 included restructuring expenses of EUR 11 million (previous year: EUR 16 million) and expenses in connection with other non-operational transactions amounting to EUR 5 million.
[2] Due to a revenue-neutral technical adjustment of the prepaid customer base, owing to the introduction of a stricter definition for active SIM cards, the number of mobile accesses as of 31 December 2022 declined by 2,535 thousand accesses.

Basic Information on the Group

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

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

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

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

Business Activity

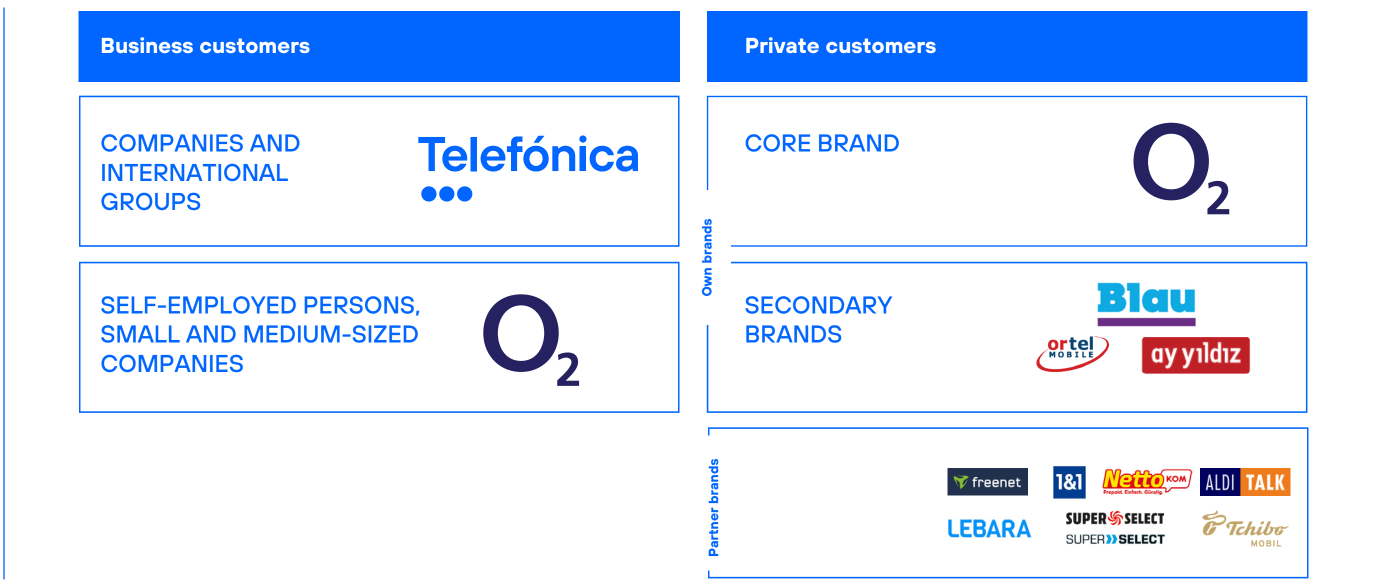
Telefónica Deutschland Group is one of the three leading integrated network operators in Germany. We offer mobile and fixed-network services for private and business customers as well as innovative digital products and services. In addition, our numerous wholesale partners purchase extensive mobile communications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

Our brands

A key success factor of our marketing and sales approach is our multi-brand strategy. We offer private and business customers a wide range of high-quality mobile and fixed-network products with our core brand O_2. We address large international businesses with Telefónica brand products and services.

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

G 01 – OUR BRANDS[1]



[1] Example illustrations of secondary and partner brands

With our secondary and partner brands and through our wholesale channels, we reach further customer groups, for example ethnic groups in Germany. In addition, by means of joint operations and strategic partnerships, we offer further mobile services brands. These include, for example, Tchibo MOBIL or ALDI TALK, in cooperation with MEDIONmobile. Our multi-brand approach enables us to address the full range of customer needs with tailored product offerings, sales and marketing.

Mobile services

With a total of 45.1 million mobile accesses as of 31 December 2023, Telefónica Deutschland Group is a leading provider in this market. In 2023, at EUR 5,895 million, mobile services were the most important revenue stream for Telefónica Deutschland Group (68.4% 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.

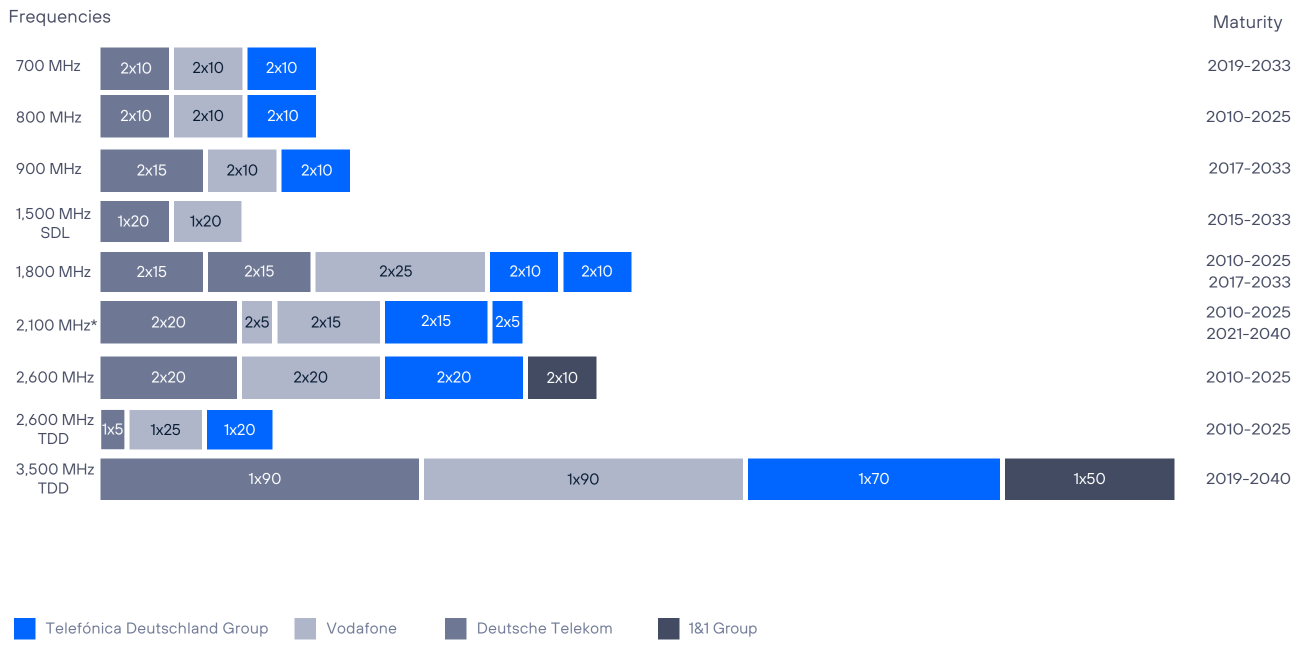
The basis for this is our mobile communications network. In 2023 we made great progress in the further expansion and further rollout of our 5G network, which is already available for around 95% of the German population.[2] Since 10 October 2023, O_2 customers have been able to experience "5G Plus" (i.e. 5G stand-alone) in the O_2 network. With "5G Plus" Telefónica Deutschland Group provides its customers with the possibility to access the most modern mobile communications standard, thus benefiting in latency, speed and sustainability.[3]

Our investments in the network are also reflected in the results of the current mobile network and 5G test by the trade magazine connect.[4] The O_2 network was once again rated "very good" because of the strength of its stable data connections, very good call quality and improved network coverage with 5G.

Telefónica Deutschland Group will continue to drive forward the rollout of 5G in 2024, with the aim of reaching nationwide coverage of 5G by the end of 2025 at the latest.

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

G 02 – FREQUENCY BANDS FOR MOBILE NETWORK OPERATORS IN GERMANY 2021 – 2025[5] [6]



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

[2] The selected population-based evaluation includes not only the household-based coverage calculation with a fixed location reference as reported to the German Federal Network Agency. It also includes commuter flows within the population, with the result that some of the population are counted both in their residences and in their workplaces (maximum population). In doing this, Telefónica Deutschland Group takes into account that the services are not only in demand at home but also when travelling. This value is the value for the end of 2023, which indicates the availability of mobile telecommunications services outside of buildings (outdoors).

[3] Source: Telefónica Deutschland Holding AG press release: "O_2 Telefónica activates the newest network technologies for the digitalisation of Germany" (2 October 2023)

[4] Source: connect mobile network and 5G network test, issue 01/2024: Overall rating "very good" (895 points) for O_2; overall, "very good" was awarded twice (926 and 895 points) and "outstanding" was awarded once (967 points)

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

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

Fixed business

We offer nationwide fixed-network services to complement our mobile services. Our fixed-network customer base amounted to around 2.4 million at the end of 2023.

We focus on partnerships in fixed business. Our strategic partnership with Telekom Deutschland GmbH ("Telekom") grants us access to around 36 million[7] households in Germany with future-proof, next-generation high-speed internet access. Since November 2022, we have also been marketing fibre-to-the-home (FTTH) lines to our customers in addition to Telekom's existing VDSL and vectoring wholesale products.[8] We also benefit from all future improvements to the Telekom in the fixed-network segment.

The access agreements with Vodafone and Tele Columbus also enable us to offer our customers a broader range of fixed-network services throughout Germany. As part of the cooperation with Vodafone, we are able to supply up to 24 million[9] cable households in Germany with fixed-network products, largely with download speeds of up to 1 Gbps.[10] In addition, our cooperation with Tele Columbus has made it possible for us to serve another 2.4 million households.[11]

We also connect more households with advanced FTTH connectivity through a partnership with Unsere Grüne Glasfaser (UGG), which was established in 2020 as an independent wholesale company by Telefónica, S.A. Group/ Telefónica Deutschland Group and Allianz Group, with Telefónica Deutschland Group holding a 10% stake. UGG installs fibre-optic connections in previously underserved rural areas. In total, up to 2.2 million households will be connected with FTTH, augmenting Telefónica Deutschland Group's fixed-network coverage (>Management Report OPPORTUNITIES).[12]

This is complemented by the coverage O_2 provides through cooperations with regional providers, such as in Hamburg and Schleswig-Holstein with Wilhelm.tel. Via the network operator-independent platform vitroconnect, through which we already had, for example, access to the VDSL network of EWE TEL GmbH in Lower Saxony, we are able to serve, since January 2022, around 250 thousand further households that are connected to the Westenergie Breitband VDSL network in Rhineland-Palatinate, North Rhine-Westphalia and Lower Saxony.[13]

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

Hardware business

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

Our most important mobile phone suppliers are Apple and Samsung. We now almost exclusively offer 5G-capable smartphones. We also cover the demand for more mobile data services from our secondary brand customers with a wide range of smartphones.

Digital services

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

Our market areas

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

Private customers

We address the needs of our private customers in the digital world with data-centric mobile and fixed-network contracts. Our core brand in the mobile communications sector is consistently based on our "can do" attitude which is at the heart of our current campaign.[14] In the fixed network, we market products via a technology mix of VDSL, cable, fibre-optic and 4G or 5G mobile. The O_2 Home offering applies equally to DSL, cable, fibre-optic and FMS, and as such is technology-agnostic. Customers who use more than one O_2 fixed network or a mobile contract at the same time also benefit from monthly service and price advantages.

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

[7] Source: Deutsche Telekom AG press release: "Broadband expansion: 316,000 households now have faster internet access with Telekom" (26 October 2023)
[8] Source: Telefónica Deutschland Holding AG press release: "O_2 set to begin marketing fixed-network products to 10 million additional FTTH households" (16 November 2022)
[9] Source: Telefónica Deutschland Holding AG press release: "O_2 launches nationwide rollout of cable connections" (26 January 2021)
[10] Source: Telefónica Deutschland Holding AG press release: "Gigabit speed for over 22 million cable households" (26 April 2022)
[11] The number of households that can be reached as part of the cooperations should not be considered cumulatively due to overlaps.
[12] Source: Telefónica Deutschland Holding AG press release: "O_2 relies on strong fibre-optic network coverage in Germany for its customers" (2 March 2021)
[13] Source: Telefónica Deutschland Holding AG press release: "O_2 markets fast fixed-network products via the network of Westenergie Breitband" (10 January 2022)
[14] Source: Telefónica Deutschland Holding AG press release: "O_2 and Serviceplan Bubble focus on the appeal of 'can do'" (7 September 2022)

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

Our largest partners from the reseller and service provider area include MEDIONmobile (ALDI TALK), 1&1 and freenet.

Telefónica Deutschland Group and 1&1 Group converted the Mobile Bitstream Access contract (MBA MVNO contract) 2021 into a National Roaming Agreement (NRA). The NRA has a term at least until mid-2025. 1&1 Group announced the conclusion of an additional NRA with another German network operator. However, until the end of the NRA with Telefónica Deutschland Group, 1&1 Group has continuing contractual obligations to Telefónica Deutschland Group. This will secure a revenue stream for us until the agreement ends and we can use the network capacity released for our own customers as well as for customers in the partner business.[15]

As part of the 2021 partnership concluded with the international mobile provider Lebara, a switch to the wholesale products of Telefónica Deutschland Group took place in financial year 2022. The partnership with Lebara as an independent virtual network operator that offers mobile voice and data services, consolidated our positioning as one of the leading network operators and wholesale providers in the German market.

Business customers
Telefónica Deutschland Group also offers mobile and fixed-network products to business customers. Our focus is on addressing small and medium-sized enterprises (SME) as well as small offices/home offices (SoHo) via our core brand O_2 with a product portfolio that is tailored towards customer needs. For example, with the O_2 Business Smart Network, the Group offers a digital networking solution based on SD-WAN (Software Defined Wide Area Network) technology for SMEs.[16]

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

Management System

The Management Board runs the business of Telefónica Deutschland Group and reports to the Supervisory Board. The Supervisory Board monitors and advises the Management Board, including within the scope of the 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 General Meeting.

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

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

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

- Process for strategic goal setting
- Integrated budgeting and planning system
- Financial and non-financial performance indicators
- Monthly reporting to the Management Board and Supervisory Board
- Ongoing opportunity and risk management
- Target-oriented leadership at all levels of the organisation
- Compliance with legal and regulatory requirements.

Strategic objectives are reviewed and redefined annually

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

[15] Sources: Telefónica Deutschland Holding AG press release: "Telefónica Deutschland establishes long-term partnership with 1&1 Drillisch" (15 February 2021); Telefónica Deutschland Holding AG press release: "Telefónica Deutschland Confirms Outlook for Financial Year 2023 and Dividend Commitment" (2 August 2023)
[16] Source: Telefónica Deutschland Holding AG press release: "The digital networking solution for medium-sized businesses" (27 July 2021)

corporate strategy and investment decisions. The corporate strategy is then translated into concrete strategies for the different organisational units. At this level, the opportunities relevant to the respective organisational unit are prioritised in the operational implementation of the strategy.

Management system of Telefónica Deutschland Group

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

The following monitoring parameters were of particular significance for our Company's value-oriented management and evaluation in financial year 2023.

G 03 – PERFORMANCE INDICATORS 2023

Most important and control-relevant key performance indicators	Revenues	OIBDA adjusted for exceptional effects	Investment ratio (CapEx/Sales ratio)
Other key performance indicators	Free cash flow	Net leverage ratio	

Revenues
The development of revenues is a key indicator of the success of our Company. Revenues depict the total value of our operational activity and are therefore a key indicator of the success of our products' and services' sales on the market. We reserve the right to consider the performance indicator adjusted for regulatory effects for better comparability with the previous year if these have a material influence on the development of the performance indicator in the reporting year.

OIBDA adjusted for exceptional effects
OIBDA corresponds to operating income before depreciation and amortisation of intangible assets, property, plant and equipment and rights-of-use assets. On the basis of the OIBDA, we measure the profitability of our operating activities. This analysis provides a comprehensive view of our expense and revenue structure. As exceptional effects make comparability with previous years difficult, we use the OIBDA adjusted for exceptional effects for a transparent presentation. These exceptional effects have a direct impact on the result of operations and follow from a changed composition of the Group, from sales of businesses, acquisition-related consultancy fees, restructuring expenses or other non-operational transactions.

We reserve the right to consider the performance indicator adjusted for the regulatory effects of the reporting year, insofar as these have a material influence on the development of the performance indicator. The effects on earnings are adjusted if the comparability of the performance indicator with prior-year periods is not appropriate due to a transaction carried out during the year. However, as other companies may use a different basis of calculation for OIBDA, it is possible that our representation is not comparable with other companies.

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

Free cash flow (FCF)
The free cash flow (FCF) performance indicator is defined as the sum of the cash flows from operating activities and investing activities. The change in working capital affects free cash flow in the respective reporting period. Working capital management thus contributes to free cash flow management in the relevant reporting period.

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

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

The net leverage ratio compares the net financial debt level with an operational success parameter (OIBDA adjusted for exceptional effects) and provides management with information about the Company's debt reduction ability. The maximum leverage ratio defined within the framework of our financing policy and applicable since 1 January 2019 is 2.5x.

G 04 – PERFORMANCE INDICATORS FROM FINANCIAL YEAR 2024

Most important and control-relevant key performance indicators	Revenues	EBITDA adjusted for exceptional effects	Investment ratio (CapEx/Sales ratio)
Other key performance indicators	Free cash flow after lease	Operating cash flow after lease	Net leverage ratio

Revenues
Revenues remains one of our three most important and control-relevant performance indicators.

EBITDA adjusted for exceptional effects (previously OIBDA adjusted for exceptional effects)
EBITDA (until financial year 2023: OIBDA) is the operational key figure that describes the profitability of our operating activities and thus continues to represent one of our most important and control-relevant performance indicators. For the sake of better comparability we have adjusted our reporting to the general market standard and renamed "OIBDA" to "EBITDA". By definition this is the operating income minus depreciation and amortisation. As exceptional effects make comparability with previous years difficult, we use the EBITDA adjusted for exceptional effects for a transparent presentation. These exceptional effects have a direct impact on the result of operations and follow from a changed composition of the Group, from sales of businesses, acquisition-related consultancy fees, restructuring expenses or other non-operational transactions.

We reserve the right to consider the performance indicator adjusted for the regulatory effects of the reporting year, insofar as these have a material influence on the development of the performance indicator. The effects on earnings are adjusted if the comparability of the performance indicator with prior-year periods is not appropriate due to a transaction carried out during the year. However, as other companies may use a different basis of calculation for EBITDA, it is possible that our representation is not comparable with other companies.

Investment ratio (CapEx/Sales ratio)
The investment ratio (CapEx/Sales ratio) remains one of our most important and control-relevant performance indicators.

Free cash flow after lease (FCF aL)
Lease payments that are essentially incurred from the connections for our antenna sites and leased lines have increasingly gained significance over the last years. Therefore, we consider it appropriate to expand the above-described performance indicator free cash flow (FCF) to include these lease payments, thus presented as free cash flow aL (FCF aL). This increases the informative value regarding Telefónica Deutschland Group's available financial funds, for example to make investments in growth, to pay dividends or to service debt.

Operating cash flow after lease (OpCF aL)
In addition to the lease payments described above as part of the FCF aL, the depreciation and amortisation and interest expenses associated with the leases have also increased in importance and thus play an increasing role for the informative value of our performance indicators. Therefore, we have introduced operating cash flow after lease (OpCF aL) as an additional significant key figure. OpCF aL provides information about earnings generated from the operating activities taking into account the effect on earnings of the leases and the capital expenditures made. Thus it allows for conclusions about the profitability and stability of our core business and our ability to repay debt. OpCF aL is defined as EBITDA aL minus CapEx.

Net leverage ratio
The net leverage ratio remains one of our other important performance indicators.

Budgeting and planning system defines specific targets

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

Economic Report of the Group

Overall Economic and Industry Conditions

The German economy continues to stagnate[17]

The consequences of global crises, such as the energy crisis, and geopolitical tensions continued to weigh on the German economy. According to preliminary calculations by the Federal Statistical Office (Destatis), price-adjusted gross domestic product (GDP) fell by 0.3% in 2023. Industry suffered from weak foreign demand and as a consequence of the previous energy shocks. Increased financing costs continue to dampen private investment and thus also domestic demand for industrial goods and especially for construction services. Furthermore, private consumption remained sluggish. Despite strong wage increases, declining inflation rates and stable employment, consumers still held back from additional spending. On the other hand, the service sector was quite robust in this difficult environment. Most service sectors were once again able to expand their economic activities compared to the previous year and supported the economy in 2023. However, the overall increase was weaker than in the previous two years.

The labour market is proving to be robust and economic weakness is currently not reflected in the unemployment figures. According to the Council of Economic Experts, this is due to the countervailing effects of the weakening economy and the increasing labour shortage that are significantly amplified by the demographic shift. Accordingly, the labour market is losing momentum but has not recorded a larger reduction in employment. Overall the economic performance was generated by an average of approximately 45.9 million employed persons working in Germany in 2023, according to statements of the Federal Statistical Office. This constitutes 0.7% or 333,000 more workers than in the previous year and the highest number ever recorded in Germany. According to reports by the Federal Employment Agency, the unemployment rate nevertheless rose by 0.4 percentage points to an annual average of 5.7% compared to the previous year.

Inflation in Germany, measured by the national Consumer Price Index (CPI) clearly decreased in the course of 2023 from 8.7% in January 2023 to 3.7% in December 2023. On average, consumer prices in Germany increased by 5.9% in 2023 compared to 2022. As in the previous year, inflation in 2023 was influenced by the effects of the war and crisis situation, which shaped price developments on all economic levels. Food prices rose particularly sharply by an average of 12.4% in 2023, while energy products rose in price by 5.3% in 2023 compared to the previous year, following a huge increase of 29.7% in 2022. The annual inflation rate excluding energy and food, often referred to as core inflation, was +5.1% in 2023.

The sentiment among companies has become gloomier. The ifo Institute reports that the sentiment among companies measured in the ifo Business Climate Index fell to 86.4 points in December 2023, from 87.2 points (seasonally adjusted) in November. The slightly positive trend from October (86.9 points) to November was therefore not sustained. Companies were less satisfied with current business. They were also more sceptical about the coming months. Consumer sentiment in Germany, as measured by the GfK consumer climate index, brightened somewhat at the end of the year: both income expectations and the propensity to buy increased noticeably. The economic outlook also improved slightly.

[17] Sources: Council of Economic Experts: "Annual expert reports 2023/24: Germany Must Invest In The Future In Order To Overcome Its Weak Growth" (8 November 2023); Deutsche Bundesbank: Monthly report 2023 "The Economic Situation in Germany in the Autumn of 2023" (20 November 2023); Federal Ministry for Economic Affairs and Climate Action (BMWK): Press release "Economic Situation in Germany in November 2023" (14 November 2023); Federal Statistical Office (Destatis): Press release № 451 "Gross Domestic Product: Detailed Results on Economic Performance in the 3rd Quarter 2023" (24 November 2023), Press release № 466 "Inflation Rate in November at 3.2%" (8 December 2023), Press release № 019 "Gross domestic product down 0.3% in 2023" (15 January 2024) and press release № 020 "Inflation rate at +5.9% in 2023" (16 January 2024); Federal Employment Agency: Press release № 52 "Annual Review 2023" (30 November 2023) and press release № 2 "Annual Review 2023" (3 January 2024); ifo Institute: Press releases Business Climate Germany: "ifo Business Climate Index Rises" (24 November 2023) and "ifo Business Climate Index Falls" (18 December 2023); GfK Consumer Confidence (powered by NIM): Press releases "Consumer Confidence: Downward trend stopped for now" (28 November 2023) and "Consumer Climate: Light at the end of the tunnel?" (20 December 2023)

Technology trends bring growth potential for the telecommunications market[18]

The telecommunications industry, with its broadband transmission networks and ultra-fast internet access, plays a key role as an enabler of digitalisation. With a gigabit coverage rate of 75%, a fibre-optic coverage rate of 35% and more than 92% 5G outdoor network coverage, the telecommunications industry is driving the digital catch-up race in Germany with the expansion of 5G and fibre optics, as the VATM's Market Analysis 2023 shows. 5G technology is a high-performance, mobile-communications-based alternative to wired networks and offers a wide range of application possibilities in both the private and business sectors. It is regarded as a key technology for the digitalisation of industry because it promotes efficiency, transparency, automation and flexibility in logistics, according to the Digital Association Bitkom. The growing range of 5G-capable smartphones and attractive tariffs is also driving the adoption of the new mobile communications standard. Fibre-optic connections are becoming increasingly important for fixed broadband connections. According to VATM there are now 16.2 million available fibre-optic connections in Germany.

The fact that people are increasingly using the internet on the move is reflected in the increased data usage in both mobile and fixed networks: according to VATM data, the average monthly data consumption per mobile phone customer increased from 5.4 GB in 2022 to 6.6 GB in 2023. This corresponds to an increase of 22%. The average volume of data per fixed broadband connection per month is 321 GB, which is an increase of 16% compared to 2022.

The use of smartphones as end devices is steadily increasing. The reason for this, according to a study by Deloitte, is due not least to the extraordinarily wide range of applications of the smartphone. For example, 60% of smartphones in the country are now used to measure, store and analyse fitness, vital signs and health data, such as steps taken per day or the tracking of one's training status. In interaction with smart watches it has long been possible to measure heart rate or oxygen saturation with a high degree of accuracy. Smartphones have also long been established as a cash substitute for payments on-site. Across all age groups, every second person has already used such payment services, with 26% of smartphone users even using them always or very often. In the youngest age segment, from 18 to 24, the percentage of users of smartphone- or smart watch-based payment providers is, however, four times higher than in the 65+ generation.

The Internet of Things (IoT) and the smart networking of objects play an important role not only in the transformation of companies and infrastructures: They have now become part of consumers' everyday lives. In addition to the use of smartwatches and fitness trackers, smart home technologies are becoming increasingly popular. According to a study by the digital association Bitkom, more than 30 million people now use smart home applications. Home and garden as well as security are the most important applications. 37% of Germans use smart lighting systems and 31% already use smart heating thermostats. Smart blinds and awnings are used by 23%, and 16% use intelligent consumption metres for electricity, gas or water. Smart assistants for home and garden are also popular: 23% use vacuum cleaner robots and 18% use lawn mower robots.

The television market in Germany is also in a state of upheaval. The consumption of films, series and video clips via the internet has become an integral part of everyday media use and is also an essential driver of data usage. According to a video trend study by the media agencies, around 74% of TV households in Germany have access to a TV set connected to the internet (connected TV). Approximately 5 million persons live in so-called "Connected TV Only" households, i.e. they no longer receive their TV programmes on a TV via "traditional" reception, but exclusively via the internet. The use of video content on the internet continues to rise: 57.7 million persons from 14 years old in Germany regularly view online videos. That is three percentage points more than in the previous year. The growth is mainly attributed to older age groups. Use of video content from the internet is not only growing across all age groups but the frequency is also increasing. More than half now consume OTT content (almost) daily. Nearly two-thirds of persons from 14 years of age in Germany regularly use video sharing services such as YouTube (63%) or Twitch (10%). Six out of ten persons regularly watch videos from streaming services such as Netflix, Amazon Prime Video or Disney+.

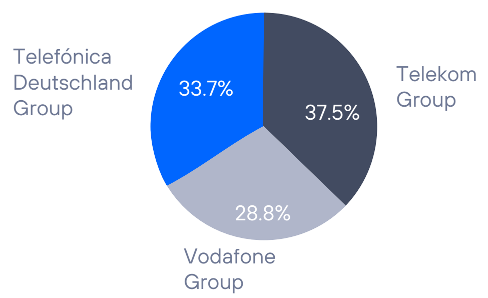
[18] Sources: VATM: "25th Telekom Market Study Germany 2023" (29 November 2023); Deloitte Study: "Smartphone User Trends 2023" (23 November 2023) and "Digital Consumer Trends Survey 2023: Results for the German market" (23 October 2023); The media organisations: Study "Video Trends 2023" (25 October 2023); Digital association Bitkom: Press release: "More than 30 million Germans Use Smart-Home Applications: (31 August 2023), press release "Three Quarters of Germans See AI as an Opportunity" (7 November 2023), press release "One Year of ChatGPT: One In Three Have Already Tried The AI Chatbot" (16 November 2023); Federal Statistical Office: Press release № 453 "Approximately One in Eight Companies Uses Artificial Intelligence" (27 November 2023); Smartweb: Press article "Mobile Communications Market 2023" (29 August 2023)

Telefónica Deutschland Group continues to gain service revenue market share in the German mobile network operator market[19]

The German mobile communications market currently consists essentially of three network operators and several service providers and mobile virtual network operators (MVNOs). At the 5G spectrum auction, which ended in June 2019, the provider 1&1 acquired frequencies and took the first steps to establishing itself as the fourth mobile network operator and building its own mobile network. There is a long-term partnership between Telefónica Deutschland Group and 1&1 Group, under which the MBA MVNO agreement was converted into a National Roaming Agreement (NRA) in May 2021. This National Roaming Agreement was extended to 5G mobile services in 2023. At the same time as the start of 1&1 Group's own mobile communications network on 8 December 2023, the national roaming services were also put into operation. The NRA has a term until at least mid-2025. 1&1 Group announced the conclusion of an additional NRA with another German network operator. However, until the end of the NRA with Telefónica Deutschland Group, 1&1 Group has continuing contractual obligations to Telefónica Deutschland Group. Despite the difficult macroeconomic market environment, the mobile communications market continued to perform well in terms of both SIM cards and revenue.

According to VATM data, the number of SIM cards on the market at the end of 2023, including M2M or IoT cards, was 181.9 million (end of 2022: 169.0 million). The strong SIM card growth is due to M2M and IoT cards: According to VATM, at the end of 2023, around 70.3 million SIM cards were in use for M2M and IoT applications, compared to 58.3 million at the end of 2022. These M2M or IoT cards accounted for approximately 39% of all SIM cards on the market by the end of 2023. Mobile service revenue in the German mobile communications market grew by 1.7% year on year in the nine-month period from January to September 2023. Telefónica Deutschland Group increased its market share in mobile network operator service revenue in the nine months from January to September from 32.9% in 2022 to 33.7% in 2023, making it the number two player in the German market.

G 05 – MARKET SHARE IN THE MOBILE COMMUNICATIONS MARKET BASED ON NETWORK OPERATOR SERVICE REVENUE (IN %) Q1 TO Q3 2023



Growth in German fixed broadband market continues[20]

The number of fixed broadband connections grew only slightly in 2023. VATM estimates that the number of accesses at the end of 2023 increased by around 0.5% year on year to approx. 37.0 million. DSL continues to be the dominant technology, with a share of approx. 66% of fixed broadband connections. With 8.5 million active broadband connections at the end of 2023, cable now accounts for a share of around 23% of the total market. “Real” fibre-optic connections (FTTH/FTTB) continue to gain importance: According to VATM 2023, they have increased by more than 24% compared to the previous year and now account for almost 11% of active broadband connections. Telefónica Deutschland Group relies on cooperations in its fixed business. Our strategic partnership with Telekom Deutschland GmbH (“Telekom”) grants Telefónica Deutschland Group access to around 36 million households in Germany with future-proof, next-generation high-speed internet access. Since November 2022, Telefónica Deutschland Group has also offered the fibre-to-the-home (FTTH) of Telekom. Telefónica Deutschland Group provides its customers with internet via broadband cable through its cooperations with the Vodafone Group and Tele Columbus. Through this partnership, Telefónica Deutschland Group reaches more than 26 million households with fixed networks via cable connections.[21] Telefónica Deutschland Group connects additional households with advanced FTTH connectivity through a partnership with Unsere Grüne Glasfaser (UGG), which was established in 2020 as an independent wholesale company by Telefónica, S.A. Group/Telefónica Deutschland Group and Allianz Group, with Telefónica Deutschland Group holding 10% of shares. Overall, the trend towards higher-speed connections continues in Germany. According to VATM estimates, around 62% of customers with a broadband connection should have already been using maximum reception data rates of more than 50 Mbps by the end of 2023, compared to around 59% at the end of 2022.

[19] Sources: VATM: “25th “Telekom Market Study 2023” (29 November 2023); Company data and own calculations: Deutsche Telekom AG Investor Relations: Publication of the Q3 2022 results “Back Up” (10 November 2022) and publication of Q3 2023 results “Back Up” (9 November 2023); Vodafone Group Investor Relations: July-September 2023/1 HY 23/24 Results “Excel Spreadsheet and Analyst Presentation” (14 November 2023); 1&1 AG: Press release “1&1 AG: 1&1 sets course for nationwide 5G” (2 August 2023) and press release “1&1 O-RAN: Start of Mobile Service in Europe's Most Modern 5G Network” (8 December 2023); Telefónica Deutschland: Press release “National Roaming: “Telefónica Deutschland Confirms Outlook for Financial Year 2023” (2 August 2023)

[20] Sources: VATM: “25th Telekom Market Study Germany 2023” (29 November 2023); Deutsche Telekom: Press release “Broadband Expansion: Telekom Now Provides Over 7 million Pure Fibre-Optic Connections” (28 November 2023)

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

Regulatory Influences on Telefónica Deutschland Group

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

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

Frequencies

BNetzA continues provision of mobile frequencies with the consultation of framework conditions for a transitional extension by five years and an update of demands

In September 2023, the BNetzA continued the procedures for the provision of frequencies in the 800 MHz, 1,800 MHz and 2,600 MHz ranges with the publication of the consultation document "Demand Survey Update and Framework for an Interim Decision" (Framework Conditions) and made this available for consultation until 6 November 2023. The framework conditions are based on the position paper of the BNetzA from September 2022 and the comments received on this paper. As part of the framework conditions, the existing frequency usage rights in the above-mentioned frequency ranges, which expire at the end of 2025, will initially be extended for a transitional period of five years in an initial action programme. Finally, interested companies are called upon to update or confirm their frequency demands reported to the BNetzA in 2022.

The BNetzA is considering combining the transitional extension with measures to promote competition. In order to further promote service competition, the BNetzA is considering various options ranging from the imposition of a negotiation obligation to an obligation to offer; these are to be designed to be technology-neutral and include a non-discrimination clause as well as a reporting obligation. Moreover, the BNetzA is considering imposing a technology neutral and a non-discriminatory negotiation requirement for national roaming for the duration of the transitional decision. In addition, requirements for rural areas, transport routes and along railway lines are being considered in order to improve mobile phone coverage. For example, from 1 January 2029 at the latest, each allocation holder is to provide at least 98% of households in areas with a population density of less than 100 inhabitants per km² in each federal state with a transmission rate of at least 100 Mbps in downlink mode. In addition, from 1 January 2029 at the latest, each allocation holder is to supply all federal roads with a transmission rate of at least 100 Mbps in downlink mode and all federal state and national roads as well as the inland waterways of the federal core network with a transmission rate of at least 50 Mbps in downlink mode; no offsetting of the coverage by other allocation holders is to take place. Finally, for gigabit coverage along railway lines, each allocation holder is to be obliged to participate in the construction of an FRMCS infrastructure, a modern communication system for rail transport systems ("Future Railway Mobile Communication System"), along the railway lines.

In a second set of actions, a larger procedural framework is to be established for utilisation from 2031 onwards, including rights of use and new frequency ranges that expire in 2033 or that will become available for mobile communications in the coming years; a decision on this set of actions is planned for 2028. In the context of this procedural framework, the BNetzA is considering imposing further conditions and thereby taking greater account of the user perspective overall in future. With this in mind, parameters for coverage requirements and their review are to be further developed.

Telefónica Deutschland Group commented on the framework conditions and the update of demands in a timely manner. Further steps in the frequency provision process are expected in the first half of 2024. The BNetzA intends to make a decision about frequency provision in 2024.

Rollout obligations resulting from the 2019 spectrum auction/cooperations

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

Specifically, coverage of at least 98% of households in each federal state was to be achieved by 31 December 2022 – in each case with a transmission rate of at least 100 Mbps in the downlink in the antenna sector – as well as – in each case as far as legally and actually possible – complete coverage of the federal motorways, the federal highways with connection function levels 0 and 1, and railways with more than 2,000 passengers per day. For the federal motorways and federal highways, the latency was required not to exceed 10 milliseconds between an end device and the associated base station. In the case of federal highways and railways, coverage by other network operators affected by the coverage requirement is taken into account. In addition, 1,000 base stations distributed across the federal states were required to be commissioned and made available for 5G applications in accordance with their respective proportion of the territory of the Federal Republic. Finally, 500 base stations with a transmission rate of at least 100 Mbps were required to be commissioned in previously defined white spots, distributed across the federal states in accordance with their respective proportion of the territory of the Federal Republic. When verifying the fulfilment of this requirement, the BNetzA also takes into account that the construction of new base stations requires an appropriate lead time and the participation of local districts and municipalities. In its final report, Telefónica Deutschland Group informed the BNetzA that it had fully complied with the household coverage requirements as well as the 1,000 5G base stations, and had complied with the requirements for the most important transport routes on federal motorways, federal highways and railways, to the extent that this was legally and actually possible. It was also reported that full compliance with Telefónica Deutschland Group's 500 white spots by 31 December 2022 was not yet possible due to the short lead time since these white spots were defined and for other legal and technical reasons. The final report has been reviewed by the BNetzA. In this connection, in April 2023 the BNetzA sent a consultation letter regarding selected sites and white spots to Telefónica Deutschland Group. Telefónica Deutschland Group responded to the consultation letter in a timely and comprehensive manner. In September 2023, the BNetzA determined that Telefónica Deutschland Group had met the obligation to supply households and 1,000 5G base stations on time. With regard to the locations along the most important transport routes and in white spots that were not fulfilled on time, the BNetzA sent a further consultation letter to the Group on their non-fulfilment and subsequent fulfilment. In regard to a few sites, for which the BNetzA assumes that Telefónica Deutschland Group is responsible for the delay, the BNetzA opened an additional consultation in the context of a fine proceeding in September 2023. Both consultation proceedings are still ongoing. Telefónica Deutschland Group will make a statement to both consultations and reject responsibility for the delay in the fine proceeding in particular. According to press reports, corresponding consultations are also being held with the other three mobile network operators.

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

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

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

<u>Telefónica Deutschland Group and 1&1 Group extend National Roaming Agreement to 5G mobile communications services</u>

Telefónica Deutschland Group and 1&1 Group have expanded the National Roaming Agreement concluded in May 2021 to include 5G mobile services. At the same time as the start of 1&1 Group's own mobile communications network on 8 December 2023, the national roaming services were also put into operation.

<u>1&1 Group concludes a binding preliminary contract national roaming services with another network operator</u>

On 2 August 2023, 1&1 Mobilfunk GmbH (1&1 Group) publicly disclosed it had concluded a binding preliminary contract for a long-term, exclusive national roaming partnership with Vodafone Group, in which the parties were obligated to conclude a final national roaming cooperation as quickly as possible. This cooperation includes the non-discriminatory provision of national roaming services in areas not yet covered by the new 1&1 mobile network and in particular includes access to the 5G network of Vodafone Group, including mobile communication standards 2G and 4G and future mobile communication standards and technologies.

<u>1&1 Mobilfunk GmbH requests revision of the determination regarding ending its dual role as service provider or MBA MVNO and network operator</u>

With a decision of 22 October 2022, the BNetzA has set deadlines for 1&1 Group to end its dual role as service provider or MBA MVNO and mobile network operator. According to this decision, sales as a service provider or MBA MVNO must be discontinued by no later than the end of 2023. Any business activity as a service provider or MBA MVNO must be discontinued by no later than the end of 2025. The background to this is the regulatory principle of competitive independence, according to which mobile network operators are fundamentally precluded from simultaneously operating as a service provider for another network operator. 1&1 Group was allowed to have a dual role for a temporary period following the spectrum auction in 2019. Deadlines have been set for 1&1 Mobilfunk GmbH to give up this dual role.

In August 2023, 1&1 Group requested that the MVNO sale in regard to 5G mobile services (including 4G mobile services with 5G option) should be discontinued as early as possible, but by 30 September 2024 at the latest. However, the deadline for discontinuing MVNO sales of 4G mobile services is set to remain unchanged until 31 December 2023 at the latest. The BNetzA consulted the established network operators regarding the request. Telefónica Deutschland Group submitted its comments within the deadline and requested that the application be rejected. In a letter dated 23 November 2023, the BNetzA provided information on its main reasons for rejecting the application and gave the opportunity to comment. Telefónica Deutschland Group submitted its comments again within the deadline and supported the reasons for rejecting the application. In a letter dated 8 December 2023, 1&1 Group withdrew the request to the BNetzA.

<u>1&1 Group applies for immediate orders to mandate non-discriminatory national roaming</u>

In a written statement dated 27 April 2023, 1&1 Group submitted applications with the BNetzA against Telefónica Deutschland Group, Telekom Deutschland GmbH and Vodafone GmbH for immediate orders to mandate non-discriminatory national roaming, including 5G. In a letter dated 7 June 2023, 1&1 Group clarified to the BNetzA that the applications were aimed at concluding just one national roaming contract with one of the network operators. Telefónica Deutschland Group commented on the applications and the clarification, and requested their immediate rejection. At the beginning of July, the BNetzA provided an opportunity to comment on its key considerations until mid-August, after which time it intends to reject the applications. In October 2023, the BNetzA stated that the procedure based on a corresponding request of 1&1 Group is suspended for the time being.

Multiconnect GmbH applies for dispute resolution

Multiconnect GmbH filed an application with the BNetzA against Telefónica Deutschland Group for dispute resolution proceedings and a decision in accordance with Section 212 (1) of the German Telecommunications Act (Telekommunikationsgesetz – TKG) on the allegation of a violation of the negotiation requirement pursuant to Section III.4.15 of the Presidential Chamber Decision of 26 November 2018, BK1-17/001, by Telefónica Germany GmbH & Co. OHG. The public hearing took place on 4 July 2023. The BNetzA extended the four-month procedural deadline from 18 August 2023, initially to 30 September 2023 and again to 30 November 2023. On 15 December 2023, a public hearing took place as part of the dispute resolution proceeding regarding two intended requests for information by the BNetzA against Telekom Deutschland GmbH and Vodafone GmbH. A decision in the dispute resolution procedure is not possible until the proceedings relating to the requests for information have been concluded. A decision is expected in the first quarter of 2024.

Telecommunications market

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

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

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

The amended Telecommunications Act (TKG), which entered into force on 1 December 2021, grants a right to be supplied with a minimum offering of telecommunications services. This minimum offering includes voice communications services and a fast internet access service for appropriate participation in social and economic life. The BNetzA has defined the minimum requirements for internet access services in the German Telecommunications Minimum Supply Ordinance (Telekommunikationsmindestversorgungsverordnung – TKMV) with effect from 1 June 2022. According to this ordinance, the download speed must be at least 10 megabits per second, the upload rate must be at least 1.7 megabits per second, and the latency, i.e. the response time, should not exceed 150 milliseconds. The BNetzA will review these figures annually. The BNetzA plans to prepare a report evaluating the minimum requirements in the first quarter of 2024. If necessary, the minimum requirements from the TKMV would be adjusted on the basis of the audit report. Furthermore, on 17 August 2022, the BNetzA published specifications on the affordability of end-user prices. No specific price ceilings were set, but these prices were oriented towards other regional end-user prices. In October 2022, the telecommunications industry presented its comments to the BNetzA in a comprehensive statement by the associations.

IT Security Act 2.0

In May 2021, the "Second Act to Increase the Security of Information Technology Systems" came into force, which builds on the first act from 2015 and aims to better protect public structures from cyber attacks. This is especially true for critical infrastructures (KRITIS), such as telecommunications. The law stipulates that "critical components" must be identified by the mobile network operators in their networks and reported to the German Federal Ministry of the Interior (BMI) before they are put into operation. The German federal government then has a two-month review period during which it can prohibit the use of components or issue orders for their use. Telefónica Deutschland Group reported critical components from various manufacturers to BMI for the first time at the end of 2022 and again in 2023. The BMI has so far concluded all review procedures without issuing a prohibition. Furthermore, the BMI may also review pre-existing critical components of the existing infrastructure. A review of this nature began in April 2023 and is yet to be concluded.

Access and price regulation

EU Roaming Regulation

The new version of the EU Roaming Regulation was published in the Official Journal of the European Union on 13 April 2022 and entered into force for the most part on 1 July 2022. Accordingly, the currently valid principle of "roam-like-at-home", among other things, was extended until the end of June 2032. For wholesale charges, the charge for data was lowered from 1 January 2023 from previously EUR 2.00 to EUR 1.80 per gigabyte; additional reductions are provide for from 1 January 2024 to EUR 1.55, from 1 January 2025 to EUR 1.30, from 1 January 2026 to EUR 1.10 and from 1 January 2027 to 30 June 2032 to EUR 1.00. From 1 July 2022, a wholesale charge of 0.40 euro cents per SMS will apply; this will be reduced to 0.30 euro cents from 1 January 2025 to 30 June 2032. A wholesale charge of 2.20 euro cents per minute applies to outgoing voice calls from 1 July 2022; this will be reduced to 1.90 euro cents from 1 January 2025 to 30 June 2032. The EU Commission will also be asked to look into measures on intra-EU calls, i.e. calls from the home country to another EU member state. The current maximum end-user prices for regulated intra-EU communications of 19 euro cents per minute for calls and 6 euro cents per text message (both excluding VAT) expire on 14 May 2024.

Overview of Financial Year 2023

Operational performance

Telefónica Deutschland Group continued its robust growth path in financial year 2023 in a dynamic and continued favourable environment. The Group delivered a consistently good operating and financial performance and further expanded its market share in mobile service sales with a clear "value-over-volume" focus. The sustained business momentum is based on the strong brand appeal of O_2 supported by successfully introduced new tariff portfolios in all market segments, normalised churn rates and improved network and service quality. The renowned connect magazine[22] assessed the O_2 shops and the O_2 fixed network hotline as "very good", and the "myO_2" app even received a rating of "outstanding". In the connect network test[23], the O_2 mobile network was once again able to demonstrate its strength and achieved a "very good" rating, with an improved score for the fourth time in a row.

In total, Telefónica Deutschland Group recorded 1,350 thousand postpaid net additions (1,228 thousand in 2022) and 164 thousand M2M net additions (83 thousand in 2022) in financial year 2023 owing to the positive development of the retail consumer in combination with a solid partner business drove Telefónica Deutschland Group's postpaid net additions. The development in prepaid (-748 thousand), on the other hand, was characterised by an unchanged "prepaid-to-postpaid" migration trend. In the previous year, Telefónica Deutschland Group recorded a reduction in prepaid connections by a total of 2,698 thousand, predominately due to a revenue-neutral technical adjustment[24] of the customer base (-2,535 thousand connections) at the end of the year.

Accordingly, the number of mobile connections at the end of 2023 amounted to 45.1 million, an increase of +1.7% compared to the previous year. Postpaid (without M2M) was again the growth driver, with an increase of connections to 27.7 million (+5.1% compared to the previous year), corresponding to 61.4% of the total mobile customer base (+2.0 percentage points compared to the previous year). As expected, in financial year 2023, customer churn in postpaid almost returned to the low level prior to the implementation of the EU Directive establishing the European Electronic Communications Code (EECC) in the German Telecommunications Act on 1 December 2021. The implied annualised churn rate of the O_2 brand was 11.6% (13.1% in 2022, 11.1% in 2021), which reflects sustainable quality and service improvements in particular, as well as a focus on customer retention.

The O_2 postpaid ARPU continued its growth path in financial year 2023, gaining 1.4% compared to the previous year. The solid demand for higher-value tariffs in combination with the successful launch of the new "O_2 Mobile" portfolio more than compensated for the effect of the further reduction in mobile termination rates (MTRs).

In financial year 2023, the fixed business within Telefónica Deutschland Group's technology-agnostic "O_2 Home" portfolio benefited in particular from high demand for cable and fibre-optic connections. In total, net accesses amounted to 90 thousand (32 thousand in 2022) and the fixed network customer base was 2.4 million at year-end (+3.9% compared to the previous year). At the same time, the ARPU[25] increased by 1.9% to EUR 25.6.

Financial performance

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

Revenues in financial year 2023 grew by 4.7% compared to the previous year to EUR 8,614 million, above the financial outlook raised in the interim report for the first half of 2023. This reflects both the strong increase in business with mobile devices and the continued growth in revenues from mobile services, which is largely due to the continued commercial traction of the O_2 brand and a solid contribution from the partner business. Overall, this more than compensated for the expected negative effects from the reduction in mobile termination rates.

Operating income before depreciation and amortisation (OIBDA) adjusted for exceptional effects increased in the reporting year by 3.1% compared to the previous year to EUR 2,617 million and

[22] Sources: connect mobile shop test DACH 2023, connect network hotline test DACH 2023, connect service app test DACH 2023
[23] Source: connect mobile communications and 5G network test, issue 1/2024: Overall rating: "very good" (895 points) for O_2: overall was twice awarded "very good" (926 and 895 points) and once "outstanding" (967 points)
[24] Introduction of a stricter definition for active SIM cards
[25] Definition adjustment of the calculation of the fixed BB (FBB) ARPU on 1 January 2023, to reflect all fixed network revenue streams; including adjustments to the previous year's figures for the purpose of comparability

was therefore slightly above the financial outlook, which was raised after the first half of 2023. The adjusted OIBDA margin amounted to 30.4%, a decrease of 0.5 percentage points compared to the previous year. This reflects mainly the strong growth (+13.3% compared to the previous year) of the largely margin-neutral revenue of hardware. The margin quality of mobile services, on the other hand, increased and Telefónica Deutschland Group successfully countered the expected inflation-related cost increases.

Capital expenditure

Capital expenditure (CapEx) declined by 6.3% to EUR 1,133 million in financial year 2023 (previous year: EUR 1,209 million) with a CapEx/Sales ratio of 13.2% (previous year: 14.7%). The focal point of capital expenditure was on network densification and the continued rollout of the 5G network[26] within the expected normalised capital expenditure framework. By the end of 2023, Telefónica Deutschland Group had achieved a population coverage for 5G of around 95% and is on schedule to reach nationwide 5G coverage at the latest by the end of 2025.

T 02 – OVERVIEW OF FINANCIAL YEAR 2023

	Actual 2022[(1)]	**Outlook for 2023**[(2)]	**Updated Outlook for 2023**[(2) (3)]	**Financial year 2023**[(3)] (development year-on-year)	**Assessment** (compared to the original outlook)
Revenues	EUR 8,224 million	Low single-digit percentage year-on-year growth	Upper-range of low single-digit percentage year-on-year growth	EUR 8,614 million (+4.7%)	Better than expected
OIBDA adjusted for exceptional effects	EUR 2,539 million	Low single-digit percentage year-on-year growth	Upper-range of low single-digit percentage year-on-year growth	EUR 2,617 million (+3.1%)	Slightly better than expected
CapEx/Sales ratio	14.7%	Around 14%	Around 14%	13.2%	Better than expected

(1) Financial year 2022 includes non-recurrent special factors in the amount of EUR +26 million
(2) Including regulatory headwinds of approx. EUR -50 to -60 million at revenue level and approx. EUR -10 to -15 million at OIBDA level
(3) The financial outlook originally published for financial year 2022 in the 2022 Annual Report dated 1 March 2023 for revenues and for OIBDA adjusted for exceptional items was raised in the context of the half-year results.

Business development is further detailed in the following sections.

[26] The selected population-based evaluation includes not only the household-based coverage calculation with a fixed location reference as reported to the German Federal Network Agency. It also includes commuter flows within the population, with the result that some of the population are counted both in their residences and in their workplaces (maximum population). In doing this, Telefónica Deutschland Group takes into account that the services are not only in demand at home but also when travelling. This value is the value for the end of 2023, which indicates the availability of mobile telecommunications services outside of buildings (outdoors).

Results of Operations

T 03 – CONSOLIDATED INCOME STATEMENT

1 January to 31 December

(in EUR million)	**2023**	**2022**	**Change**	**% change**
Revenues	**8,614**	**8,224**	**390**	**4.7**
Other income	160	153	7	4.7
Operating expenses	(6,173)	(5,854)	(319)	5.4
Supplies	(2,677)	(2,524)	(153)	6.1
Personnel expenses	(669)	(622)	(47)	7.6
Impairment losses in accordance with IFRS 9	(101)	(92)	(9)	9.8
Other expenses	(2,725)	(2,616)	(109)	4.2
Operating income before depreciation and amortisation (OIBDA)	**2,601**	**2,523**	**78**	**3.1**
OIBDA margin	***30.2%***	***30.7%***	**–**	***(0.5%-p.)***
Depreciation and amortisation	(2,310)	(2,283)	(27)	1.2
Operating income	**291**	**240**	**51**	**21.4**
Financial result	(90)	(36)	(54)	>100
Result from investments accounted for using the equity method	(10)	(14)	4	(28.4)
Profit/(loss) before tax	**191**	**189**	**2**	**0.9**
Income taxes	82	42	40	94.0
Profit/(loss) for the period	**273**	**232**	**41**	**17.8**

T 04 – REVENUE BREAKDOWN

1 January to 31 December

(in EUR million)	**2023**	**2022**	**Change**	**% change**
Mobile business revenues	**7,767**	**7,394**	**373**	**5.0**
Mobile service revenues	5,895	5,742	153	2.7
Hardware revenues	1,872	1,652	220	13.3
Fixed business revenues	**827**	**806**	**21**	**2.7**
Other revenues	**20**	**24**	**(5)**	**(18.7)**
Revenues	**8,614**	**8,224**	**390**	**4.7**

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

1 January to 31 December

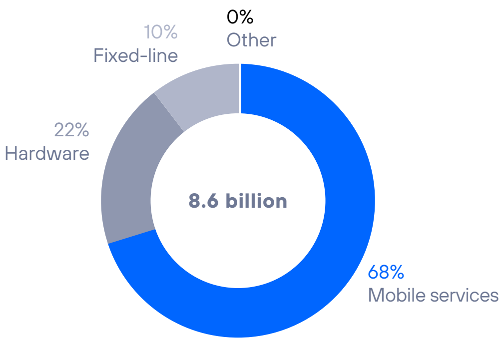
(in EUR million)	**Consolidated Income Statement 2023**	**Exceptional effects from restructuring 2023**	**Other exceptional effects 2023**	**2023 adjusted**	**2022 adjusted**	**Change**	**% change**
Revenues	**8,614**	**–**	**–**	**8,614**	**8,224**	**390**	**4.7**
Other income	160	–	–	**160**	153	7	4.8
Operating expenses	(6,172)	11	5	**(6,156)**	(5,838)	(318)	5.5
Supplies	(2,677)	–	–	**(2,677)**	(2,524)	(153)	6.1
Personnel expenses	(669)	2	–	**(667)**	(617)	(51)	8.2
Impairment losses in accordance with IFRS 9	(101)	–	–	**(101)**	(92)	(9)	9.4
Other expenses	(2,725)	9	5	**(2,711)**	(2,605)	(106)	4.1
Operating income before depreciation and amortisation (OIBDA)	**2,601**	**11**	**5**	**2,617**	**2,539**	**78**	**3.1**

Revenues increased

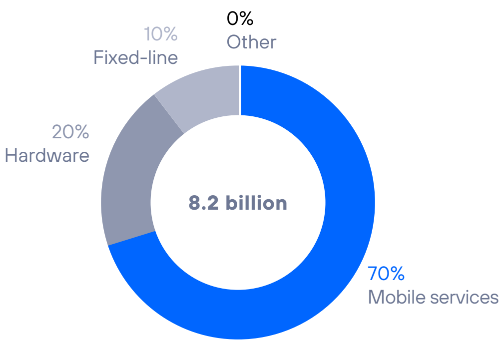
Revenues increased by 4.7% in financial year 2023, primarily due to the largely margin-neutral contribution of hardware revenues and the growth in mobile service revenues. In addition, mobile service revenues in the previous year were positively impacted by non-recurrent special factors in the amount of EUR 26 million.

G 06 – REVENUES (IN % AND IN EUR BILLION)

FY 2023



FY 2022



Higher revenues from mobile services

In a rational and competitive German market, Telefónica Deutschland Group was able to increase its mobile service revenues. In financial year 2023, mobile service revenues increased by 2.7% compared to the previous year, driven in part by the continued success of the O_2 tariff portfolio and the solid contribution from the partner business, which more than offset the negative effects of the reduction in mobile termination rates (MTRs) and the absence of positive non-recurrent special factors from the previous year totalling EUR 26 million. Another driver was the growth in the postpaid customer base compared to 31 December 2022, which resulted from the good development of the O_2 tariff portfolio in combination with normalised churn rates as well as from the partner brands. Accordingly, our postpaid mobile customer base excluding M2M increased in financial year 2023 by 1.4 million net additions to 27.7 million, which led to a postpaid share of total mobile customers excluding M2M of 61.4%, as of 31 December 2023 (previous year: 59.4%). The average revenue per user (ARPU) for mobile customers increased significantly by EUR 0.7 to EUR 10.8 year on year. The increase in financial year 2023 was facilitated in particular by a revenue-neutral technical adjustment of the prepaid customer base at the end of 2022, leading to limited comparability with the previous year.

Increase in hardware revenues

Hardware revenues are generally subject to fluctuation, as they depend on the different launch cycles of new mobile devices. In financial year 2023, revenues from the sale of hardware increased by 13.3% year on year due to continued demand for high-quality mobile devices – including to mobile communications partners.

Increase in fixed business revenues

Revenues from fixed business rose by 2.7% year on year in financial year 2023. Thereby, the fixed broadband revenues (FBB) in the retail business continued their growth path mainly on the back of the rising demand for cable and fibre optics and the increase in the customer base resulting particularly from this development, which were able to more than compensate the decline in the low-margin fixed business with international voice minutes.

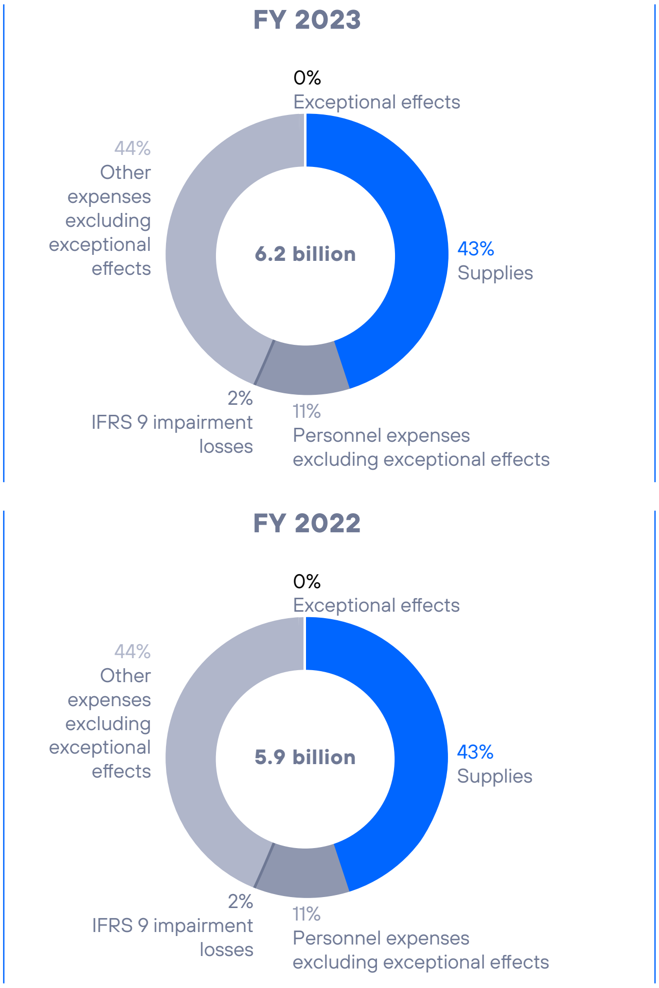
Slight increase in other income

Other income in financial year 2023 increased slightly to EUR 160 million (previous year: EUR 153 million). The increase is due to higher own work capitalised.

Operating expenses increased

Operating expenses increased by 5.4% in financial year 2023 compared to the previous year, mainly due to increases in the cost of materials, other expenses and personnel expenses. As in the previous year, operating expenses included exceptional effects of EUR 16 million relating to restructuring expenses of EUR 11 million (previous year: EUR 16 million) and non recurrent expenses in connection with other non-operational transactions amounting to EUR 5 million.

G 07 – OPERATING EXPENSES (IN % AND IN EUR BILLION)



Increase in supplies

Supplies increased in financial year 2023 compared to the previous year due primarily to a higher cost of materials for hardware in connection with increased revenues from hardware. This was partially compensated by a decline in the cost of supplies for connectivity due to lower voice minutes combined with a reduction of mobile termination rates as of 1 January 2023, as well as lower costs for roaming connections.

Personnel expenses increased compared to previous year

In financial year 2023, personnel expenses increased by 7.6%, reflecting in particular the general salary adjustments over the course of financial years 2022 and 2023. In addition, the increase was fuelled by a higher number of full-time employees due to the integration of staff with key skills. At EUR 2 million, restructuring expenses were below the level of the previous year (previous year: EUR 5 million).

Increase in other expenses

Other expenses increased by 4.2% in financial year 2023. This is mainly due to an increase in sales costs for customer acquisition and retention and higher transformation costs. In addition, exceptional effects increased to EUR 14 million (previous year: EUR 11 million) relating to restructuring expenses of EUR 9 million (previous year: EUR 11 million) and non recurrent expenses in connection with other non-operational transactions amounting to EUR 5 million.

Increase in OIBDA adjusted for exceptional effects

OIBDA adjusted for exceptional effects increased by 3.1% year on year to EUR 2,617 million in financial year 2023. This development was driven by sustained own-brand momentum and the associated improvement in margin quality and customer base, especially in mobile communications, which more than offset the expected increase in operating expenses. In the previous year, OIBDA was positively impacted by non-recurrent special factors of EUR 26 million. The negative exceptional effects amounting to EUR 16 million (previous year: EUR 16 million) included restructuring expenses and expenses related to other non-operational transactions in financial year 2023. As a result, OIBDA amounted to EUR 2,601 million (previous year: EUR 2,523 million). The OIBDA margin of 30.2% fell by 0.5 percentage points in financial year 2023, mainly due to the disproportionate increase in hardware revenues, which are largely neutral in terms of margins.

G 08 – OIBDA (IN EUR MILLION)

Increase in depreciation and amortisation

The increase in depreciation and amortisation to EUR 2,310 million (previous year: EUR 2,283 million) in financial year 2023 is mainly due to higher depreciation for technical network equipment and for right-of-use assets. This was partially offset by the omission of amortisation for individual customer bases due to the scheduled expiry of their useful lives at the end of the third quarter of 2023 and by lower amortisation for software, influenced by the extended useful lives in some cases in the third quarter of the previous year.

Operating income improved despite higher operating expenses

Operating income increased in financial year 2023 to EUR 291 million (previous year: EUR 240 million). This was mainly due to the increase in revenues, which more than compensated for higher operating expenses and an increase in depreciation and amortisation.

Financial result negatively impacted by the development of interest rates

The negative trend in the financial result from EUR -36 million in the previous year to EUR -90 million in the reporting period was mainly due to higher interest expenses, in particular caused by the rise in market interest rates, with corresponding negative effects on interest expenses for factoring transactions and lease liabilities, and to the utilisation of overdraft facilities. Overall, interest income remained virtually stable.

Result from investments accounted for using the equity method

Against the backdrop of the joint venture with Telefónica Infra, S.L.U. and the Allianz Group, formed in 2020 to expand fibre-optic accesses (FTTH) for households in Germany, the pro rata result related to the at-equity 10% investments in UGG TopCo GmbH & Co. KG and in UGG TopCo/HoldCo General Partner GmbH is reported. This amounted to EUR -10 million in financial year 2023 (previous year: EUR -14 million).

Income taxes benefited from deferred tax income

After proportionate offsetting against tax losses carried forward, Telefónica Deutschland Group again posted positive taxable income in financial year 2023. Tax income of EUR 82 million in financial year 2023 (previous year: EUR 42 million) includes tax income of EUR 87 million from changes in deferred taxes. In contrast, current tax expenses of EUR 6 million were recognised after proportionate offsetting against tax losses carried forward. This includes current tax expense of EUR 27 million for financial year 2023 and, offsetting this, an out-of-period release of income tax provisions amounting to EUR 21 million. The income from deferred taxes is attributable to the changes in taxable temporary differences and the additional capitalisation of deferred taxes on losses carried forward. In financial year 2022, there was a current tax expense of EUR 31 million and income from deferred taxes of EUR 73 million.

Increased profit for the period

Profit for the period rose in financial year 2023 to EUR 273 million (previous year: EUR 232 million), in particular as a result of the contribution made by deferred tax income. The increase in revenues more than made up for the higher operating expenses and, to a lesser extent, the higher depreciation and amortisation. By contrast, negative effects from the financial result had an impact on profit for the period.

Financial Position

Principles and goals of financial management

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

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

Financing

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

Refinancing of the syndicated loan

On 22 March 2016, Telefónica Deutschland Group signed a syndicated revolving credit facility in the amount of EUR 750 million, which on 17 December 2019 was replaced by a new syndicated revolving credit facility in the same amount with a term until 17 December 2024. In 2020, the term of this credit facility was extended by one year to 17 December 2025. The term of this credit facility was again extended by another year to 17 December 2026 in 2021. The credit line serves general corporate purposes and has not been drawn as of 31 December 2023.

Financing agreements with the European Investment Bank (EIB)

On 13 June 2016, Telefónica Deutschland Group signed its first financial agreement with the EIB, which originally amounted to EUR 450 million. The facility is intended to finance the consolidation, modernisation and expansion of Telefónica Deutschland Group's mobile network after the acquisition of the E-Plus Group. The funds provided by the EIB have terms of up to eight years. The amortising loan had a value of EUR 108 million as of 31 December 2023.

Additional financing agreements with the EIB were signed on 18 December 2019 for EUR 300 million and on 14 January 2020 for EUR 150 million. These loans were fully drawn down as of 31 December 2023. The EIB loans will also have a maturity of eight years as of drawdown and will be repaid in equal instalments.

Promissory notes and registered bonds

On 13 March 2015, Telefónica Deutschland Group completed an initial placement of promissory notes and registered bonds with different maturities up to 2032 and a total volume of EUR 300 million. In February 2018, further promissory notes in various tranches and a registered bond with a total volume of EUR 250 million with various maturities up to 2033 were issued. In financial year 2019, further promissory notes in various tranches with a total volume of EUR 360 million with maturities up to 2029 were placed on 25 April. In financial year 2021, variable-interest tranches totalling EUR 326 million were terminated and repaid in advance as part of active financial management. Taking into account further scheduled repayments in previous years totalling EUR 188 million and repayments of EUR 43 million in financial year 2023, a promissory note volume of EUR 355 million is still outstanding as of 31 December 2023.

Bond liabilities

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

T 06 – NOMINAL AMOUNT

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

Telefónica Deutschland Group continues to benefit from Telefónica, S.A. Group cash pooling
Telefónica Deutschland Group will continue to participate in the liquidity management system of Telefónica, S.A. Group. Agreements have been made with Telfisa Global B.V. for deposits and liquidity management. The liquidity of the entire Telefónica, S.A. Group is centralised by means of these agreements. This allows us to benefit from the economies of scale of the entire Telefónica, S.A. Group. The cash pooling means that the Group continues to have access to overdraft facilities up to a maximum of EUR 854 million with term up to one year. Telefónica, S.A. has guaranteed the performance of Telfisa Global B.V.'s obligations arising from the cash pooling agreements.

Unused credit facilities provide financial flexibility
The Group's financial flexibility remains secure reasoned to the availability of unused credit facilities totalling EUR 1,802 million. This comprises bilateral revolving credit facilities with various banks to the value of EUR 198 million, with a remaining term of more than one year, the unutilised syndicated revolving credit facility of EUR 750 million, and available overdraft facilities from Telfisa Global B.V. of EUR 854 million.

Factoring as a tool to manage working capital
We have entered into factoring agreements with various credit and factoring institutions regarding the sale of receivables, with the aim, among other things, of managing our working capital. In financial year 2023, factoring transactions were concluded for instalment receivables and other trade receivables with a total net cash inflow of EUR 1,690 million (previous year: EUR 1,100 million). The sold receivables were fully derecognised at the time of sale, with the exception of continuing involvement for sold instalment receivables. Further information on factoring can be found in the Notes to the Consolidated Financial Statements for the year ended 31 December 2023 (>Note 5.5 TRADE AND OTHER RECEIVABLES).

Financial efficiency and payment flexibility due to extension of payment periods
In order to obtain greater financial efficiency and cash flexibility, Telefónica Deutschland Group has entered into agreements with certain commercial suppliers to extend payment periods. The industry-standard payment terms were not exceeded, so that a reclassification is not required, and the payments are shown within trade payables (see also >Note 5.13 TRADE AND OTHER PAYABLES AND CONTRACT LIABILITIES).

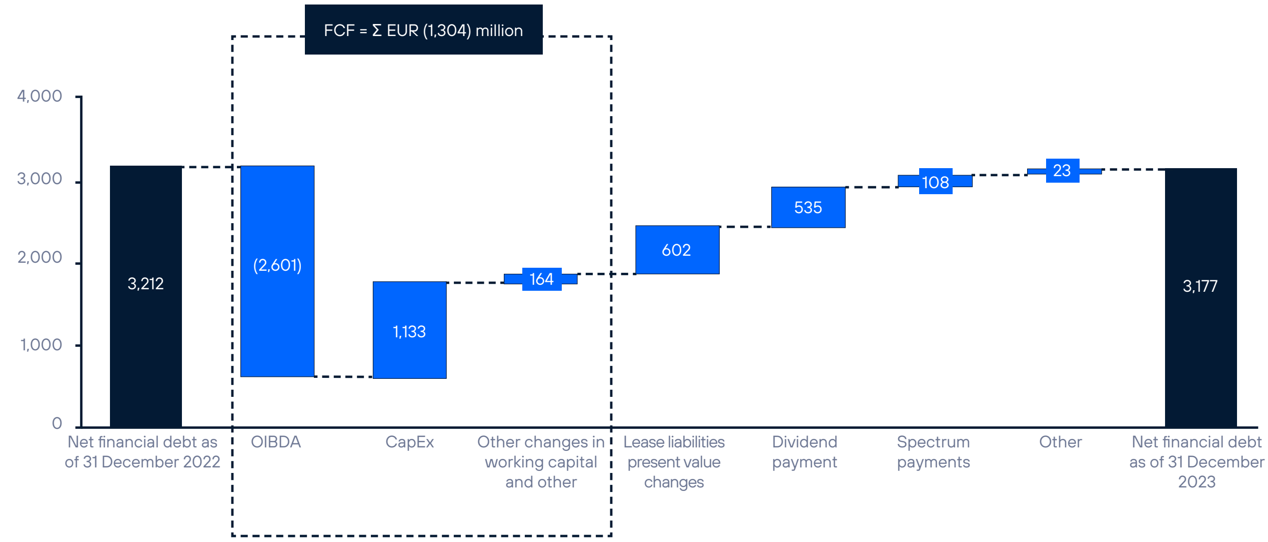
Financial Analysis

Decreased net financial debt
Net financial debt, which is an integral part of the net leverage ratio and amounted to 1.2x at the end of the reporting year (previous year: 1.3x), decreased as of 31 December 2023 compared to the previous year by EUR 36 million to EUR 3,177 million.

Changes in the present value of lease liabilities of EUR 602 million, the dividend payment for financial year 2022 of EUR 535 million and payments for spectrum licences of EUR 108 million, in particular, increased net financial debt. In contrast, the free cash flow of EUR 1,304 million covered these charges and consequently led to an overall reduction in net financial debt.

The graphic below illustrates the development of net financial debt in financial year 2023.

G 09 – DEVELOPMENT OF NET FINANCIAL DEBT (IN EUR MILLION)



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

T 07 – COMPOSITION OF NET FINANCIAL DEBT

As of 31 December

(in EUR million)	2023	2022	Change	% change
A Liquidity	584	777	(193)	(24.8)
B Current financial assets[1]	313	339	(26)	(7.6)
C Current financial debt[2]	842	725	117	16.1
D=C-A-B Current net financial debt	(56)	(391)	335	(85.7)
E Non-current financial assets[1]	561	570	(9)	(1.5)
F Non-current financial debt[2]	3,794	4,173	(379)	(9.1)
G=F-E Non-current net financial debt	3,232	3,603	(371)	(10.3)
H=D+G Net financial debt[3]	3,177	3,212	(36)	(1.1)

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

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

Off-balance sheet obligations

Purchase obligations and other contractual obligations decreased by EUR 705 million to EUR 3,917 million in financial year 2023 (previous year: EUR 4,621 million). The decrease is attributable in particular to lower obligations from delivery contracts for mobile devices and to a reduction in purchase obligations in the context of agreements in fixed network services and as part of digital transformation. Counteracting this were long-term obligations in the context of entering another Power Purchase Agreement (PPA) with an energy supplier (>Note 18 PURCHASE AND OTHER CONTRACTUAL OBLIGATIONS).

Liquidity Analysis

T 08 – CONSOLIDATED STATEMENT OF CASH FLOWS

1 January to 31 December (in EUR million)	**2023**	**2022**
Cash flow from operating activities	2,426	2,471
Cash flow from investing activities	(1,122)	(1,378)
Free cash flow (cash flow from operating activities + cash flow from investing activities)	**1,304**	**1,093**
Cash flow from financing activities	(1,496)	(1,336)
Net increase/(decrease) in cash and cash equivalents	**(193)**	**(243)**
Cash and cash equivalents at the beginning of the period	**777**	**1,020**
Cash and cash equivalents at the end of the period	**584**	**777**

Consolidated Statement of Cash Flows

The following is an analysis of the cash flow development of Telefónica Deutschland Group in financial years 2023 and 2022.

Decrease in cash flow from operating activities

Cash flow from operating activities amounted to EUR 2,426 million in financial year 2023 and thus fell compared with the previous year's figure of EUR 2,471 million. The positive earnings contribution from OIBDA was more than offset by higher interest payments as a result of generally higher market interest rates, higher tax payments and, to a lesser extent, the negative change in working capital, which totalled EUR -12 million in the reporting period (financial year 2022: EUR 29 million).

Cash flow from investing activities impacted by lower cash outflows

Cash flow from investing activities in financial year 2023 amounted to EUR -1,122 million (previous year: EUR -1,378 million). The change compared to the prior year is in particular due to both lower cash outflows and in part to higher cash inflows. Cash outflows chiefly comprised lower payments for investments in plant and software. They decreased overall to EUR 1,239 million from EUR 1,400 million in the same period last year. Cash inflows increased to EUR 117 million (prior-year period: EUR 22 million). The cash inflows were primarily due to funds released temporarily during the year in connection with factoring transactions, while the previous year included in particular the proceeds from the disposal of companies totalling EUR 16 million. These related to the receipt of payment of the portion of the purchase price receivable due in financial year 2022 from the second transaction step of the sale of significant parts of the business operations of the rooftop sites to Telxius.

Increase in free cash flow

Free cash flow amounted to EUR 1,304 million in financial year 2023, an increase of EUR 211 million compared to the same period in the previous year (EUR 1,093 million). This development is primarily due to the positive change in cash flow from investing activities with the effects described there, which more than made up for the decrease in cash flow from operating activities.

Cash flow from financing activities includes higher cash outflows and inflows

Cash flow from financing activities in financial year 2023 amounted to EUR -1,496 million (previous year: EUR -1,336 million). Cash outflows increased to EUR 2,614 million (previous year: EUR 1,451 million) and mainly included payments for the repayment of overdraft facilities of Telfisa Global B.V. utilised during the year in the amount of EUR 1,106 million, the payment of lease liabilities of EUR 747 million, the payment of the dividend in the amount of EUR 535 million, payments for spectrum licences in the amount of EUR 108 million, the partial repayment of an EIB loan in the amount of EUR 75 million and the repayment of promissory notes in the amount of EUR 43 million. By contrast, financial year 2022 included the payment of lease liabilities of EUR 640 million, the dividend payment of EUR 535 million, payments for spectrum licences of EUR 108 million, the repayment of an overdraft facility of Telfisa Global B.V. of EUR 88 million, which was drawn down temporarily during the year, and partial repayment of an EIB loan of EUR 75 million.

Cash inflows increased by EUR 1,003 million to EUR 1,118 million (previous year: EUR 114 million). The change is due to a short-term increased financial need and primarily involved the utilisation of overdraft facilities from Telfisa Global B.V. totalling EUR 1,106 million during the year. In comparison, financial year 2022 included in particular the utilisation of a short term overdraft facility from Telfisa Global B.V. totalling EUR 88 million during the year.

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

Based on the above-mentioned cash inflows and outflows, cash and cash equivalents decreased by EUR 193 million compared to the previous year's reporting date and on 31 December 2023 amounted to EUR 584 million (31 December 2022: EUR 777 million).

Net Assets

T 09 – CONSOLIDATED BALANCE SHEET

As of 31 December **(in EUR million)**	**2023**	**2022**	**Change**	**% change**
Goodwill and other intangible assets	4,519	4,966	(447)	(9.0)
Property, plant and equipment	3,484	3,512	(28)	(0.8)
Right-of-use assets	3,203	3,277	(74)	(2.3)
Investments accounted for using the equity method	11	12	(1)	(8.2)
Trade and other receivables	1,733	1,652	81	4.9
Deferred tax assets	538	463	74	16.1
Other financial assets	424	482	(58)	(12.0)
Other non-financial assets	806	750	55	7.4
Inventories	148	140	8	5.4
Cash and cash equivalents	584	777	(193)	(24.8)
Total assets = Total equity and liabilities	**15,447**	**16,030**	**(583)**	**(3.6)**
Interest-bearing debt	1,521	1,638	(117)	(7.2)
Lease liabilities	3,114	3,260	(146)	(4.5)
Trade and other payables	2,874	2,671	203	7.6
Payables – Spectrum	898	998	(100)	(10.0)
Provisions	577	539	38	7.1
Other non-financial liabilities	77	70	8	11.1
Income tax liabilities	8	68	(60)	(88.9)
Contract liabilities*	613	730	(117)	(16.0)
Deferred tax liabilities	229	247	(18)	(7.2)
Equity	**5,535**	**5,810**	**(275)**	**(4.7)**

*The item contract liabilities was still referred to as prepaid expenses on 31 December 2022. Contract liabilities from 2022 totalling EUR 730 million include EUR 54 million that do not constitute contract liabilities. In 2023, all items not representing contract liabilities were reclassified to other payables.

Decrease in goodwill and other intangible assets
The decrease in financial year 2023 was mainly due to the amortisation of other intangible assets amounting to EUR 833 million. This was offset by additions to other intangible assets of EUR 386 million, which related primarily to investments in software.

Property, plant and equipment reduced
The reduction in property, plant and equipment is due in particular to depreciation of EUR 804 million, as the additions in financial year 2023 of EUR 747 million, which almost exclusively relates to investments in the network for technical equipment, were lower. In addition, the increase in asset retirement obligations of EUR 38 million, which was mainly caused by an adjustment in cost rates, had a partial offsetting effect.

Decrease in right-of-use assets
The reduction in right-of-use assets is due to scheduled depreciation of EUR 673 million and disposals of EUR 26 million. This was offset by additions of right-of-use assets amounting to EUR 624 million relating in particular to right-of-use assets for technical equipment.

Investment ratio (CapEx/sales ratio) down
Capital expenditure (CapEx) fell in financial year 2023 to EUR 1,133 million compared to EUR 1,209 million in 2022, meaning that the CapEx/Sales ratio decreased to 13.2% (2022: 14.7%). This was due in particular to the scheduled termination of the “Investment for Growth” investment programme in financial year 2022. Nevertheless, Telefónica Deutschland Group continued to make significant progress in the network densification and further rollout of the 5G network and in the modernisation of the technological architecture within the normalised investment framework.

Investments accounted for using the equity method
Investments accounted for using the equity method totalled EUR 11 million (previous year: EUR 12 million), comprising investments made by Telefónica Deutschland Group in the fibre-optic companies of Telefónica Deutschland Group, formed in financial year 2020 along with Telefónica Infra, S.L.U. and Allianz Group (>Management Report BUSINESS ACTIVITIES).

Increase in trade and other receivables
The increase in trade receivables was mainly due to the rise in O_2 My Handy receivables as a result of the continued robust demand for high-quality devices as well as the usual fluctuations in operating activities. This was partially offset by increased factoring transactions in financial year 2023.

Rise in deferred tax assets

The deferred tax assets remaining after netting rose in financial year 2023, from EUR 463 million to EUR 538 million. The increase in deferred tax assets is attributable to the changes in taxable temporary differences and the additional capitalisation of deferred tax assets on tax losses carried forward.

Decrease in other financial assets

The decrease of EUR 58 million was mainly due to lower retention amounts as part of factoring transactions and reduced reinsurance claims. The item also includes the portion of the purchase price receivable that is not yet due in the amount of EUR 268 million (previous year: EUR 263 million) from the sale of major parts of the business operations of the rooftop sites to Telxius.

Other non-financial assets increased

The year-on-year increase of EUR 55 million is due primarily to higher advance payments as part of the expansion of the 5G network and partly to tax receivables arising from tax refund claims, since the advance tax payments for 2023 and the previous year exceed the current tax expense for 2023.

Decrease in cash and cash equivalents

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

Interest-bearing debt down on previous year

Interest-bearing debt decreased by EUR 117 million year on year due, almost entirely, to the scheduled partial repayment of EUR 75 million of an EIB loan and the scheduled partial repayment of promissory notes amounting to EUR 43 million.

Decline in lease liabilities

The decline in lease liabilities compared to the previous year was mainly influenced by payments of lease liabilities totalling EUR 747 million, up EUR 107 million year on year, as well as offsetting changes in the present value amounting to EUR 602 million in total.

Increased trade and other payables

The increase compared to the previous year is due in particular to fluctuations in normal operating activities and higher payables in connection with the launch cycles of new mobile devices. Since 2023, other payables have also included items that were allocated to the now renamed contract liabilities item in 2022. This related to payables of EUR 20 million in financial year 2023 compared to EUR 54 million in the previous year.

Payables – Spectrum

The payables are attributable to the outstanding payment obligations resulting from the mobile spectrum auction in 2019. They decreased largely due to the instalments paid in the financial year.

Provisions higher year on year

Provisions increased by EUR 38 million to EUR 577 million, mainly due to higher asset retirement obligations and pension obligations, in particular as a result of lower discount rates due to interest rate developments. In contrast, other provisions decreased.

Decrease in income tax liabilities

This item comprises tax positions for income tax totalling EUR 8 million (previous year: EUR 68 million). The decrease of EUR 60 million compared to 31 December 2022 is mainly due to tax payments and advance tax payments of EUR 89 million (previous year: EUR 56 million) offset by allocations for current taxes of the financial year 2023 amounting to EUR 27 million (previous year: EUR 31 million).

Decrease in contract liabilities

Contract liabilities declined to EUR 613 million in financial year 2023 (previous year: EUR 730 million). The balance sheet item previously referred to as prepaid expenses included EUR 54 million in the previous year, which do not constitute contract liabilities. The decline was due in particular to routine releases partly relating to the obligation from the payments received under the contract with an MVNO, which was classified as a contract liability. Voucher sales in prepaid business also decreased.

Decline in deferred tax liabilities

The decrease in deferred tax liabilities remaining after netting in financial year 2023 to EUR 229 million (previous year: EUR 247 million) is attributable to the realisation of taxable temporary differences. These include reductions in tax amortisation on account of longer amortisation periods for tax purposes in connection with intangible assets, which were realised, and the development of temporary differences.

Equity impacted by dividend payment and profit for the period

The changes to equity mainly result from the dividend of EUR 535 million paid after the Annual General Meeting in May 2023 and conversely the profit for the period of EUR 273 million.

Report on Risks and Opportunities

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

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

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

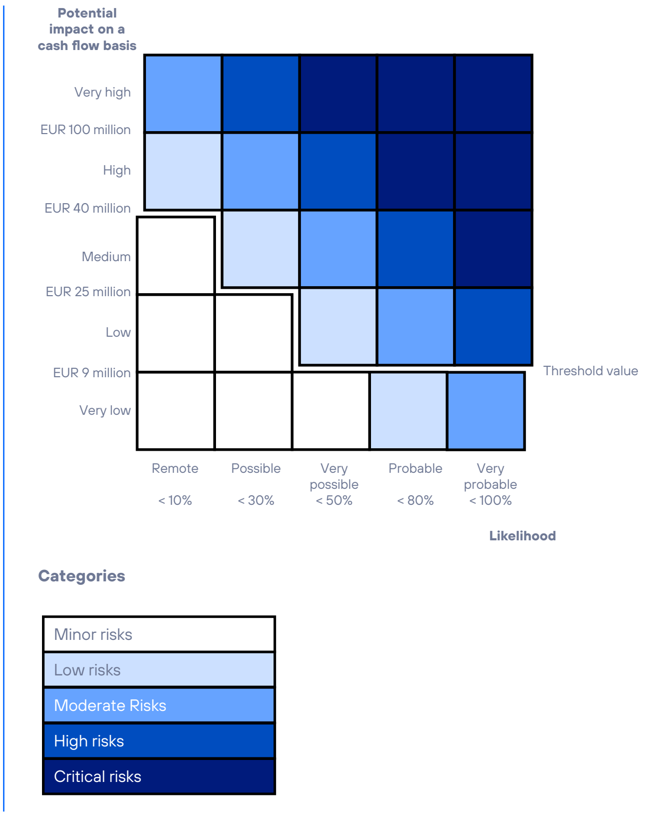
In a formal forward-looking process, the Risk Register of Telefónica Deutschland Group is the subject of regular reporting to the Management Board. The Supervisory Board and the Audit Committee are regularly informed about risks and their development.

Opportunities are not recorded in the risk management system.

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

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

G 10 – RISK PROFILE



Based on the combination of the potential level of impact and the estimated likelihood of occurrence, the individual risks are divided into 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 probability of occurrence and level of impact decrease, the risks fall into the corresponding categories below.

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

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

Risks

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

Business risks

Competitive markets and changing customer demands

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

Geopolitical risks

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

The greatest impact from the Ukraine war on our business is the fluctuating or higher energy prices and the influences on the supply chain for network technology and network towers. If certain network technologies or hardware were no longer to be available or permitted, the resulting follow-on costs could be enormous. Against the background of international conflicts, the ongoing proceedings on the use of critical components could also pose the risk that German authorities do not approve the usage of these components and we may not be able to carry out our network rollout as planned or face higher costs.

To counter this risk, we strive to avoid possible dependencies on individual suppliers and to hold appropriate inventories. We continue to observe and analyse the possible impact of international conflicts on our business activity. We classify this risk as critical.

Macroeconomic factors

Macroeconomic developments have an impact on our business activities as well as our net assets, financial position and results of operations. Due to various factors, the inflation rate remained high during 2023. On the one hand, this could shift consumer sentiment and reduce customer demand for products; on the other hand, the purchase prices for goods and services could increase more than we had previously anticipated.

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

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

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 termination rates even more. They could similarly oblige us to grant third parties access to our networks at reduced prices. A result of new roaming requirements could be that measures by regulatory authorities could negatively affect our business activity as well as our financial and earnings position. We classify this risk as high.

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

Regulatory requirements in connection with the acquisition of the E-Plus Group
In approving the acquisition of the E-Plus Group, the European Commission obligated Telefónica Deutschland Group to meet various requirements. This includes an obligation to provide frequencies, infrastructure and network capacities to a potential new mobile network operator in exchange for payment. In fulfilment of the frequency part of this condition, Telefónica Deutschland Group agreed with 1&1 Group to transfer 2 x 10 MHz in the frequency range at 2.6 GHz to 1&1 Group until the end of the term at the end of 2025; in return, Telefónica Deutschland Group will receive an annual usage fee. The contract was approved by the EU Commission. To meet another requirement of the European Commission, we entered into extensive agreements with 1&1 Group in 2014 on the provision of network capacities and services. A corresponding national roaming agreement was concluded in May 2021. 1&1 Group has set the national roaming start date for 8 December 2023. An extensive project was launched by Telefónica Deutschland Group to ensure strict compliance with the contracts concluded and hence prevent the possibility of significant fines. We classify this risk as low.

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

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

Operational risks

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

Damage caused by cyber attacks
Cyber attacks on our network or our IT systems that are not detected or averted in good time could lead to disruptions or damage that could also affect our services and thus result in lost revenue and customer dissatisfaction. Against the backdrop of the war in Ukraine, the German Federal Office for Information Security has already issued a warning about the increase in cyber attacks on critical infrastructure operators. This is why we see an increased likelihood of cyber attacks. The availability and confidentiality of data that we process may be impacted by these attacks. In addition to reputational losses, legal consequences would also be possible, and we could be fined. We counter this risk, on the one hand, by analysing and reducing weaknesses and focusing on an early warning system, and, on the other hand, we are constantly improving

our systems for rectifying faults and establishing increased risk awareness among our employees with regard to cyber attacks. We classify this risk as critical.

Technical faults

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

Supply chain disruptions

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

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

Use of trademark rights

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

Use of services

Telefónica Deutschland Group still obtains services and inputs from Telefónica, S.A. Group to a significant extent. There are a range of contracts, particularly in the areas of financial management and IT services. If inputs from 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.

Adjustments to increased ESG requirements

The reporting requirements from regulatory authorities, analysts, investors, customers and other stakeholders of Telefónica Deutschland Group regarding the responsibility for environmental protection, social responsibility and corporate governance (ESG - Environmental, Social, Governance) are increasing. At the same time we have examined our processes in regard to possible human rights violations that have arisen from activities of our suppliers or other business relationships. The risk was re-evaluated on the basis of external benchmarking and references from Telefónica, S.A. Group. We classify this risk as low. To counter the risk, we have set up a project to establish corresponding controls and an ESG risk management process. We are also monitoring potential climate risks and do not currently expect any direct damage from climate change.

Development of customer base

Our sales strategy uses different sales channels for our products and services to further develop our customer base. If we fail to maintain or develop our sales channels and partnerships in different business models, or if we misinterpret our customers' channel preferences, this could affect our ability to maintain and grow our customer base. Even if we take measures and develop further alternative plans, these activities are subject to uncertainties regarding the timetable and successful implementation. While the likelihood of occurrence remains unchanged, we assess there to be a higher potential level of impact as to the acquisition of new sales channels. This rendered the risk reportable. We are addressing this low risk by continuously monitoring the sales channels and analysing market conditions to enable us to react quickly to changes.

Legal risks

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

Data privacy regulations

In the course of our business activities, we also collect and handle customer data and other personal data. There is the risk of misuse or loss of this 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. Against the backdrop of the "Schrems II" ruling by the European Court of Justice (ECJ) in particular, there are still uncertainties regarding data transfers to countries outside the EU or the European Economic Area (EEA). An adequacy decision for data transfers to the US was published by the EU Commission in 2023 for companies certified under the EU-US Data Privacy Framework. However, this decision does not solve the problem for other countries outside the EU or the EEA. Furthermore, we do not know whether this decision will stand up to judicial review. We classify this risk as high.

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

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

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

Financial risks

Higher market interest rates
As a result of the overall rise in market interest rates, we expect higher interest expenses compared to previous years in the case of utilisation of financing lines with variable interest rates and when new financing is concluded, and also particularly in the event of measures within the framework of our working capital management. Our bank and capital market financing operations that had been utilised as of 31 December 2023 were concluded solely with a fixed interest rate. Against the backdrop of market developments, we see a higher interest rate risk with an unchanged probability of occurrence and now categorise the risk as moderate. We counter this risk through close monitoring and, if necessary, through financial hedging measures.

Overview of assessments of reported risks

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

Risks from Financial Instruments

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

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. Telefónica Deutschland Group has developed guidelines derived from established standards for the evaluation of risks and monitoring with regard to the use of financial derivatives.

Market risk

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

Currency risk

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

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

Interest rate risk

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

Telefónica Deutschland Group is exposed to interest rate risks arising from variable-rate loan agreements as borrower and from the variable-rate cash pooling accounts with Telfisa Global B.V. as well as in the form of opportunity costs in connection with the conclusion of fixed-rate debts, the interest rate of which may exceed market interest rates during the term. The overall rise in market interest rates will lead to higher interest charges in the foreseeable future compared to recent years when new financing is concluded or when credit lines are drawn down.

Inflation risk

The inflation risk consists of the risk of a negative effect on the financial result as a result of an adverse change in the inflation rate for Telefónica Deutschland Group. Non-current contractual receivables totalling EUR 268 million are subject to this risk.

Credit risk

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

Telefónica Deutschland Group considers the management of the commercial credit risk to be critical in order to achieve its goals for sustainable growth of the business and the customer base in harmony with its risk management guidelines. Suitable processes have been established for the management and the monitoring of the credit risk. These include the ongoing monitoring of the expected risks and the level of default. Particular attention is paid here to the customers, which could have significant effects on the Consolidated Financial Statements of Telefónica Deutschland Group. For these customers, credit management instruments such as credit insurance or collateral for limiting the default risk are used, depending on the business area and type of business relationship. To control credit risk, Telefónica Deutschland Group regularly conducts an analysis of the maturity structure of trade receivables and recognises adjustments for expected credit defaults on receivables.

Liquidity risk

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

Opportunity Management

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

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

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

Opportunities are neither recognised in the risk register nor quantified.

Opportunities

Increase in mobile data usage

A further increase in mobile data usage by customers could accelerate the demand for high-quality O_2 tariffs. A significant increase in demand for mobile data may result from several developments. Significant improvements in LTE network availability and wide availability of 5G through growing network coverage and the rising number of compatible mobile devices enable more customers to use high data transfer rates. The increased availability and use of streaming and TV services may also further increase demand for data. These effects can lead to an increase in the average monthly data consumption per customer and thus further increase the demand for tariffs with larger data volumes. If these effects are more positive than expected, they could have a more positive impact on our revenues.

In addition, a stronger demand for mobile fixed-network connections through mobile-based WLAN routers (FMS), which can be used as an alternative to the traditional DSL connection, can also increase data usage. If demand for our mobile-based fixed-network alternatives is stronger in certain areas than previously expected, this could have a positive impact on our revenues and EBITDA.

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

Expansion of our 5G coverage

The O_2 mobile network is of very high quality. For the fourth time in a row, the magazine "connect" rated the O_2 mobile network as "very good" in its renowned network test.[27] Telefónica Deutschland Group is focusing on a consistent network expansion strategy with a focus on network densification in both urban and rural areas to further improve customer experience with 5G. In 2023, more than 3,000 5G sites were realised and Telefónica Deutschland Group supplied around 95% of the population with 5G by the end of the year.[28] Telefónica Deutschland Group is therefore on target for achieving nationwide 5G coverage by the end of 2025 at the latest.

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

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

Fixed-network cooperation agreements via various technologies

As an integrated telecommunications provider, Telefónica Deutschland Group provides not only comprehensive mobile telephony services but also fixed-network services, which are made possible by various cooperation agreements. Since 2013, we have been focusing on a nationwide strategic partnership with Telekom Deutschland GmbH ("Telekom"), through which we can offer our customers DSL products and, since November 2022, fibre-optic connections. In addition, cooperation agreements expand our presence in the fixed-network market and also open up further growth opportunities (>Management Report BUSINESS ACTIVITIES).

As part of the cooperation with the Vodafone Group, we obtain access to up to 24 million[29] cable households in Germany and can offer most of them fixed-network O_2 products with download speeds of up to 1 Gbps.[30] Through the cooperation agreement with Tele Columbus, Telefónica Deutschland Group also has long-term access to a further 2.4 million[31] households supplied with IP products by Tele Columbus via cable and fibre-optic networks. This agreement allows data speeds of up to 1 Gbps to be provided to customers.[32]

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

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

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

Opportunities from freed-up network capacities

A central component of our "Accelerated Growth & Efficiency Plan" is to utilise the network capacities that are expected to be freed up in the future and that are no longer used by 1&1 Group as efficiently as possible. In doing so, we are bound by fewer regulatory requirements, which gives us greater room for manoeuvre.

If we are more successful than expected in utilising the freed-up network capacities, this could have a positive impact on our revenues and EBITDA and we could exceed our forecast.

Digital innovation

In order to fully exploit our position in the German market for mobile telecommunications services and to monetise additional opportunities for growth, we have introduced innovative digital products and value added services, such as our new cloud-based B2B billing platform, which offers business customers fast, maximally configurable billing and a high level of security.[33] Telefónica Deutschland Group is also developing new digital market segments such as IoT for all its customer groups.

[27] Source: connect mobile communications and 5G network test, issue 1/2024: Overall rating: "very good" (895 points) for O_2: overall was twice awarded "very good" (926 and 895 points) and once "outstanding" (967 points)
[28] The selected population-based evaluation includes not only the household-based coverage calculation with a fixed location reference as reported to the German Federal Network Agency. It also includes commuter flows within the population, with the result that some of the population are counted both in their residences and in their workplaces (maximum population). In doing this, Telefónica Deutschland Group takes into account that the services are not only in demand at home but also when travelling. This value is the value for the end of 2023, which indicates the availability of mobile telecommunications services outside of buildings (outdoors).
[29] Source: Telefónica Deutschland Holding AG press release: "O_2 launches nationwide rollout of cable connections" (26 January 2021)
[30] Source: Telefónica Deutschland Holding AG press release: "Gigabit speed for over 22 million cable households" (26 April 2022)
[31] Source: Telefónica Deutschland Holding AG press release: "O_2 markets fixed-network tariffs on Tele Columbus cable connections" (14 July 2021)
[32] The number of households that can be reached as part of the cooperations should not be considered cumulatively due to overlaps.
[33] Source: Telefónica Deutschland Holding AG press release: "O_2 Telefónica launches new B2B billing platform with MATRIXX on Google Cloud" (2 March 2022)

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

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

Digitalisation of processes

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

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

Potential in the SME segment of the business customer market

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

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

Membership of Telefónica, S.A. Group

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

Summary of the Risks and Opportunities

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

Compared to the previous year, we have newly recognised the risk “Adjustments to increased ESG requirements”. We have also newly included the risk “Development of customer base”, which was listed above the threshold value for the first time.

A reassessment of the risk “Higher market interest rates” has resulted in it now being categorised higher.

Similarly, a reassessment of the risk “COVID-19 pandemic” has indicated that the impact is now classified as low, it therefore falls below the threshold and is no longer reported.

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

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

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

Accounting-Related Internal Control and Risk Management System

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

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

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

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

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

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

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

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

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

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

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

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

Internal Control System[34]

Risk Management and Internal Control System

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

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

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

Telefónica Deutschland Holding AG and its governing bodies are committed to efficient, sustainable and transparent corporate governance as well as to values that form the basis of common business principles described in the Company's code of conduct called "Our Responsible Business Principles". This code of conduct includes mandatory fundamental principles and guidelines aimed to direct both management and employees in their daily work. The business principles constitute the foundation for ensuring that the company and its employees act ethically and professionally and with integrity.

The Management Board has no indication that the internal control and risk management system has not been appropriate or effective as of 31 December 2023. The elements of the current internal control system are continuously enhanced in order to adjust it to the changing legal and economic conditions of business operations.

Internal Audit

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

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

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

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

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

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

Compliance

Telefónica Deutschland Group is committed to comply with all laws, regulations, processes, rules and enactments applicable to its business activity. The Group's compliance programme includes the main areas of anti-corruption with clear guidelines and procedures, competition law and the avoidance of ethically inappropriate behaviour. Preventive measures within the framework of the compliance programme include, for example, mandatory online training on the above-mentioned topics, on data protection and information security, as well as the avoidance of conflicts of interest. Suspected legal violations within the meaning of Section 2 of the Whistleblower Protection Act and other legal violations, as well as potential violations of internal guidelines and business principles can be reported by employees and third parties using an internal reporting channel (tell-us@telefonica.com) or the external whistleblower system, anonymously, if necessary.

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

Report on Expected Developments

Economic Outlook[35]

According to the German Federal Statistical Office (Destatis), the consequences of the energy crisis and higher inflation have left their mark on the German economy in 2023. Although there has been no sharp decline in economic output so far, the economy as a whole has not yet returned to a growth path. According to initial estimates by Destatis, German GDP shrank by 0.3% in 2023 compared to the previous year. Experts at the ifo Institute predict only a slow recovery over the forecast horizon. In view of the muted global economy and the tightening of monetary policy in the advanced economies, foreign trade and capital expenditure are not expected to provide any expansionary impetus in 2024. However, private consumer spending is likely to recover in the forecast horizon up to the end of 2024 as real incomes rise again. For 2024, the ifo Institute expects GDP growth to show a slightly positive trend and amount to 0.7%.

Inflation in Germany, as measured by the national consumer price index (CPI), fell significantly over the course of 2023, from 8.7% (year on year) in January 2023 to 3.7% in December 2023. On average, consumer prices in Germany increased by 5.9% in 2023 compared to 2022. Experts at the Council of Economic Experts predict that inflation will continue to fall. For 2024, they are forecasting an average inflation rate of 2.6%.

According to the Council of Economic Experts, the economic weakness is not currently reflected in unemployment figures. This is due to the opposing effects of the weakening economy and increasing labour shortages, which are being exacerbated significantly by demographic change. Accordingly, the labour market is losing momentum, but there are no signs of a major reduction in employment. According to reports by the Federal Employment Agency, the unemployment rate averaged 5.7% in 2023. Experts at the Council of Economic Experts are forecasting an unemployment rate of 5.5% for 2024.

T 10 – GDP GROWTH 2022 – 2024 GERMANY (PRICE-ADJUSTED)[36]

In % compared to previous year	2022	2023	2024
Germany	1.8	-0.3	0.7

Market Expectations[37]

Digitalisation is now an integral part of our everyday lives and will continue to gain in importance for consumers and commercial enterprises. According to a survey by the digital association Bitkom, 87% of companies are convinced that the use of digital technologies plays a decisive role in the competitiveness of the German economy. Digital technologies are very relevant for companies, but there is still a lot of potential for their utilisation: 92% of respondents attach great importance to data analyses and Big Data, but only 39% use them. Robotics is considered important by 86%, but only 40% use the technology. The situation is similar for the Internet of Things (84% major importance, 36% use), 3D printing (74% versus 23%) as well as virtual and augmented reality (67% versus 24%). Blockchain technology is considered to be very important by 67% and the metaverse by 36%, but only very few use these technologies.

[35] Source: ifo Institute: Press release "ifo Institute Cuts Growth Forecast for Germany in 2024 to 0.7%" (24 January 2014); Council of Economic Experts: Annual Report 2023/24 "Overcoming weak growth - investing in the future" (8 November 2023); German Federal Statistical Office (Destatis): Press release № 019 "Gross domestic product down 0.3% in 2023" (15 January 2024) and press release № 020 "Inflation rate at +5.9% in 2023" (16 January 2024); Federal Employment Agency: Press release № 2 "Annual Review 2023" (3 January 2024)

[36] Source: ifo Institute: Press release "ifo Institute Cuts Growth Forecast for Germany in 2024 to 0.7%" (24 January 2024); German Federal Statistical Office (Destatis): Press release № 019 "Gross domestic product down 0.3% in 2023" (15 January 2024)

[37] Sources: Digital association Bitkom: Press release "Digitalised companies pull away from the competition" (22 June 2023), Guide: "How companies can use the metaverse to their advantage" (23 September 2023), press release "Industry sees opportunities for climate protection in digitalisation" (15 November 2023) and press release "German AI market grows by a third" (29 November 2023); PwC: German Entertainment and Media Outlook (GEMO) 2023-2027 (12 September 2023); Analysys Mason: Hub Query Telco Forecasts (16 November 2023); KPMG Germany website: "The Metaverse - Opportunities and Strategies" (internet query from 7 December 2023); Bearing Point: Press release "Web 3.0 - How companies benefit from the new internet" (14 September 2023); Telefónica Deutschland Holding AG: Press release "Markus Söder makes first holographic phone call over O_2 Telefónica 5G network" (4 December 2023)

By using digital technologies, sustainable development can be supported and accelerated in many areas – be it through data-driven efficiency increases or digital innovations. New opportunities are also opening up for education, health and social innovation. According to a study by the digital association Bitkom, 80% of companies in Germany see digitalisation as an opportunity for greater sustainability and climate protection, while 89% see a long-term competitive advantage for those companies that invest in sustainable technologies. Every second company sees digitalisation as an opportunity for new, climate-friendly business models.

The expansion of the fibre-optic network and the 5G mobile communications standard will be decisive for further digitalisation in Germany. According to the German Entertainment and Media Outlook (GEMO) study, total data traffic is expected to increase by an additional 20% to 152,743 petabytes in 2024. The main drivers for the demand for broadband services include streaming, the use of especially video-intensive social networks and the increase in gaming. The video segment, with a share of around 80% of data consumption, accounts for the majority of this. The demand for fast internet access will increase as more high-quality games are developed in conjunction with virtual reality (VR) or augmented reality (AR). Analysys Mason estimates that a mobile customer's data consumption will increase by over 33% from 2023 to 2024 to 9.8 GB per month. The rollout of fibre optics is also progressing. The German government's gigabit strategy aims to triple the number of fibre-optic connections by 2025, so that half of all households will have a fibre-optic connection. Deutsche Telekom alone is planning to provide ten million households with an FTTH connection by the end of 2024. Telefónica Deutschland Group aims to create up to 2.2 million fibre-optic accesses with the joint venture "Unsere Grüne Glasfaser (UGG)".

Artificial Intelligence (AI) is fundamentally changing our economy and society. According to the digital association Bitkom, two thirds of companies in Germany see AI as the most important technology of the future, but only 15% are using it. The current boom in artificial intelligence is leading to a sharp rise in demand on the German market. Spending on AI software, services and corresponding hardware rose to EUR 6.3 billion in 2023. This is an increase of 32% compared to 2022. This was announced by the digital association Bitkom on the basis of data from the market research company IDC. In 2024, spending is expected to rise again by 30% to EUR 8.2 billion. Another trend is the metaverse. The new virtual 3D worlds, in which users can move around using their avatars and interact with others, are a further development of the advancing digitalisation of all areas of life. The boundaries between the real and virtual worlds are becoming increasingly blurred. According to KPMG Germany, companies can benefit from the metaverse in a variety of ways. While the metaverse can take various forms, according to the digital association Bitkom, the industrial metaverse is specifically geared towards industrial applications and the industrial use of virtual worlds. The industrial metaverse offers a wide range of possible applications, such as digital twins. Digital twins are digital images of physical objects that can be used in different scenarios. From education and training under simulated conditions to construction, maintenance, repair and virtual product testing, the industrial metaverse opens up numerous possibilities for the industry. Hologram communication is considered an important 5G use case for the near future. Business partners from all over the world will see themselves as virtual avatars in telephone and video conferences. Company team meetings take place around a digital conference table. Holograms allow friends and relatives from afar to join you in your living room. Telefónica Deutschland Group is working on further developing the application, integrating it into the network and establishing interfaces with other network operators.

Web 3.0 is described as the next stage in the development of the internet and is based on the decentralisation of data, identity and transactions. According to a study by technology consultants Bearing Point and the IIHD Institute, Web 3.0 offers companies great opportunities, such as new business models, efficient business processes and cost savings. However, Web 3.0 is still in its early stages. The increased use of networks for new applications with an increasing demand for data requires seamless processes to an even greater degree and shifts the demands to network operators.

Financial Outlook 2024

In financial year 2024, Telefónica Deutschland Group aims to further pursue its sustained growth path. Building on recent years good momentum and its 3-year (2024-26) 'Accelerated Growth & Efficiency Plan', the Group is focusing on building a more resilient business model.

Telefónica Deutschland Group continues to leverage its multiple 'very good' awards winning O_2 network[38] as well as its multi-brand and multi-channel strategy as the backbone of the go-to-market strategy.

Postpaid remains Telefónica Deutschland Group's strongest value generator with the high appeal of the O_2 brand as a growth driver. In prepaid, the market trend of prepaid to postpaid migration continues. Within the technology-agnostic O_2 Home portfolio, high-speed cable and fibre accesses are increasingly gaining traction.

Telefónica Deutschland Group expects the market to remain dynamic, yet rational in financial year 2024, with a robust pricing environment in both, the premium and the discount segment.

Furthermore, Telefónica Deutschland Group expects regulatory changes to remain a headwind to its financial performance in financial year 2024. Revenues, and to a lesser extent EBITDA, will be impacted primarily by the reduction of the mobile termination rate from 0.40 euro cents per minute to 0.20 euro cents per minute effective 1 January 2024.

[38] Source: connect mobile network and 5G network test, issue 01/2024: Overall rating "very good" (895 points) for O_2; overall, "very good" was awarded twice (926 and 895 points) and "outstanding" was awarded once (967 points)

Sustained mobile service revenue growth remains the key driver of Telefónica Deutschland Group's revenue and profitability trends, mainly reflecting the O_2 brand's commercial success. In contrast, hardware revenues are expected to remain volatile and in particular dependent on market dynamics as well as launch cycles and availability of new smartphones. As before, hardware margins are largely EBITDA-neutral.

Fixed broadband offers are complementing Telefónica Deutschland Group's tariff portfolio, promoting customer retention and loyalty. Hence, the Group can optimally meet customer needs through its technology-agnostic approach and expects continued growth in financial year 2024.

Telefónica Deutschland Group will continue to pursue its path of digital transformation to generate revenue growth and efficiency gains. In doing so, the Group is emphasising sustainable growth and is pushing the execution of its ESG strategy. Digitalisation is playing a key role in tackling climate change and achieving CO_2 neutrality targets.

In summary, Telefónica Deutschland Group expects for financial year 2024:

- Slightly positive year-on-year revenue growth, including regulatory headwinds of approximately EUR -70 to -80 million.
- Low to low-mid single-digit percentage year-on-year growth of EBITDA adjusted for exceptional effects, including regulatory headwinds of approximately EUR -20 to –25 million.
- A Capex/Sales ratio of 13% to 14%.

Telefónica Deutschland Group's assumptions are based on current economic conditions and current competitive dynamics as well as existing wholesale relationships including the launch of the fourth mobile network in Germany and the related changes to the business model. At the same time, management is continuously monitoring and analysing business impacts of further macroeconomic and geopolitical developments on the Group.

T 11 – FINANCIAL OUTLOOK 2024

	Actual 2023	Outlook for 2024[2]
Revenues	EUR 8,614 million	Slightly positive year-on-year
EBITDA[1] adjusted for exceptional effects	EUR 2,617 million	Low to low-mid single-digit percentage year-on-year growth
CapEx/Sales ratio	13.2%	13 – 14%

[1] In line with market standards and to improve comparability, Telefónica Deutschland Group is adapting its reporting to general market standards by renaming 'OIBDA' to 'EBITDA' with effect as of 1 January 2024. By definition, this is operating income minus depreciation and amortisation.
[2] Includes regulatory headwinds of approximately EUR -70 to -80 million at revenue level and approximately EUR -20 to -25 million at EBITDA level

Other Disclosures

Report on Relations with Affiliated Companies

In the period from 1 January to 31 December 2023, Telefónica Deutschland Holding AG was a directly dependent company of Telefónica Germany Holdings Limited, Slough, United Kingdom, within the meaning of section 312 AktG. In addition, Telefónica Deutschland Holding AG was an indirectly dependent company of O2 (Europe) Limited, Slough, United Kingdom and of Telefónica, S.A., Madrid, Spain, within the meaning of section 312 AktG. There is neither a domination agreement nor a profit and loss transfer agreement between Telefónica Deutschland Group and the aforementioned companies.

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

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

Separate Non-Financial Group Report

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

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 share capital is fully paid. As of 31 December 2023 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 non-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 the corresponding recommendation to refrain from trading in this period. Other than this, there are no internal governance provisions providing for restrictions on the purchase and sale of shares by Management Board members or employees.

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

According to the announcement of Telefónica Local Services GmbH pursuant to section 23 (1) no. 1 of the German Securities Acquisition and Takeover Act (WpÜG) of 2 January 2024, as of 29 December 2023, approximately 69.22% of the shares of Telefónica Deutschland were held by Telefónica Germany Holdings Limited, Slough, United Kingdom (Telefónica Germany Holdings Limited), an indirect wholly owned subsidiary of Telefónica, S.A., Madrid, Spain (Telefónica, S.A.) and approximately 13.22% (plus 1.32% in accordance with section 38 (1) sentence 1 no. 1b) of the German Securities Trading Act (WpHG) of shares of voting rights to be announced) were held by Telefónica, S.A. On 7 November 2023 Telefónica, S.A. decided and announced that it would make a voluntary public tender offer in the form of a partial offer to the shareholders of Telefónica Deutschland Holding AG through its wholly owned subsidiary Telefónica Local Services GmbH, Ismaning, Germany to acquire shares in Telefónica Deutschland not already held (directly or indirectly) by Telefónica, S.A. At the time of publication of the voluntary public tender offer on 5 December 2023, the shares not already held by Telefónica, S.A. represented 18.52% of the share capital. The offer provided for the payment of a cash consideration of EUR 2.35 per Telefónica Deutschland share. The acceptance period ended on 17 January 2024. Further information relating to the period after the end of financial year 2023 is provided in >Note 21 SUBSEQUENT EVENTS.

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 Chairman of the Management Board (Chief Executive Officer, CEO). Deputy members of the Management Board may be appointed.

At the end of financial year 2023, the Management Board of Telefónica Deutschland Holding AG consisted of seven members. From 2 June 2022 until 31 August 2023, the Management Board consisted of six members.

Management Board members are appointed by the Supervisory Board for a term of no more than five years. They can be re-appointed and their term of office can be extended, provided that one term 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 Chairman of the Supervisory Board has two votes.

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

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

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

The authorisation of the Management Board to issue shares is governed by section 4 of the Articles of Association in conjunction with the statutory provisions. As of 31 December 2023, the following authorisations of the Management Board for the issuing of shares exist:

Authorised capital
As of 31 December 2023, the Management Board is authorised, with the approval of the Supervisory Board, to increase the share capital of the company in the period until 19 May 2026 (inclusive), on one or more occasions, by a total of EUR 1,487,277,496 by issuing up to 1,487,277,496 new no-par value shares in exchange for cash and/or non-cash contributions (Authorised Capital 2021/I). The authorisation stipulates that shareholder subscription rights can, in certain cases, be completely or partially excluded (section 4 (3) of the Articles of Association). This was resolved by the Annual General Meeting on 20 May 2021, which at the same time cancelled the existing Authorised Capital 2016/I.

Conditional capital

For the purpose of the issue of registered no-par value shares to the holders or creditors of bonds, the share capital of the company was 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 Annual General Meeting on 21 May 2019, which at the same time cancelled the existing Conditional Capital 2014/I.

Authorisation of the Management Board to buy back own shares

The authorisation of the Management Board to buy back own shares is governed by section 57 (1) sentence 2 and sections 71 et seqq. AktG. The Annual General Meeting on 19 May 2022 resolved a new authorisation in accordance with section 71 (1) no. 8 of the German Stock Corporation Act (Aktiengesetz – AktG) to buy back own shares of up to a total of 10% of the share capital on the resolution date or, if lower, on the date on which the authorisation is exercised.

Change of control/compensation agreements

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

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

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

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

Business Development of Telefónica Deutschland Holding AG

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

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

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

As a shareholder of Telefónica Germany GmbH & Co. OHG, Telefónica Deutschland Holding AG is the taxable entity for corporate income tax purposes.

As of 31 December 2023, Telefónica Deutschland Holding AG did not have any employees.

Results of Operations

T 12 – INCOME STATEMENT

1 January to 31 December

(in EUR million)	**2023**	**2022**	**Change**	**% change**
Revenues	**11**	**10**	**1**	**9.1**
Other income	0	0	(0)	(83.0)
Operating expenses	(19)	(12)	(6)	50.9
Personnel expenses	(10)	(9)	(0)	3.3
Other operating expenses	(9)	(3)	(6)	>100
Operating income	**(7)**	**(2)**	**(6)**	**>100**
Financial result	(0)	(0)	(0)	>100
Profit/(loss) before tax	**(8)**	**(2)**	**(6)**	**>100**
Income taxes	(1)	(13)	12	(94.0)
Profit/(loss) after tax	**(8)**	**(14)**	**6**	**(41.7)**
Other taxes	0	0	(0)	(7.5)
Profit/(loss) for the period	**(8)**	**(14)**	**6**	**(41.7)**

Telefónica Deutschland generates its revenues from compensation for services which it provides for its subsidiaries. In financial year 2023, the reimbursement costs resulted in revenues in the amount EUR 11 million.

Revenues in financial year 2023 were at the previous year's level of EUR 11 million. The EUR 6 million increase in other operating expenses in the reporting year was offset by the EUR 12 million decrease in income tax expenses compared to the previous year. This led to a reduction overall in the loss for the period from EUR 14 million in the previous year to EUR 8 million in the reporting year.

Revenues at previous year's level
In the financial year, revenues of EUR 11 million (2022: EUR 10 million) were realised. The revenues, at EUR 11 million, were essentially comprised of charging on the costs for the remuneration of Management Board members, as well as additional administration costs, which are assumed by Telefónica Germany GmbH & Co. OHG in accordance with agreements. Furthermore, invoiced management services are included in the amount of EUR 294 thousand, which Telefónica Deutschland Holding AG provided for Telefónica Germany GmbH & Co. OHG and Telefónica Germany Management GmbH.

Personnel expenses at previous year's level
Personnel expenses comprise the remuneration of the Management Board including social security contributions and amounted to EUR 10 million in the financial year (2022: EUR 9 million).

Other operating expenses significantly above previous year's level
At EUR 9 million, other operating expenses were significantly above the level of the previous year (2022: EUR 3 million). They essentially include legal and consulting expenses from external service providers. This mainly includes consulting fees in connection with the public tender offer to shareholders published by Telefónica, S.A. on 7 November 2023. On 7 November 2023 Telefónica, S.A. decided and announced that it would make a voluntary public tender offer in the form of a partial offer to the shareholders of Telefónica Deutschland Holding AG through its wholly owned subsidiary Telefónica Local Services GmbH to acquire those Telefónica Deutschland shares not already held (directly or indirectly) by Telefónica, S.A.

Income taxes significantly below previous year's level
Income tax expenses totalling EUR 1 million (2022: EUR 13 million) consist of corporate income tax expenses including solidarity surcharge of EUR 11 million (2022: EUR 13 million) as well as offsetting income from tax refund claims of EUR 7 million in the financial year and income from the release of tax provisions of EUR 3 million for previous years.

Annual results improved
The Company was able to reduce its loss for the period from approximately EUR 14 million in the previous year to approximately EUR 8 million in the reporting year. The development is mainly due to the decrease in income tax expense described above.

Financial Position and Net Assets

T 13 – BALANCE SHEET

As of 31 December

(in EUR million)	2023	2022	Change	% change
Fixed assets				
Financial assets				
Shares in affiliated companies	6,360	6,911	(550)	(8.0)
Current assets				
Receivables from affiliated companies	145	115	30	26.3
Other assets and miscellaneous assets	11	0	11	–
Total assets	**6,517**	**7,026**	**(509)**	**(7.2)**
Equity	6,388	6,932	(544)	(7.8)
Provisions	20	16	3	21.3
Liabilities	108	77	31	40.5
Total equity and liabilities	**6,517**	**7,026**	**(509)**	**(7.2)**

Principles and goals of financial management

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

Bond for corporate financing

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

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

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

Investment projects

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

Decrease in financial assets

Shares in affiliated companies in the amount of EUR 6,360 million (2022: EUR 6,911 million) relate in the amount of EUR 6,345 million (2022: EUR 6,900 million) to the shares in Telefónica Germany GmbH & Co. OHG, Munich, of which the Company is the personally liable shareholder. The decrease in the carrying amount of the investment in Telefónica Germany GmbH & Co. OHG results from the withdrawal by Telefónica Deutschland of a total of EUR 555 million on the basis of a shareholders' resolution dated 10 May 2023 in accordance with section 4 (3) of the shareholders' agreement.

In addition, a carrying amount of EUR 15 million (2022: EUR 10 million) relates to the shares in Telefónica Germany Management GmbH, Munich. In financial year 2023, an additional payment of EUR 5 million was made to the additional paid-in capital of Telefónica Germany Management GmbH, Munich, in accordance with section 272 (2) № 4 HGB.

Increase in receivables from affiliated companies

The increase of EUR 30 million was primarily due to the increase in receivables from affiliated companies from the fiscal unity for value-added tax purposes from EUR 93 million in 2022 to EUR 130 million in the reporting year. This was offset by the decline in cash pooling receivables from Telfisa Global B.V., Amsterdam from EUR 20 million in 2022 to EUR 13 million in the reporting year.

Increase in other assets

Other assets in the amount of EUR 11 million (2022: EUR - million) are fully attributable to tax refund claims in connection with advance tax payments made.

Increase in provisions

The increase in provisions from EUR 16 million in 2022 to EUR 20 million in the reporting year is mainly due to the EUR 6 million increase in other provisions in the financial year, which include outstanding incoming invoices. This was offset by the EUR 3 million decrease in the tax provision for corporate income tax including solidarity surcharge (2022: EUR 3 million).

At EUR 4 million, pension provisions were at the previous year's level (2022: EUR 4 million).

Increase in liabilities

The increase in liabilities in the reporting year was primarily the result of the increase in other liabilities by EUR 31 million to EUR 84 million (2022: EUR 53 million). The other liabilities of around EUR 84 million (2022: EUR 53 million) relate in particular to VAT liabilities, which the Company is required to pay to the tax authority as the controlling company of the VAT group.

At EUR 24 million (2022: EUR 24 million), liabilities to affiliated companies were at the previous year's level.

Decline in equity

Equity decreased in financial year 2023 by EUR 544 million or 7.8% to EUR 6,388 million (2022: EUR 6,932 million). The change in equity resulted from the dividend payment of EUR 535 million resolved on 17 May 2023 and paid in the financial year and from the result for the period of EUR -8 million.

Telefónica Deutschland Holding AG had authorised capital 2021/I of EUR 1,487,277,496 as of 31 December 2023.

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

Employees

As in 2022, Telefónica Deutschland Holding AG had no employees in financial year 2023.

Risks and Opportunities

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

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

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

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

On 21 January 2019, Telefónica Deutschland Holding AG also issued a letter of comfort for Telefónica Germany GmbH & Co. OHG with a term until 31 December 2040. As part of this agreement, Telefónica Deutschland Holding AG undertakes to ensure, without restriction and until 31 December 2040, that Telefónica Germany GmbH & Co. OHG has access to all funds required to fulfil a bid submitted for the acquisition of a frequency in the auction procedure.

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

For further information, please see >REPORT ON RISKS AND OPPORTUNITIES.

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

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

Outlook for 2024

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

Management Declaration

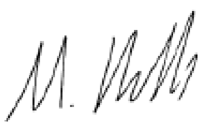
The Company has published this declaration, which, among other items, also contains the Compliance Declaration pursuant to section 161 AktG, information on the remuneration report and remuneration systems pursuant to section 289f (2) № 1a HGB, and the statements on the diversity concept for the Supervisory Board and Management Board on its website (http://www.telefonica.de/investor-relations/corporate-governance/erklaerungen-und-satzung.html) and in the Corporate Governance section of the annual report. This Management Declaration in accordance with sections 289f, 315d HGB (German Commercial Code) forms part of this Combined Management Report. It also refers to the Company website where the remuneration report is made publicly available (http://www.telefonica.de/investor-relations/corporate-governance.html).

Munich, 15 February 2024

Telefónica Deutschland Holding AG

The Management Board

Markus Haas

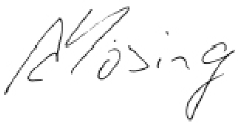


Markus Rolle

Valentina Daiber

Nicole Gerhardt

Andreas Laukenmann



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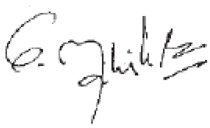

Mallik Rao

Consolidated Financial Statements

for Financial Year 2023

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Consolidated Balance Sheet

Assets (in EUR million)	Notes	As of 31 December 2023	As of 31 December 2022
A) Non-current assets		**12,714**	**13,221**
Goodwill	[5.1]	1,360	1,360
Other intangible assets	[5.2]	3,158	3,605
Property, plant and equipment	[5.3]	3,484	3,512
Right-of-use assets	[5.4]	3,203	3,277
Investments accounted for using the equity method	[10]	11	12
Trade and other receivables	[5.5]	280	292
Other financial assets	[5.6]	414	448
Other non-financial assets	[5.7]	267	251
Deferred tax assets	[6.7]	538	463
B) Current assets		**2,733**	**2,810**
Inventories	[5.8]	148	140
Trade and other receivables	[5.5]	1,452	1,359
Other financial assets	[5.6]	10	34
Other non-financial assets	[5.7]	539	499
Cash and cash equivalents	[5.9]	584	777
Total assets (A+B)		**15,447**	**16,030**

Equity and liabilities (in EUR million)	Notes	As of 31 December 2023	As of 31 December 2022
A) Equity		**5,535**	**5,810**
Subscribed capital	[5.10]	2,975	2,975
Additional paid-in capital	[5.10]	2,836	3,373
Retained earnings		(275)	(538)
Total equity attributable to owners of the parent company		5,535	5,810
B) Non-current liabilities		**5,445**	**5,928**
Interest-bearing debt	[5.11]	1,235	1,510
Lease liabilities	[5.12]	2,559	2,663
Trade and other payables	[5.13]	17	10
Payables – Spectrum	[5.14]	791	891
Provisions	[5.15]	523	472
Contract liabilities*	[5.13]	92	136
Deferred tax liabilities	[6.7]	229	247
C) Current liabilities		**4,467**	**4,292**
Interest-bearing debt	[5.11]	286	128
Lease liabilities	[5.12]	555	597
Trade and other payables	[5.13]	2,857	2,661
Payables – Spectrum	[5.14]	107	107
Provisions	[5.15]	55	67
Other non-financial liabilities	[5.7]	77	70
Income tax liabilities	[6.7]	8	68
Contract liabilities*	[5.13]	522	594
Total equity and liabilities (A+B+C)		**15,447**	**16,030**

*The item contract liabilities was still referred to as prepaid expenses on 31 December 2022. The non-current (EUR 136 million) and current (EUR 594 million) contract liabilities from 2022 include EUR 18 million (non-current) and EUR 36 million (current) that do not constitute contract liabilities. In 2023, all items not representing contract liabilities were reclassified to other payables.

Consolidated Income Statement

1 January to 31 December

(in EUR million)	**Notes**	**2023**	**2022**
Revenues	[6.1]	8,614	8,224
Other income	[6.2]	160	153
Supplies		(2,677)	(2,524)
Personnel expenses	[6.3]	(669)	(622)
Impairment losses in accordance with IFRS 9	[5.5]	(101)	(92)
Other expenses	[6.4]	(2,725)	(2,616)
Operating income before depreciation and amortisation (OIBDA)		**2,601**	**2,523**
Depreciation and amortisation	[6.5]	(2,310)	(2,283)
Operating income		**291**	**240**
Finance income		22	23
Exchange gains		2	3
Finance costs		(113)	(59)
Exchange losses		(1)	(3)
Financial result	[6.6]	**(90)**	**(36)**
Result from investments accounted for using the equity method	[10]	(10)	(14)
Profit/(loss) before tax		**191**	**189**
Income taxes	[6.7]	82	42
Profit/(loss) for the period		**273**	**232**
Profit/(loss) for the period attributable to owners of the parent company		**273**	**232**
Earnings per share	[7]		
Basic earnings per share in EUR		**0.09**	**0.08**
Diluted earnings per share in EUR		**0.09**	**0.08**

Consolidated Statement of Comprehensive Income

1 January to 31 December

(in EUR million)	**Notes**	**2023**	**2022**
Profit/(loss) for the period		**273**	**232**
Items that will not be reclassified to profit/(loss)			
Remeasurement of benefits after termination of employment	[5.15]	(16)	125
Income tax impact	[6.7]	5	(40)
Share in other comprehensive income of investments accounted for using the equity method	[10]	(5)	14
Income tax impact	[6.7]	2	(4)
Items that will be reclassified to profit/(loss)			
Change in the fair value of financial instruments measured at fair value through other comprehensive income	[5.5]	6	(28)
Income tax impact	[6.7]	(2)	10
Other comprehensive income/(loss)		**(10)**	**77**
Total comprehensive income/(loss)		**263**	**308**
Total comprehensive income/(loss) attributable to owners of the parent company		**263**	**308**

Consolidated Statement of Changes in Equity

(in EUR million)	Notes	Subscribed capital	Additional paid-in capital	Retained earnings	Total equity attributable to owners of the parent company	Equity
Financial position as of 1 January 2022		**2,975**	**3,929**	**(868)**	**6,036**	**6,036**
Profit/(loss) for the period		–	–	232	232	232
Other comprehensive income/(loss)		–	–	77	77	77
Total comprehensive income/(loss)		**–**	**–**	**308**	**308**	**308**
Dividends	[5.10]	–	–	(535)	(535)	(535)
Withdrawal	[5.10]	–	(556)	556	–	–
Other movements		–	–	2	2	2
Financial position as of 31 December 2022		**2,975**	**3,373**	**(538)**	**5,810**	**5,810**
Financial position as of 1 January 2023		**2,975**	**3,373**	**(538)**	**5,810**	**5,810**
Profit/(loss) for the period		–	–	273	273	273
Other comprehensive income/(loss)		–	–	(10)	(10)	(10)
Total comprehensive income/(loss)		**–**	**–**	**263**	**263**	**263**
Dividends	[5.10]	–	–	(535)	(535)	(535)
Withdrawal	[5.10]	–	(538)	538	–	–
Other movements		–	–	(2)	(2)	(2)
Financial position as of 31 December 2023		**2,975**	**2,836**	**(275)**	**5,535**	**5,535**

Consolidated Statement of Cash Flows

1 January to 31 December

(in EUR million)	Notes	2023	2022
Cash flow from operating activities			
Profit/(loss) for the period		**273**	**232**
Adjustments to profit/(loss)			
Financial result	[6.6]	90	36
Loss from the disposal of assets		7	12
Income taxes	[6.7]	(82)	(42)
Depreciation and amortisation	[6.5]	2,310	2,283
Result from investments accounted for using the equity method		10	14
Other non-cash expenses/income		1	(0)
Change in working capital and others			
Other non-current assets	[5.5], [5.6], [5.7]	(20)	(48)
Other current assets	[5.5], [5.6], [5.7], [5.8]	29	100
Other non-current liabilities and provisions	[5.13], [5.15]	(50)	(49)
Other current liabilities and provisions	[5.13], [5.15]	29	26
Other			
Taxes paid		(89)	(56)
Interest received		13	7
Interest paid		(95)	(43)
Cash flow from operating activities		**2,426**	**2,471**
Cash flow from investing activities			
Proceeds from disposals of property, plant and equipment and intangible assets		4	6
Payments on investments in property, plant and equipment and intangible assets	[5.2], [5.3]	(1,176)	(1,379)
Proceeds from disposal of companies		–	16
Payments on investments in associated companies		(15)	(10)
Proceeds from financial assets		113	0
Payments for financial assets		(48)	(11)
Cash flow from investing activities		**(1,122)**	**(1,378)**
Cash flow from financing activities			
Repayments of lease liabilities	[5.11]	(747)	(640)
Payments made relating to spectrum auctions	[5.14]	(108)	(108)
Proceeds from interest-bearing debt	[5.11]	1,106	88
Repayments of interest-bearing debt	[5.11]	(1,223)	(167)
Dividends paid		(535)	(535)
Proceeds relating to financing activities		12	26
Cash flow from financing activities		**(1,496)**	**(1,336)**
Net increase/(decrease) in cash and cash equivalents		**(193)**	**(243)**
Cash and cash equivalents at the beginning of the period	[5.9]	**777**	**1,020**
Cash and cash equivalents at the end of the period	[5.9]	**584**	**777**

Notes to the Consolidated Financial Statements

1. Reporting Entity

The Consolidated Financial Statements of Telefónica Deutschland Holding AG have been prepared as of and for the year ending 31 December 2023 and comprise Telefónica Deutschland Holding AG (also referred to as "Telefónica Deutschland" or the "Company") and its subsidiaries as well as joint operations (together referred to as the "Telefónica Deutschland Group" or the "Group") and associated companies.

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

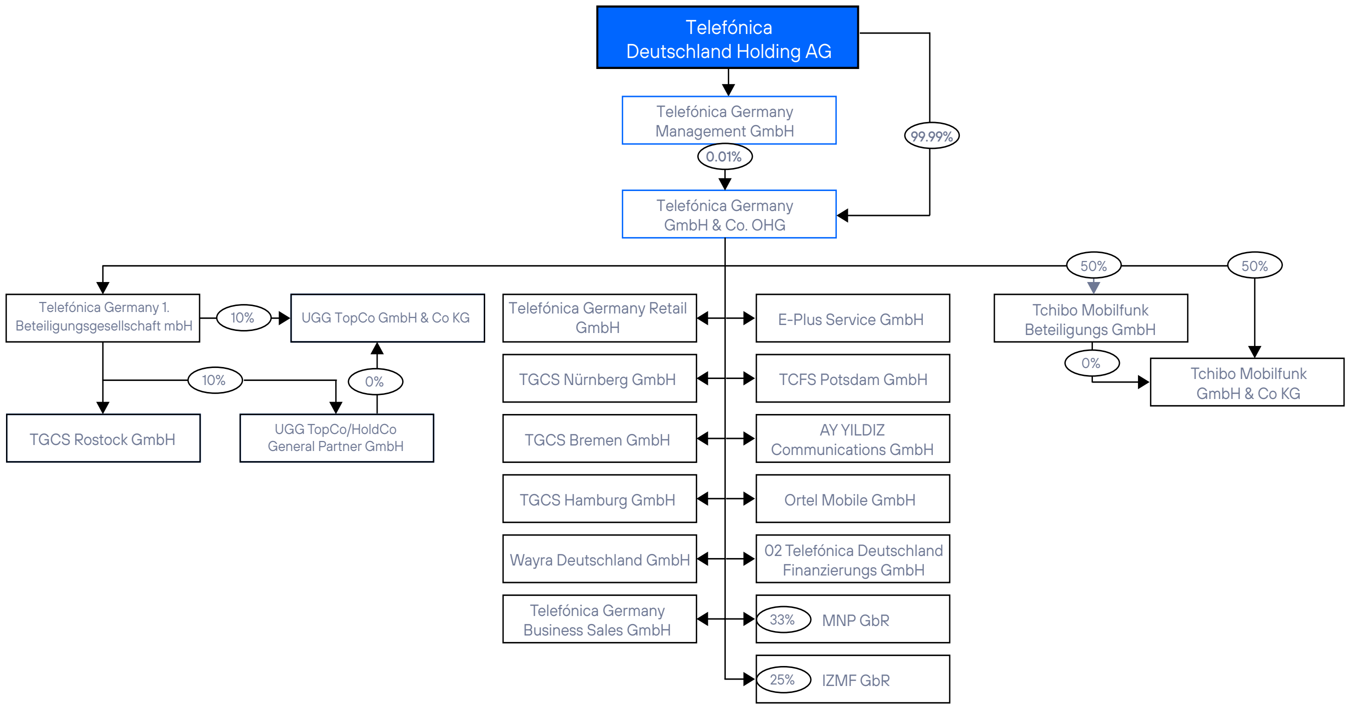
According to the announcement of Telefónica Local Services GmbH, Ismaning, Germany, pursuant to section 23 (1) no. 1 of the German Securities Acquisition and Takeover Act (WpÜG) of 2 January 2024, as of 29 December 2023, approximately 69.22% of the shares of Telefónica Deutschland were held by Telefónica Germany Holdings Limited, Slough, United Kingdom (Telefónica Germany Holdings Limited), an indirect wholly owned subsidiary of Telefónica, S.A., Madrid, Spain (Telefónica, S.A.) and approximately 13.22% (plus 1.32% in accordance with section 38 (1) sentence 1 no. 1b) WpHG of shares of voting rights to be announced) were held by Telefónica, S.A. On 7 November 2023 Telefónica, S.A. decided and announced that it would make a voluntary public tender offer in the form of a partial offer to the shareholders of Telefónica Deutschland Holding AG through its wholly owned subsidiary Telefónica Local Services GmbH to acquire shares of Telefónica Deutschland not already held (directly or indirectly) by Telefónica, S.A. At the time of publication of the voluntary public tender offer on 5 December 2023, the shares not already held by Telefónica, S.A. represented 18.52% of the share capital. The offer provided for the payment of a cash consideration of EUR 2.35 per Telefónica Deutschland share. The acceptance period ended on 17 January 2024. Further information relating to the period after the end of financial year 2023 is provided in >Note 21 SUBSEQUENT EVENTS.

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).

Telefónica Deutschland Group is one of the three leading integrated network operators in Germany. Telefónica Deutschland Group offers mobile and fixed-network services for business and private customers as well as innovative digital products and services. Furthermore, numerous wholesale partners purchase extensive mobile services from Telefónica Deutschland Group. Wholesale partners are offered access to the Group's infrastructure and services. Telefónica Deutschland Group is part of Telefónica, S.A. Group, one of the biggest telecommunications corporations in the world. The Consolidated Financial Statements of Telefónica, S.A. have been published on the Group's website.

As of 31 December 2023, the companies included in the Consolidated Financial Statements of Telefónica Deutschland Group were organised as shown in the following organisation chart:



Unless stated otherwise, the ownership interests amount to 100%.

For changes in the Group structure, please refer to >Note 9 LIST OF SHAREHOLDINGS AND CHANGES IN THE GROUP STRUCTURE

2. Basis of Preparation

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

The accounting policies applied in the published Consolidated Financial Statements for the previous year have also been applied to these Consolidated Financial Statements as of 31 December 2023. Exceptions to this are amendments to the IFRS and valuation changes as presented in >Note 3.1 CHANGES IN ACCOUNTING STANDARDS; PUBLISHED AMENDMENTS REQUIRING MANDATORY APPLICATION. Furthermore, the Group applied the additional requirements of German commercial law pursuant to section 315e (1) of the German Commercial Code (HGB).

The Management Board approved the Consolidated Financial Statements of Telefónica Deutschland Holding AG for publication and submission to the Supervisory Board on 15 February 2024.

Unless stated otherwise, the figures in these Consolidated Financial Statements are presented in millions of euro (in EUR million) and rounded according to established commercial principles. Therefore, recalculations may slightly differ from the totals shown in the tables. We also advise that absolute amounts smaller than EUR 500,000 are stated either as "0" or "(0)", depending on whether a plus or minus sign appears before it. A nil notification using "-" is indicated for items that do not have a value.

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

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

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

3. Changes in Accounting Standards

3.1. Published and mandatory amendments

The impact of amendments to IAS 12 is currently under review (see >NOTE 6.7 INCOME TAXES). Other standards that are mandatory in the EU for the first time as of 1 January 2023 had no material impact on the Consolidated Financial Statements.

3.2. Published amendments not yet applicable

The standards and interpretations presented below have been adopted by the IASB, but their application is not yet mandatory at the date of publication of the 2023 Consolidated Financial Statements.

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

Standards, interpretations and amendments		Mandatory application for financial years beginning on or after
Amendments to IAS 1	Classification of liabilities as current or non-current payables with covenants	1 January 2024
Amendments to IFRS 16	Accounting for lease liabilities from sale-and-leaseback transactions	1 January 2024
Amendments to IAS 7 and IFRS 7	Supply chain financing transactions	1 January 2024[1]
Amendments to IAS 21	Lack of exchangeability	1 January 2025[1]

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

4. General Accounting Policies

4.1. Consolidation methods

Consolidation principles

The consolidation methods applied are as follows:

- Full consolidation method for companies where Telefónica Deutschland Group has control. Control is assumed if Telefónica Deutschland Group has power over an investee and is exposed to variable returns or has rights to these returns. In addition, the ability must exist to use its power over the investee to affect the returns.
- Proportionate consolidation of the attributable assets, liabilities, expenses and income for joint operations, so that the corresponding share of total assets, liabilities, expenses, income and cash flows of these companies is integrated in the corresponding items in the Consolidated Financial Statements.
- Consolidation using the equity method for companies over which Telefónica Deutschland Group can exercise significant influence and which are neither subsidiaries nor joint ventures.

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

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

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

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

Subsidiaries

Subsidiaries are companies where Telefónica Deutschland Group has control. Control is assumed if Telefónica Deutschland Group has power over an investee and is exposed to variable returns or has rights to these returns. In addition, the ability must exist to use its power over the investee to affect the returns. The existence and effect of substantial potential voting rights that may be currently exercised or converted, including potential voting rights held by other Group entities, are considered in assessing whether an entity is controlled.

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

Company acquisitions

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

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

Joint operations

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

Associated companies

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

Currency translation

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

4.2. Significant accounting policies

Goodwill

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

Subsequent expenditures on internally generated goodwill are recognised in the Consolidated Income Statement as incurred.

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

Goodwill is not amortised on a scheduled basis but must be reviewed for impairment annually. In addition, an impairment test is carried out if events or circumstances indicate that the carrying amount is higher than the recoverable amount (see >Note 5.1 GOODWILL).

Other intangible assets

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

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

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

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

Licences

This asset primarily includes acquisition costs for mobile frequency licences for the provision of telecommunications services. Capitalisation takes place either in connection with a grant by a public authority or in the context of an acquisition of a company. The mobile frequency licences represent a qualifying asset under IAS 23, as the purpose of the acquisition is to build a network. These mobile frequency licences and the corresponding network are reported under intangible assets not yet in use until the network is completed and the frequencies are therefore fully usable.

These frequency licences are amortised on a straight-line basis over the life of the respective frequency blocks once commercial exploitation begins.

Customer bases

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

Software

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

Brand names

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

Property, plant and equipment

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

Costs include external and internal costs which are composed of acquired 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 there is reasonable assurance that Telefónica will comply with the conditions of the grant and that the grant will be fully received. Under IAS 20.24, grants are recognised as a reduction of acquisition costs. Performance-based grants are offset against expenses in accordance with IAS 20.29.

Repair and maintenance costs are expensed as incurred.

Telefónica Deutschland Group depreciates its property, plant and equipment once they are in full working condition using the straight-line method based on the estimated useful lives of the assets. The estimated residual values of assets and depreciation methods are also regularly reviewed and, where appropriate, adjusted at each financial year-end.

Leases

Accounting as lessee

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

A lease is defined as a contract whereby an identified asset is made available to the lessee in exchange for consideration for a specified period of time and the lessee has the right during this period to obtain substantially all the benefits of its use and to determine the nature and purpose of its use. When determining the lease term besides the fixed contract term, termination and extension options are taken into account if reasonably certain. This assessment includes all relevant facts and circumstances as well as information on the asset classes customary in the industry that create an economic incentive to exercise or not exercise a cancellation and extension option. In particular, Telefónica Deutschland Group assesses this information in the context of the strategic planning period.

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

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

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

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

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

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). Telefónica Deutschland Group makes use of this recognition exemption whereby the recognition exemption for leased assets of low value is only applied to operating and office equipment. Neither a lease liability nor a right-of-use asset is recognised for these leases. The resulting expenses are therefore recognised directly in the income statement.

Accounting as lessor

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

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

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

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

Investments accounted for using the equity method

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

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

Goodwill and intangible assets which have not yet been placed in service are tested for impairment annually at the reporting date or if there are any indications. Property, plant and equipment, intangible assets with a finite useful life and right-of-use assets are tested for impairment only if any indications of impairment exist at the reporting date. The same applies to carrying amounts of associates accounted for using the equity method. Assets and goodwill are tested for impairment at the level of the cash-generating unit to which the asset belongs. As of 31 December 2023, Telefónica Deutschland Group comprises one single cash-generating unit, the reportable segment Telecommunications. Within Telefónica Deutschland Group, there are no further identifiable groups of assets below Group level that generate cash inflows that are largely independent of the cash inflows from other assets. An impairment is required if the carrying amount of an asset, the carrying amount of the investment accounted for using the equity method or a cash-generating unit exceeds its recoverable amount.

Generally, in the first step, Telefónica Deutschland Group determines the recoverable amount of a cash-generating unit based on the fair value less costs to sell. The fair value is determined based on the market capitalisation of Telefónica Deutschland Holding AG as of the reporting date. Costs to sell contain costs such as legal and consulting fees that can be directly allocated to the sale of the cash-generating unit. If the value is less than the carrying amount of the cash generating unit, the value in use is also measured. The recoverable amount used to determine the impairment is the higher of the fair value less costs to sell and the value in use.

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

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

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

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

Inventories

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

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

The Group's inventory mainly consists of merchandise intended for sale to customers. At the time of the sale when risk is transferred, the respective inventory is recognised as expense.

Cash and cash equivalents

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

Financial instruments

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.

Commodity price risks resulting from fluctuating energy market prices are hedged by concluding long-term power purchase agreements. The terms of the power purchase agreements differ; the maximum term is 2040. All power purchase agreements concluded are structured as physical power purchase agreements. The contractual delivery quantities are structured as continuously constant quantities (baseload) and dependent on the generation of the specified plant (as produced). The own-use exemption of IFRS 9 is utilised for these contracts. These contracts, which are concluded for the purpose of receiving or delivering non-financial goods in accordance with the company's own requirements, are recognised as pending transactions in accordance with IAS 37 and not as derivatives in accordance with IFRS 9.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Financial liabilities

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

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

<u>Financial liabilities measured at amortised cost</u>

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

<u>Financial liabilities at fair value through profit or loss</u>

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

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

Derecognition of financial assets and liabilities

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

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

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

Offsetting

Financial assets and financial liabilities are offset, and the net amount is reported in the Consolidated Balance Sheet, when Telefónica Deutschland Group currently has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Derivative financial instruments

Derivatives are presented as assets if their fair value is positive and as liabilities if their fair value is negative. Changes in the fair value of derivative financial instruments are recognised periodically in the Consolidated Income Statement.

Provisions

Pension obligations

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.

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 reimbursements from the plan or on the basis of reduced future contributions. In addition, in the event of a surplus of the plan, the remeasurement component includes the change in the net defined benefit asset from the application of the asset ceiling, to the extent not taken into account in the net interest component.

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

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

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

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

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

Other provisions including termination benefits

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

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

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

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

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

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

Asset retirement obligation

Asset retirement obligations arise from the contractual obligation to return the leased object in the original condition at contract commencement date. Since the costs for the future dismantling have not yet been determined at the time the contract is concluded, these costs are estimated. The estimated costs are recognised both as part of the 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.

Revenues from contracts with customers

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

Revenues from service and multi-component arrangements

Telefónica Deutschland Group provides both mobile and fixed-network services that are satisfied over a specified period of time. The progress of the performance obligation is determined using output-based methods. Applying output-based methods, revenue is recognised on the basis of the value of services transferred to date relative to the remaining services promised under the contract. Accordingly, unsteady discounts on this service are recognised over the term of the contract. When the entitlement to consideration from a customer corresponds directly to the value of the services already provided, Telefónica Deutschland Group makes use of the practical expedient under IFRS 15.B16 and recognises revenue based on the amount invoiced.

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

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

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

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

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

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

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

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

In addition to the capitalisation of costs of obtaining a contract, the standard also regulates the capitalisation of costs to fulfil a contract. The analysis of the underlying contracts showed that there are no costs to fulfil a contract.

Accounting for contract modifications
According to IFRS 15, there are more complex requirements with regard to the reporting of contract modifications compared to the regulations contained in IAS 18. In some cases, contract modifications are accounted for prospectively, forming a separate contract. In other cases, the contract modifications result in a modification of the existing contract. As a result, cumulative catch up adjustments of revenues may occur.

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

Income taxes

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

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

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

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

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

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

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

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

5. Selected Notes to the Balance Sheet

5.1. Goodwill

(in EUR million)	2023	2022
Carrying amount of goodwill at 1 January	**1,360**	**1,360**
Carrying amount of goodwill at 31 December	**1,360**	**1,360**

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

The impairment test carried out at the level of the cash-generating unit Telecommunications did not result in an impairment for goodwill at the end of 2023, as the recoverable amount of EUR 6,917 million (2022: EUR 6,772 million), based on fair value less costs to sell, was higher than the carrying amount of the cash-generating unit. An impairment test was carried out on the basis of a share price of EUR 2.35 as of 31 December 2023. The Group also did not recognise an impairment charge in financial year 2022.

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

5.2. Other intangible assets

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

	Estimated useful life (in years)
Licences	8–21
Customer bases	7–15
Software	1–5
Brand names	18–19

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

A review of estimated useful lives also resulted in an extension of the useful lives of software in financial year 2023, with a decrease in amortisation of around EUR 1 million (2022: EUR 14 million).

(in EUR million)	Licences	Customer bases	Software	Brand names	Other	Intangible assets not yet in use	Other intangible assets
Cost							
As of 1 January 2022	**4,516**	**2,720**	**1,980**	**101**	**4**	**249**	**9,571**
Additions	0	–	325	0	(0)	31	356
Disposals	–	–	(135)	–	(1)	–	(136)
Reclassifications	–	–	66	–	(2)	(64)	-
As of 31 December 2022	**4,516**	**2,720**	**2,236**	**101**	**1**	**216**	**9,791**
As of 1 January 2023	**4,516**	**2,720**	**2,236**	**101**	**1**	**216**	**9,791**
Additions	–	–	355	–	–	31	386
Disposals	(0)	(957)	(71)	–	(0)	–	(1,029)
Reclassifications	–	–	34	–	–	(34)	-
As of 31 December 2023	**4,515**	**1,764**	**2,554**	**101**	**1**	**214**	**9,148**
Accumulated amortisation							
As of 1 January 2022	**(1,826)**	**(2,044)**	**(1,495)**	**(65)**	**(4)**	**–**	**(5,434)**
Additions	(292)	(282)	(310)	(3)	(0)	–	(887)
Disposals	(0)	–	135	–	1	–	135
As of 31 December 2022	**(2,118)**	**(2,327)**	**(1,672)**	**(68)**	**(1)**	**–**	**(6,186)**
As of 1 January 2023	**(2,118)**	**(2,327)**	**(1,672)**	**(68)**	**(1)**	**–**	**(6,186)**
Additions	(292)	(256)	(283)	(3)	–	–	(833)
Disposals	0	957	71	–	0	–	1,029
As of 31 December 2023	**(2,410)**	**(1,626)**	**(1,884)**	**(71)**	**(1)**	**–**	**(5,991)**
Carrying amount							
As of 31 December 2022	**2,398**	**394**	**563**	**34**	**0**	**216**	**3,604**
As of 31 December 2023	**2,106**	**138**	**670**	**31**	**0**	**214**	**3,158**

Licences

As of 31 December 2023, licences consist primarily of the spectrum licences listed below:

In May 2010, Telefónica Germany GmbH & Co. OHG acquired frequency usage rights for 2x10 MHz in the 800 MHz band that will expire in December 2025. The frequencies are currently used for 4G. The carrying amount as of 31 December 2023 is EUR 167 million (2022: EUR 251 million). The remaining useful life is 2 years.

In May 2010, Telefónica Germany GmbH & Co. OHG acquired frequency usage rights for about 2x5 MHz in the 2.0 GHz band that will expire in December 2025. As part of the acquisition of the E-Plus Group on 1 October 2014, further frequency usage rights were acquired in the amount of approximately 2x10 MHz in the 2.0 GHz band with terms until December 2025. The frequencies are currently used for 4G. The carrying amount as of 31 December 2023 is EUR 68 million (2022: EUR 101 million). The remaining useful life is 2 years.

In May 2010, Telefónica Germany GmbH & Co. OHG acquired paired and unpaired frequency usage rights totalling 50 MHz in the 2.6 GHz band for 4G that will expire in December 2025. As part of the E-Plus Group acquisition on 1 October 2014, additional paired and unpaired frequency usage rights totalling 30 MHz in the 2.6 GHz band for 4G usage with terms until December 2025 were acquired, of which frequency usage rights totalling 2x10 MHz were transferred in financial year 2020. The carrying amount as of 31 December 2023 is EUR 17 million (2022: EUR 26 million). The remaining useful lives are 2 years.

With the acquisition of the E-Plus Group on 1 October 2014, Telefónica Germany GmbH & Co OHG acquired 2x10 MHz in the 1.8 GHz range, which are used for DSS (Dynamic Spectrum Sharing), 4G and 2G, and run until December 2025. The carrying amount of the frequency usage rights as of 31 December 2023 is EUR 59 million (2022: EUR 88 million). The remaining useful life is 2 years.

In June 2015, Telefónica Germany GmbH & Co. OHG successfully bid for frequency usage rights for 2x10 MHz in the 1.8 GHz range, which have been used since 1 January 2017 and will expire in December 2033. The carrying amount of the frequency usage rights as of 31 December 2023 is EUR 283 million (2022: EUR 312 million). The remaining useful life is 10 years.

In June 2015, Telefónica Germany GmbH & Co. OHG successfully bid for frequency usage rights for 2x10 MHz in the 700 MHz range, which have been used since March 2020 and have a term until December 2033. The frequencies are currently used for 4G and 5G. The carrying amount of the frequency usage rights as of 31 December 2023 is EUR 244 million (2022: EUR 268 million). The remaining useful life is 10 years.

In June 2015, Telefónica Germany GmbH & Co. OHG successfully bid for frequency usage rights for 2x10 MHz in the 900 MHz range, which have been used since 1 January 2017 and have a term until December 2033. The frequencies are currently used for 4G and 2G. The carrying amount of the frequency usage rights as of 31 December 2023 is EUR 227 million (2022: EUR 249 million). The remaining useful life is 10 years.

In June 2019, Telefónica Germany GmbH & Co. OHG successfully bid for a total of 10 MHz in the 2.0 GHz range. The frequencies in the 2.0 GHz band have been used since January 2021 and have a term until December 2040. The frequencies are currently used for 4G. The carrying amount of the frequency usage rights as of 31 December 2023 is EUR 180 million (2022: EUR 190 million). The remaining useful life is 17 years.

In June 2019, Telefónica Germany GmbH & Co. OHG successfully bid for a total of 70 MHz in the 3.6 GHz range. The frequencies in the 3.6 GHz frequency range have been used since June 2020 and have a term until December 2040. The frequencies are currently used for 5G. The carrying amount of the frequency usage rights as of 31 December 2023 is EUR 862 million (2022: EUR 913 million). The remaining useful life is 17 years.

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

Customer bases

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

Software

Software mainly includes developments and licences for IT and office applications. In financial year 2023, 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 11 years.

Intangible assets not yet in use

Intangible assets not yet in use mainly comprise the frequency blocks in the 2 GHz bands purchased at auction by Telefónica Deutschland Group in June 2019. The German Federal Network Agency assigned the frequency blocks in August 2019. The carrying amount of the frequencies as of 31 December 2023 is EUR 170 million (2022: EUR 170 million). 2x5 MHz capacity in the 2 GHz spectrum will be available from 2026. The use of the frequency is limited until the end of 2040.

5.3. Property, plant and equipment

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

	Estimated useful life (in years)
Buildings	5–20
Plant and machinery (incl. telephone installations, networks and subscriber equipment)	1–20
Furniture, office equipment, tools and other items	3–10

The review of estimated useful lives in financial year 2023 resulted in a shortening of the useful lives of network equipment with an increase in the depreciation of around EUR 5 million (previous year: EUR - million).

In addition, exceptional depreciations amounting to around EUR 104 million were reported in financial year 2023 (previous year: EUR 64 million). These were largely due to the early decommissioning of network equipment.

Property, plant and equipment comprise the following:

(in EUR million)	Land and buildings	Plant and machinery	Furniture, office equipment, tools and other items	PP&E in progress	Property, plant and equipment
Costs					
As of 1 January 2022	**167**	**8,989**	**239**	**212**	**9,607**
Additions	4	808	21	21	854
Disposals	(25)	(718)	(10)	(10)	(765)
Reclassifications	0	19	3	(22)	0
Other	(3)	(53)	-	-	(56)
As of 31 December 2022	**143**	**9,044**	**252**	**201**	**9,640**
As of 1 January 2023	**143**	**9,044**	**252**	**201**	**9,640**
Additions	3	693	13	38	747
Disposals	(15)	(698)	(34)	(7)	(754)
Reclassifications	1	73	(0)	(73)	-
Other	16	22	-	-	38
As of 31 December 2023	**147**	**9,135**	**231**	**159**	**9,671**
Accumulated depreciation					
As of 1 January 2022	**(118)**	**(5,825)**	**(173)**	**-**	**(6,117)**
Additions	(8)	(724)	(28)	-	(759)
Disposals	25	712	10	–	748
As of 31 December 2022	**(101)**	**(5,837)**	**(190)**	**-**	**(6,128)**
As of 1 January 2023	**(101)**	**(5,837)**	**(190)**	**-**	**(6,128)**
Additions	(10)	(770)	(24)	–	(804)
Disposals	15	695	34	–	745
As of 31 December 2023	**(96)**	**(5,911)**	**(180)**	**–**	**(6,188)**
Carrying amount					
As of 31 December 2022	**42**	**3,207**	**62**	**201**	**3,512**
As of 31 December 2023	**51**	**3,223**	**51**	**159**	**3,484**

As of 31 December 2023, Telefónica Deutschland Group mainly capitalised leasehold improvements under land and buildings.

Plant and machinery mainly relates to network equipment.

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

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

Other movements in property, plant and equipment, which mainly relate to technical equipment and machinery and are connected with assets relating to dismantling or retirement obligations, amounted to EUR 38 million (2022: EUR -56 million). The change is mainly due to higher cost estimates.

5.4. Right-of-use assets

(in EUR million)	Land and buildings	Plant and machinery	Other	Right-of-use assets
Costs				
As of 1 January 2022	**811**	**3,652**	**226**	**4,689**
Additions	144	398	52	594
Disposals	(22)	(50)	(22)	(94)
As of 31 December 2022	**932**	**4,001**	**256**	**5,189**
As of 1 January 2023	**932**	**4,001**	**256**	**5,189**
Additions	115	457	53	624
Disposals	(25)	(52)	(69)	(146)
As of 31 December 2023	**1,020**	**4,408**	**240**	**5,668**
Accumulated depreciation				
As of 1 January 2022	**(317)**	**(907)**	**(116)**	**(1,340)**
Additions	(120)	(465)	(52)	(637)
Disposals	14	31	20	65
As of 31 December 2022	**(423)**	**(1,342)**	**(147)**	**(1,912)**
As of 1 January 2023	**(423)**	**(1,342)**	**(147)**	**(1,912)**
Additions	(123)	(492)	(58)	(673)
Disposals	18	35	67	120
As of 31 December 2023	**(528)**	**(1,799)**	**(138)**	**(2,465)**
Carrying amount				
As of 31 December 2022	**509**	**2,659**	**109**	**3,277**
As of 31 December 2023	**492**	**2,608**	**103**	**3,203**

As of 31 December 2023, 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 and rented space on passive infrastructure including antenna masts as well as dark fibre and other leased lines.

Lease agreements may contain extension and termination options and have individual terms and conditions, as these are negotiated with the individual lessors, especially in the case of radio masts and rooftop sites.

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

5.5. Trade and other receivables

	As of 31 December 2023		As of 31 December 2022	
(in EUR million)	**Non-current**	**Current**	**Non-current**	**Current**
Trade receivables	280	1,150	292	1,120
Continuing involvement from the sale of receivables	–	310	–	190
Receivables from related parties (>Note 13 RELATED PARTIES)	–	26	–	29
Other receivables	–	31	–	73
Loss allowance	–	(65)	–	(51)
Trade and other receivables	**280**	**1,452**	**292**	**1,359**

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 544 million (2022: EUR 577 million) and the non-current trade receivables of EUR 280 million (2022: EUR 292 million).

Trade receivables, which are measured at amortised cost, have a gross carrying amount of EUR 607 million (2022: EUR 543 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 183 million (2022: EUR 164 million) is implicitly included in the fair value. The loss allowance of EUR 65 million (2022: EUR 51 million) relates mainly to the impairment of receivables measured at amortised cost.

In order to measure the expected credit loss, trade receivables and contract assets were grouped into homogeneous customer segments. The allowance rate is calculated for each segment based on days past due and actual credit losses incurred in prior years. The value also reflects current and forward-looking information and analysis of the expected economic situation during the term of the financial assets from the point of view of the Group. Observable forward-looking information may include disposable income, gross domestic product, inflation indices and changes to payment behaviour.

The following tables provide information on exposure to credit risk and on expected credit losses for trade receivables (excluding O_2 My Handy) per days past due as of 31 December 2023. Separate consideration is applied to trade receivables measured at fair value through other comprehensive income and trade receivables measured at amortised cost.

Trade and other receivables at amortised cost

As of 31 December 2023

(in EUR million)	Gross carrying amount	Loss allowance	Average expected default rate
This presentation follows the simplified approach:			
Not due	493	8	1.7%
Overdue for 1-30 days	32	6	17.7%
Overdue for 31-60 days	11	3	27.7%
Overdue for 61-90 days	6	3	47.7%
Doubtful accounts			
Overdue for 91-180 days	12	7	59.8%
Overdue for 181-360 days	17	11	64.8%
Overdue for more than 360 days	35	26	74.5%
Total	**607**	**65**	

As of 31 December 2022

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

Trade and other receivables at fair value through other comprehensive income

As of 31 December 2023

(in EUR million)	Gross carrying amount	Loss allowance	Average expected default rate
This presentation follows the simplified approach:			
Not due	180	0	0.1%
Overdue for 1-30 days	6	0	0.1%
Overdue for 31-60 days	0	0	0.1%
Overdue for 61-90 days	0	0	21.0%
Doubtful accounts			
Overdue for 91-180 days	–	–	0.0%
Overdue for 181-360 days	0	0	84.0%
Overdue for more than 360 days	0	0	84.0%
Total	**187**	**0**	

As of 31 December 2022

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

In addition, there are gross receivables of EUR 842 million for O_2 My Handy (2022: EUR 853 million) which are measured at fair value through other comprehensive income. The discounting effect remaining in other comprehensive income is EUR 21 million (2022: EUR 28 million). A separate valuation allowance of EUR 183 million is recognised for O_2 My Handy (2022: EUR 163 million). This valuation allowance was recognised directly in equity and was not separately deducted at fair value on the Balance Sheet. The carrying amount is EUR 638 million (2022: EUR 662 million).

A new methodology based on a rating model was used to determine the credit risk for O_2 My Handy receivables from financial year 2023 onwards. A comparison with the previous year's figures is therefore only possible to a limited extent. In principle, all new receivables from the respective year are impaired using the historical default rate, adjusted for forward looking information such as customer payment behavior. Since financial year 2023, a rating model has also been used for existing receivables from previous periods.

The rating model was introduced in order to standardise the assessment of the default risk of trade receivables with the risk assessment as part of the sales processes in silent factoring. Each customer receives a credit rating that uses a mixture of quantitative and qualitative indicators and is assigned to the defined risk groups depending on the indicators. The customer's payment behaviour in the past, such as late payments or debt collection, is one of the key indicators. In the determination process, each individual customer is assigned a probability of default and an expected default amount. These two components result in the default rate, which is multiplied by the outstanding receivable. Customers with similar payment behaviour are grouped together and assigned to one of three risk classes. The gross receivables of risk classes with lower, medium and higher (receivables at risk of default) credit risk are EUR 62 million, EUR 22 million and EUR 132 million respectively, with a corresponding impairment loss of EUR 3 million, EUR 3 million and EUR 108 million. The remaining gross receivables for O_2 My Handy, which are not at risk of default, amount to EUR 626 million in 2023 with an impairment loss of EUR 69 million. They also include repurchased O_2 My Handy receivables at amortised cost in the amount of EUR 5 million (2022: EUR 2 million) with credit ratings already impaired at acquisition.

Overall, this results in gross receivables of EUR 1,635 million (2022: EUR 1,603 million), for which an impairment adjustment of EUR 248 million (2022: EUR 215 million) has been recorded.

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

Compared to the previous year, the loss allowances for financial year 2023 increases by 15%, resulting from higher past due receivables and a general deterioration in the indicators of our customers' future payment behaviour.

When calculating the expected credit losses, a collection rate of 26% is taken into account in 2023 (2022: 29%).

For trade receivables with a contractual volume of EUR 112 million (2022: EUR 97 million), which were transferred to collection agencies during financial year 2023 and have not yet been paid, collection measures are still ongoing.

The breakdown of trade receivables is as follows:

	As of 31 December 2023		**As of 31 December 2022**	
(in EUR million)	**Non-current**	**Current**	**Non-current**	**Current**
Trade receivables billed	280	675	292	690
Trade receivables unbilled	–	475	–	429
Trade receivables	**280**	**1,150**	**292**	**1,120**

The following table shows the development of the loss allowances for the years ending as of 31 December 2023 and 2022.

	2023	
(in EUR million)	**Trade receivables measured at amortised cost**	**Trade receivables measured at fair value through other comprehensive income**
As of 1 January 2023	**(51)**	**(164)**
Addition	(37)	(76)
Release	–	12
Utilisation	24	44
As of 31 December 2023	**(65)**	**(183)**

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

In 2023 and 2022, Telefónica Deutschland Group sold instalment receivables in order to optimise the working capital. The nominal value of transactions concluded in 2023 amounts to EUR 1,185 million (2022: EUR 973 million). The buyers of the receivables assume a large part of the risk of these receivables. The receivables sold were fully derecognised at the time of sale, with the exception of the continuing involvement of EUR 310 million (2022: EUR 190 million) for instalment receivables. The utilisation is expected to result in a loss of EUR 11 million (2022: EUR 11 million).

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

In addition, factoring is carried out regularly for some customer segments with current receivables in order to optimise working capital. These receivables are assigned to the category of fair value through other comprehensive income. The nominal value of the transactions completed in 2023 amounts to EUR 516 million (2022: EUR 135 million). The entire risk was fully assumed by the purchasers of the receivables via a fixed purchase price reduction. The receivables sold were fully derecognised.

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

5.6. Other financial assets

	As of 31 December 2023		As of 31 December 2022	
(in EUR million)	**Non-current**	**Current**	**Non-current**	**Current**
Investments in start-ups	2	0	3	0
Reimbursement rights from insurance contracts	114	–	104	–
Silent factoring deposit	11	5	53	29
Deposits	0	–	0	–
Purchase price receivable from the sale of major parts of the business operations of the rooftop sites	268	–	263	–
Loan receivables	8	1	12	0
Net investment in the lease	10	5	12	5
Other financial assets	**414**	**10**	**448**	**34**

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

The reimbursement rights in 2023 were accrued to cover the pension and partial benefit obligations, and do not represent plan assets in accordance with IAS 19. This item includes EUR 10 million (2022: EUR 10 million) in surpluses from the offsetting of the net defined pension obligations against plan assets. The recognised fair values are based on the values received from the insurance company, which are based on the insurance company's internal calculation models.

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

Other financial assets include EUR 268 million (2022: EUR 263 million) of the non-current portion of the purchase price receivable that is not yet due from the sale of major parts of the business operations of the rooftop sites to Telxius. The non-current share of the purchase price receivable depends on the development of the inflation rate over the next few years. The receivable is valued using the effective interest method. The expected loss within the next 12 months is recognised as an impairment loss.

As of 31 December 2023, loan receivables mainly include a loan from the sale of network equipment and spectrum licences.

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

All financial assets measured at amortised cost are subject to the impairment requirements of IFRS 9 and are recognised as impaired using the general approach. There were no material increases in credit risk in the current and previous financial year. Consequently, the expected credit loss for 12 months is determined for all instruments. With regard to other financial assets, there were no indications of material impairment as at 31 December 2023 (>Note 15 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT).

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

Other non-financial assets were comprised as follows as of 31 December 2023:

	As of 31 December 2023		As of 31 December 2022	
(in EUR million)	**Non-current**	**Current**	**Non-current**	**Current**
Prepayments	130	76	109	57
Prepayments to related parties	–	3	–	1
Capitalised costs of obtaining contracts	128	420	141	424
Contract asset	9	16	2	17
Other tax receivables	–	23	–	0
Other non-financial assets	**267**	**539**	**251**	**499**

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

The capitalised costs of obtaining contracts include costs for commissions that can be directly allocated to contracts with customers. They are amortised on a straight-line basis in profit or loss over the underlying amortisation period, which is generally 24 months. In financial year 2023, amortisation of EUR 575 million (2022: EUR 520 million) was recognised.

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

For contract assets, a loss allowance of EUR 1 million (2022: EUR 1 million) is already recognised directly in the carrying amount. Contract assets exist primarily with private customers.

The tax receivables relate to receivables from the tax office from current prepayments.

Other non-financial liabilities were comprised as follows as of 31 December 2023:

(in EUR million)	As of 31 December 2023 Current	As of 31 December 2022 Current
Payroll taxes and social security	10	9
Current tax payables for indirect taxes	67	60
Other taxes	0	0
Other non-financial liabilities	**77**	**70**

5.8. Inventories

(in EUR million)	As of 31 December 2023	As of 31 December 2022
Merchandise	149	141
Loss allowances	(2)	(1)
Inventories	**148**	**140**

Inventories comprise smartphones and accessories in particular.

The total amount of inventories recognised as an expense in financial year 2023 is EUR 1,712 million (2022: EUR 1,533 million).

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

5.9. Cash and cash equivalents

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

(in EUR million)	As of 31 December 2023	As of 31 December 2022
Cash at bank and in hand	11	13
Cash pooling	573	763
Cash and cash equivalents	**584**	**777**

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

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

5.10. Equity

Subscribed capital
As of 31 December 2023, Telefónica Deutschland Holding AG had share capital of EUR 2,975 million, which is consistent with the prior year and is divided into 2,974,554,993 non-par value registered shares, unchanged as of 31 December 2022, each accounting for a pro rata amount of share capital of EUR 1.00. Each non-par value share grants one vote at the Annual General Meeting. The share capital is fully paid.

As of 31 December 2023, Telefónica Deutschland Holding AG did not hold any of its own shares.

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

Authorised capital
Telefónica Deutschland Holding AG had authorised capital 2021/I of EUR 1,487,277,496 as of 31 December 2023.

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

Authorisation of the Management Board to buy back own shares

The authorisation of the Management Board to buy back own shares is governed by section 57 (1) sentence 2 and sections 71 et seqq. of the German Stock Corporation Act (Aktiengesetz – AktG). The Annual General Meeting on 19 May 2022 resolved a new authorisation in accordance with section 71 (1) no. 8 AktG to buy back own shares of up to a total of 10% of the share capital on the resolution date or, if lower, on the date on which the authorisation is exercised.

Additional paid-in capital

As a result of cash and non-cash capital increases in connection with the acquisition of the E-Plus Group, which were entered in the commercial register on 18 September and 7 October 2014, additional paid-in capital increased in 2014 by EUR 3,929 million.

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

In the financial year, a withdrawal of EUR 538 million was made from the (free) additional paid-in capital to retained earnings. As of 31 December 2023, additional paid-in capital amounts to EUR 2,836 million (2023: EUR 3,373 million).

Retained earnings

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

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 (2022: EUR 0.014 million).

Dividend distribution in the financial year

On 17 May 2023, the Annual General Meeting of Telefónica Deutschland resolved to distribute a dividend of EUR 0.18 for each non-par value share for financial year 2022, in total around EUR 535 million. For this purpose, EUR 556 million were withdrawn from the (free) additional paid-in capital and transferred to retained earnings in 2022. The dividend was paid to shareholders in May 2023.

Dividend distribution in the previous year

On 19 May 2022, the virtual Annual General Meeting of Telefónica Deutschland resolved to distribute a dividend of EUR 0.18 for each non-par value share for financial year 2021, in total around EUR 535 million. For this purpose, EUR 583 million were withdrawn from the (free) additional paid-in capital and transferred to retained earnings in 2021. The dividend was paid to shareholders in May 2022.

5.11. Interest-bearing debt

	As of 31 December 2023		As of 31 December 2022	
(in EUR million)	**Non-current**	**Current**	**Non-current**	**Current**
Bonds	599	5	598	5
Promissory notes and registered bonds	228	131	354	47
Loans payable	408	150	558	76
Interest-bearing debt	**1,235**	**286**	**1,510**	**128**

For the maturity profile of the listed liabilities, please refer to >Note 15 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT. Non-current interest-bearing debt with a remaining term greater than five years remains in the amount of EUR 226 million (2022: EUR 324 million).

Bonds

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

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

Promissory notes/registered bonds

On 13 March 2015, Telefónica Deutschland Group completed an initial placement of promissory notes and registered bonds with a volume of EUR 300 million. The promissory notes placed with a volume of EUR 172 million have unsecured tranches with terms of five, eight and ten years, with both fixed and floating interest rates. The first tranche of EUR 113 million was repaid on schedule in March 2020, a further tranche of more than EUR 19.5 million was repaid in March 2023. The variable-rate tranches of the promissory note loan in the amount of EUR 10.5 million were repaid ahead of schedule in September 2021. The average interest rate of the tranches with fixed interest rates is 1.38% p.a. The 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.

Telefonica Deutschland Group also placed promissory note loans in various tranches and a registered bond with a total volume of EUR 250 million in February 2018. The promissory note loans placed have tranches with terms of 1 year with fixed interest, which have already been repaid, as well as terms of 5 and 7 years with variable and fixed interest rates and a 10-year tranche with a fixed interest rate. The respective interest rates for the fixed tranches with terms of 1, 5, 7 and 10 years are 0.03%, 1.051%, 1.468% and 1.962% p.a., respectively. The registered bond has a term of 15 years and a fixed interest rate of 2.506% p.a. All tranches were issued at par. The variable-rate tranches of the promissory note loan in the amount of EUR 103.5 million were repaid in September 2021, a further tranche with a fixed interest rate of more than EUR 23 million was repaid on schedule in March 2023.

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

Loans payable

The Group signed a EUR 750 million syndicated revolving credit facility (RCF) on 18 December 2019, which matures on 17 December 2024, with two extension options to the end of 2026. The first extension option was exercised in 2020 and the term of the credit facility was extended to 17 December 2025. The second extension option was exercised in 2021 and the credit facility was extended to 17 December 2026. The RCF bears a variable interest rate at Euribor money market conditions plus an agreed margin. The margin is also linked, among other factors, to the development of an ESG sustainability rating of Telefónica Germany GmbH & Co. OHG. As of 31 December 2023, the credit facility had not been used.

In addition, as of 31 December 2023, there are unused bilateral revolving credit facilities with various banks in the amount of EUR 198 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 2023, Telefónica Deutschland Group has fully drawn down this fixed-interest amortising loan in the form of two tranches. The funds provided by the EIB are due by December 2024 and May 2025 and are being repaid in equal instalments since December 2019 and May 2020, respectively. As of 31 December 2023, the outstanding balance of this amortising loan is EUR 108 million.

Telefónica Germany GmbH & Co. OHG and the EIB also concluded additional loan agreements on 18 December 2019 for EUR 300 million and on 14 January 2020 for EUR 150 million. Both loans were fully drawn down as of 31 December 2023.

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

Overdraft lines of EUR 854 million remain in place as part of the cash pooling agreements between Telefónica Deutschland Group and Telfisa Global B.V. As of 31 December 2023, the credit facility had not been used.

Reconciliation of debt movements to cash flow from financing activities

(in EUR million)	As of 1 January 2023	Cash flow from financing activities *	Additions/ Disposals	Other cash changes	Other non-cash changes	As of 31 December 2023
Bonds	604	–	–	(11)	11	604
Promissory notes and registered bonds	401	(43)	–	(7)	6	359
Loans payable	634	(75)	–	(3)	3	558
Interest-bearing debt	**1,639**	(118)	-	(20)	21	**1,521**
Lease liabilities	**3,260**	(747)	598	(36)	39	**3,114**
Payables – Spectrum	**998**	(108)			8	**898**

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

* The related interest paid from interest-bearing debt and on lease liabilities is reported under Cash flow from operating activities.

5.12. Lease liabilities

(in EUR million)	As of 31 December 2023		As of 31 December 2022	
	Non-current	Current	Non-current	Current
Lease liabilities	**2,559**	**555**	**2,663**	**597**

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

As of 31 December 2023

(in EUR million)	Present value of future minimum lease payment obligations	Unamortised interest expense	Future minimum lease payment obligations
Due within 1 year	555	18	**600**
Due between 1 and 5 years	1,786	42	**1,882**
Due in more than 5 years	773	15	**805**
Total	**3,114**	**173**	**3,288**

As of 31 December 2022

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

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

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

5.13. Trade and other payables and contract liabilities

(in EUR million)	As of 31 December 2023 Non-current	As of 31 December 2023 Current	As of 31 December 2022 Non-current	As of 31 December 2022 Current
Trade payables to third parties	–	1,542	–	1,433
Accruals	8	724	7	804
Payables to related parties (>Note 12 RELATED PARTIES)	–	19	–	26
Trade payables	**8**	**2,285**	**7**	**2,263**
Other payables non-trade	–	443	–	315
Other payables to related parties (>Note 12 RELATED PARTIES)	2	44	2	43
Miscellaneous payables	7	84	–	39
Other payables	**9**	**572**	**2**	**398**
Trade and other payables	**17**	**2,857**	**10**	**2,661**
Contract liabilities*	**92**	**522**	**136**	**594**

*The item contract liabilities was still referred to as prepaid expenses on 31 December 2022. The non-current (EUR 136 million) and current (EUR 594 million) contract liabilities from 2022 include EUR 18 million (non-current) and EUR 36 million (current) that do not constitute contract liabilities. In 2023, all items not representing contract liabilities were reclassified to other payables.

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

Trade and other payables to third parties amount to EUR 527 million (2022: EUR 463 million), in relation to which Telefónica Deutschland Group has entered into payment period extension agreements with certain commercial suppliers. The payment terms are extended to varying degrees, but correspond to standard industry terms. The payables remain part of the normal operating cycle, i.e. they retain their operational character.

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

Miscellaneous payables mainly comprise debtors with credit balances and deferred income.

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

Contract liabilities primarily comprise contractual liabilities from customer payments already made on prepaid credit and other advance payments received for future services.

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

Contract liabilities are broken down by maturity according to their expected utilisation. Contract liabilities arising from advance payments received for prepaid credits are classified exclusively as current.

5.14. Payables – Spectrum

(in EUR million)	As of 31 December 2023 Non-current	As of 31 December 2023 Current	As of 31 December 2022 Non-current	As of 31 December 2022 Current
Payables – Spectrum	791	107	891	107

In financial year 2019, payment obligations in the amount of EUR 1,425 million were incurred in connection with the acquisition of 5G mobile frequency licences. On the basis of the Agreement for the Implementation of the Mobile Communications Summit 2018 concluded with the representatives of the Federal Republic of Germany, it was agreed that the payment obligations from the 2019 spectrum 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 498 million already paid by the end of 2023 (2022: EUR 390 million), the carrying amount of the liabilities as of 31 December 2023 is EUR 898 million (31 December 2022: EUR 998 million). Under IAS 20.24, the interest advantage was deducted from the investments already made in expansion to reduce acquisition costs.

Non-current payables with a remaining term of more than five years amount to EUR 284 million (2022: EUR 426 million).

5.15. Provisions

	As of 31 December 2023		As of 31 December 2022	
(in EUR million)	**Non-current**	**Current**	**Non-current**	**Current**
Pension obligations	143	–	117	–
Restructuring	11	28	11	27
Asset retirement obligations	344	10	317	6
Other provisions	25	17	26	34
Provisions	**523**	**55**	**472**	**67**

Pension obligations

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

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

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

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

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

The benefits paid include old age pensions, occupational disability payments and benefits in the event of death to surviving dependants. The amount of the pension commitments for the defined benefit pension plans is based on the respective annual financial contribution (pension component) of each individual employee depending on their length of service, gender and age, and on the reporting date. The amount of the monthly pension benefit is the sum of the pension components. Payment of old-age pensions begins at the age of 62. Employees who were already entitled to a pension before 01/01/2012 start receiving their pension at the age of 60 rather than 62. On each reporting date, the pension entitlement is increased in line with the profit participation of the reinsurance policy taken out by the pension fund.

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 reinsurance policies are pledged to the pension beneficiary 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 one insurance company.

With effect from financial year 2023, Telefónica Deutschland Group will no longer make any new defined benefit pension commitments. Instead, new employees receive an annual employer's contribution to their individual pension plan. The expenses for financial year 2023 in connection with the employer's contribution amount to EUR 1 million.

In financial year 2023, the employer's contribution to the statutory pension insurance amounted to EUR 42 million (2022: EUR 39 million).

In addition, Telefónica Deutschland Group arranges defined contribution plans for employees. The contribution recorded for the defined contribution plan amounted to EUR 2 million (2022: EUR 2 million).

The following tables contain the key data for the defined benefit plans:

(in EUR million)	**As of 31 December 2023**	**As of 31 December 2022**
Present value of defined benefit obligation from funded plans	(111)	(98)
Present value of defined benefit obligation from unfunded plans	(125)	(110)
Present value of the defined benefit obligation	**(236)**	**(208)**
Fair value of plan assets	103	101
Surplus	**10**	10
Pension provisions	**(143)**	**(117)**
Reimbursement rights from insurance contracts	**98**	**89**

The development of the present value of the defined benefit obligations in 2023 and 2022 was as follows:

(in EUR million)	**2023**	**2022**
Present value of the defined benefit obligation as of 1 January	**(208)**	**(322)**
Current service costs (personnel expenses)	(11)	(11)
Interest expense (financial result)	(8)	(3)
Remeasurement of the present value of the pension obligation	(15)	123
thereof: actuarial gains arising from changes in financial assumptions	(19)	124
thereof: experience-based adjustments	4	(1)
Benefits paid	6	5
Present value of the defined benefit obligation as of 31 December	**(236)**	**(208)**

The development of the fair value of the plan assets in financial years 2023 and 2022 was as follows:

(in EUR million)	**2023**	**2022**
Fair value of plan assets as of 1 January	**101**	**99**
Return on plan assets excluding amounts included in interest income/(expense)	0	(1)
Interest income (financial result)	3	1
Employer contributions	2	2
Benefits paid	(3)	(3)
Other	0	3
Fair value of plan assets as of 31 December	**103**	**101**

The fair value of the reimbursement rights from insurance contracts developed in 2023 and 2022 as follows:

(in EUR million)	**2023**	**2022**
Fair value of reimbursement rights from insurance contracts as of 1 January	**89**	**81**
Return on reimbursement rights excluding amounts included in net interest income/(expense)	(1)	2
Interest income (financial result)	4	1
Employer contributions	8	8
Benefits paid	(2)	(1)
Other	(0)	(3)
Fair value of reimbursement rights from insurance contracts as of 31 December	**98**	**89**

The amounts recognised under ‘Other’ for plan assets and for reimbursement rights are a result of the ban on setoffs of reimbursement rights that have not been pledged against plan assets.

In 2023, as in the previous year, there was no asset ceiling. A surplus cover of EUR 10 million (2022: EUR 10 million) results, 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).

	2023	**2022**
Discount rate	3.20%	3.70%
Nominal rate of pension payment increase	1.0%/2.20%	1.0%/2.20%
Fluctuation rate	6.0%	6.1%
Wage and salary trends (*)	-	2.25%

(*) The wage and salary trends have no effect on the amount of the pension obligations due to the structure of the pension commitments and the composition of the portfolio

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 using a cash flow that corresponds to the duration of Telefónica Deutschland Group's portfolio. This latter interest rate is the actuarial discount rate used.

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

The mortality tables on which the actuarial calculation of the DBO as of the reporting dates is based for 2022 and 2023 are the Heubeck 2018G mortality tables.

(in years)	**2023**	**2022**
Life expectancy of pensioners currently aged 65	23	22
Life expectancy at age 65 of beneficiaries currently aged 40	26	26

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 2023:

(in EUR million)	**Increase in parameters**	**Decrease in parameters**
Discount rate (+0.5%/-0.5%)	(19)	20
Pension change (+0.50%/-0.50%)	8	(8)
Turnover rate (+1.00%/-1.00%)	(0)	0
Life expectancy (+1 year)	6	–

Increases and reductions in the discount rate and increases to pension payments do not have the same impact on the determination of the DBO due to the interest rate effects. If several assumptions are changed at the same time, the overall effect will not necessarily correspond to the sum of the individual effects due to the changes in the assumptions. In addition, the sensitivity of a change in the DBO only reflects each specific order of magnitude in the change of assumptions (for example 0.5%). If the assumptions change by a different order of magnitude, the effect on the DBO does not necessarily have to be linear.

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

(in EUR million)	**1 January to 31 December 2023**	**1 January to 31 December 2022**
Benefits expected to be paid within year 1	4	4
Benefits expected to be paid within year 2	5	4
Benefits expected to be paid within year 3	6	5
Benefits expected to be paid within year 4	7	5
Benefits expected to be paid within year 5	7	6
Benefits expected to be paid within 6 to 10 years	47	43

The average expected term of the defined benefit obligations is 16.2 years in financial year 2023 (2022: 17.5 years).

The best estimate of the contributions paid into the plans in the financial year ending 31 December 2024 is EUR 12 million (previous year: EUR 10 million).

Other provisions

(in EUR million)	Restructuring	Asset retirement obligations	Other	Total
As of 1 January 2023	**38**	**323**	**60**	**421**
Additions	7	39	6	53
Utilisation	(7)	(14)	(10)	(30)
Release	(0)	(1)	(15)	(17)
Interest effect	–	6	0	6
As of 31 December 2023	**38**	**354**	**42**	**434**
thereof: non-current	11	344	25	380
thereof: current	28	10	17	55

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

The provisions for restructuring as of 31 December 2023 primarily relate to obligations from severance agreements. As in the previous year, these additions are recognised in personnel expenses and other expenses (for further information see >Note 6.3 PERSONNEL EXPENSES and >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 the future dismantling nor the future payment date have been determined at the time the contract is concluded, these parameters are estimated. The estimate is largely based on contracts with service providers.

Additions of EUR 39 million are mainly attributable to cost adjustments. The releases of EUR 1 million mainly relate to the effects of interest rate adjustments.

Decisions on the recognition and valuation of provisions generally involve a high degree of discretion. The amount of the provision is determined based on the best estimate of the outflow of resources required to settle the obligation, bearing in mind all available information at the reporting date, including the opinions of independent experts, such as legal counsel or consultants. In addition, assumptions are made about the probabilities of future outflows of resources.

In principle, this also applies to employee termination benefits. If employees are offered voluntary severance, the benefits are measured on the basis of the number of employees expected to accept the offer. These benefits are recognised at the amount of the obligation regardless of its term.

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

6. Selected Explanatory Notes to the Consolidated Income Statement

International conflicts
The war in Ukraine and the conflict in the Middle East also had a negative impact on the global economy in 2023. Telefónica Deutschland Group was not spared from these effects.

In particular, fluctuating or higher energy prices as well as the evident influence on supply chains, including those for the network components, continued to generate a critical risk rating of the geopolitical risk and a high risk rating of the macroeconomic effects.

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

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

In February 2023, Telefónica Deutschland Group concluded a further Power Purchase Agreement (PPA) with an energy supplier, which provides long-term energy security and energy supply with renewable energies from an offshore wind farm over the period from 2025 to 2040. For financial year 2024, the energy requirements have already been largely economically hedged.

Climate change
There was no significant impact on Telefónica Deutschland Group's financials from climate change.

6.1. Revenues

1 January to 31 December

(in EUR million)	**2023**	**2022**
Rendering of services	6,722	6,548
Other revenues	1,892	1,676
Revenues	**8,614**	**8,224**

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

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

1 January to 31 December

(in EUR million)	**2023**	**2022**
Mobile business revenues	**7,767**	**7,394**
Mobile service revenues	5,895	5,742
Hardware revenues	1,872	1,652
Fixed business revenues	**827**	**806**
Other revenues	**20**	**24**
Revenues	**8,614**	**8,224**

Mobile service revenues
The mobile service revenues are largely based on basic fees and the fees levied for voice (including incoming and outgoing calls), messaging (including SMS and MMS) and mobile data services as well as service contracts. Alongside roaming revenues, mobile service revenues include access and interconnection fees that are paid for by other service providers for calls and SMS messages delivered via our network. In addition, one-time connection charges are included insofar as these have been allocated to mobile communications services.

Hardware revenues
Hardware revenues include the income from the sale of mobile phones as part of the "O_2 My Handy" model, and revenue from cash sales. Also included are revenues from the sale of mobile devices to distributors and partners and from the sale of accessories.

The "O_2 My Handy" model allows customers to choose whether to pay the entire price of the mobile phone up front or to make an initial payment to start with and pay the remaining purchase price in 24 or 36 monthly instalments, whereby payment in 36 monthly instalments is now only being offered in conjunction with the purchase of a mobile phone contract with a minimum term of 24 months.

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

Other revenues

Other revenues relate to income from the associate companies UGG (Unsere Grüne Glasfaser), income from operating leases and new business with mobility data.

Contract assets and contract liabilities from customer contracts

(in EUR million)	31 December 2023	31 December 2022
Contract asset	25	19
Contract liabilities	613	677

(in EUR million)	2023	2022
Amounts recognised in contract liabilities at the beginning of the period that resulted in revenue in the reporting period.	559	517

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-network/DSL services before consideration was paid or became due. Amounts already reported as receivables are not taken into account in the recognition of the contract asset.

Receivables are recognised when the right to receive the consideration becomes unconditional, as the payment due date is dependent only on the course of time.

The contract liability relates to payments received prematurely, i.e. before the contractual services have been fully performed. Contract liabilities are recognised as revenue as soon as (or when) Telefónica Deutschland Group provides the contractual services.

The changes in the contract assets or contract liabilities mainly result from the (not yet effected) satisfaction of the respective performance obligations.

Future revenues from (partially) unsatisfied performance obligations

(in EUR million)	As of 31 December 2023		As of 31 December 2023	
	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	1,282	299	1,237	328

Within the scope of the disclosures according to IFRS 15.120, the practical expedient in accordance with IFRS 15.121 was applied. In this context, performance obligations resulting from contracts with a maximum contract term of one year and performance obligations for which revenues were realised corresponding to the invoicing were not taken into account. Accordingly, the portion of the transaction price allocated to these partially unsatisfied performance obligations is not included in the disclosure.

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

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

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

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

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

6.2. Other income

1 January to 31 December

(in EUR million)	**2023**	**2022**
Own work capitalised	125	112
Other	35	40
Other income	**160**	**153**

Own work capitalised represents the capitalisation costs for own employees in CapEx projects. In the financial year, 70% (previous year: 72%) of the capitalised own work relate to network expansion projects, and the remaining 30% (previous year: 28%) to IT projects.

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

6.3. Personnel expenses

In financial year 2023, personnel expenses totalled EUR 669 million (2022: EUR 622 million). Thereof, EUR 566 million (2022: EUR 528 million) related to wages and salaries, social security EUR 89 million (2022: EUR 82 million) and EUR 14 million (2022: EUR 13 million) to pensions. Personnel expenses from share-based payments are presented in >Note 13 SHARE-BASED PAYMENTS; personnel expenses relating to pension plans are presented in >Note 5.15 PROVISIONS.

In addition, restructuring expenses of EUR 2 million (2022: EUR 5 million) were recognised as personnel expenses (>Note 5.15 PROVISIONS).

6.4. Other expenses

1 January to 31 December

(in EUR million)	**2023**	**2022**
Other third-party services	(2,361)	(2,242)
Other operating expenses	(77)	(65)
Allowance for current assets	(11)	(9)
Advertising	(277)	(301)
Other expenses	**(2,725)**	**(2,616)**

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

Other expenses included restructuring expenses of EUR 9 million as of 31 December 2023 (2022: EUR 11 million) (>Note 5.15 PROVISIONS).

6.5. Depreciation and amortisation

1 January to 31 December

(in EUR million)	**2023**	**2022**
Amortisation of intangible assets	(833)	(887)
Depreciation of property, plant and equipment	(804)	(759)
Depreciation of right-of-use assets	(673)	(637)
Depreciation and amortisation	**(2,310)**	**(2,283)**

6.6. Financial result

1 January to 31 December

(in EUR million)	**2023**	**2022**
Interest income from financial assets	22	23
Interest expenses from financial assets	(31)	(9)
Interest expenses on lease liabilities	(36)	(15)
Interest expenses from financial liabilities	(37)	(31)
Interest component from measurement of provisions and other liabilities	(10)	(4)
Other exchange (losses)/gains	1	0
Financial result	**(90)**	**(36)**

Interest income from financial assets mainly includes interest income from cash pooling and interest income from the interest effect of the outstanding purchase price receivable relating to the sale of major parts of the business operations of the rooftop sites. Interest expenses from financial assets in financial year 2023 mainly consist of increased interest expenses for factoring transactions.

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

6.7. Income taxes

Consolidated income tax group

As of 31 December 2023, the consolidated income tax group of Telefónica Deutschland Group comprised 13 (2022: 13) companies. A full tax rate of 32% (previous year: 32%) is used as the Group tax rate in the deferred and current tax calculation, which consists of the corporate income tax rate and solidarity surcharge of 15.825% (previous year: 15.825%) and the weighted trade tax rate of 16.175% (previous year: 16.175%).

After proportionate offsetting against tax losses carried forward, Telefónica Deutschland Group again posted positive taxable income in 2023.

Current and deferred taxes

1 January to 31 December

(in EUR million)	**2023**	**2022**
Current tax expense	(6)	(31)
Deferred tax income/(expense)	87	73
Income taxes	**82**	**42**

The movements in deferred taxes are as follows:

(in EUR million)	**2023**	**2022**
As of 1 January	**217**	**178**
Deferred tax income/(expense)	87	73
Amount of deferred taxes recognised directly in equity as shown in the Consolidated Statement of Comprehensive Income or in other comprehensive income	5	(34)
As of 31 December	**309**	**217**

The tax income reported in financial year 2023 in the amount of EUR 82 million (previous year EUR 42 million) includes a current tax expense of EUR 6 million (previous year EUR 31 million), which comprises an out-of-period release of income tax provisions amounting to EUR 21 million and, offsetting this, a current tax expense of EUR 27 million from financial year 2023 and a tax income of EUR 87 million (previous year EUR 73 million) from changes in deferred taxes. The deferred tax income reported in profit or loss includes changes to taxable temporary differences and the additional capitalisation of deferred tax assets on tax losses carried forward.

Tax losses carried forward and temporary differences

The tax losses carried forward for which no deferred tax assets are recognised as of 31 December 2023 amount to EUR 14,147 million for corporate income tax and EUR 13,189 million for trade tax (2022: EUR 14,366 million and EUR 13,493 million). Alongside the pro rata use of tax loss in the current year, the tax losses carried forward increased due partly to adjustments made in the previous year, particularly during the conclusion of external tax audits in the previous year. This retroactive increase in the tax losses carried forward from the previous year's adjustments in the previous year did not affect the current tax or the deferred tax assets on the tax losses carried forward recognised in the previous periods and in the current year as this increase concerns only tax losses carried forward that cannot be recognised.

The total deferred tax assets and liabilities amount to EUR 310 million (2022: EUR 217 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 2023		As of 31 December 2022	
(in EUR million)	**Deferred tax assets**	**Deferred tax liabilities**	**Deferred tax assets**	**Deferred tax liabilities**
Goodwill and other intangible assets	190	278	254	(343)
Tangible assets	–	(72)	–	(83)
Right-of-use assets	–	(1,016)	–	(1,042)
Non-current amortisable costs of obtaining a contract	–	(41)	–	(45)
Other non-current financial assets	–	(35)	–	(34)
Current amortisable costs of obtaining a contract	–	(134)	–	(136)
Other current financial assets	1	(1)	–	(2)
Trade and other receivables	76	–	48	(0)
Financial liabilities, trade and other payables	4	(20)	2	(13)
Provisions including pension obligations	109	(1)	102	(2)
Non-current lease liabilities	819	–	852	–
Other non-current financial liabilities	–	(0)	–	(1)
Current lease liabilities	175	–	194	–
Other current financial liabilities	–	(3)	0	–
Tax losses carried forward	538	–	463	–
Deferred tax assets/(liabilities) gross	**1,911**	**(1,602)**	**1,916**	**(1,699)**
thereof: non-current	1,735	(1,463)	1,722	(1,562)
Netting	(1,373)	1,373	(1,453)	1,453
Deferred tax assets/(liabilities) after netting according to Consolidated Balance Sheet	**538**	**(230)**	**463**	**(247)**
Total deferred tax assets/(liabilities)	309	–	217	–

Telefónica Deutschland Group assesses the recoverability of deferred tax assets based on estimates of future results. The ability to recover these deferred tax assets depends ultimately on 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 forecasts and updated to reflect the latest trends and estimates. In each case, a time horizon of seven years is used for the recoverability of deferred tax assets as well as for the tax planning.

The recognition of tax assets and liabilities depends on a series of factors, including estimates with respect to timing and the realisation of deferred tax assets and the projected tax payment schedule. Actual income tax receipts and payments of Telefónica Deutschland Group could differ from the estimates made by Telefónica Deutschland Group as a result of changes in tax legislation or unforeseen transactions that could affect the tax balance. For uncertainties over income tax treatments, around EUR 7 million was carried as a liability in the financial year in accordance with IFRIC 23.

Telefónica Deutschland Group falls within the scope of the OECD Pillar Two model rules. Pillar Two legislation was adopted in Germany and has been in force in Germany since 1 January 2024. Telefónica Deutschland Group makes use of the exemption from recognising deferred taxes related to Pillar Two income taxes, which was the subject of the amendment to IAS 12 published in May 2023.

With the support of the ultimate Spanish parent company, Telefónica Deutschland Group is currently in the process of assessing the impact of Pillar Two following the legislation's entry into force. Due to the complexity involved in applying the legislation and calculating GloBE income, the quantitative effects of the legislation that has come into force cannot be reliably estimated yet. To facilitate the application of Pillar Two legislation, the Spanish parent company is currently working with tax specialists for all countries concerned.

Reconciliation of earnings before tax to income tax expense recognised

1 January to 31 December (in EUR million)	**2023**	**2022**
Profit/(loss) before tax	**191**	**189**
Tax expense at prevailing statutory rate (32%)	(61)	(61)
Use of tax losses carried forward for previously unrecognised deferred taxes	(1)	11
Non-deductible expenses	(19)	(15)
Change in unrecognised temporary differences and tax losses carried forward	115	76
Deferred taxes related to other periods	23	33
Current taxes related to other periods	21	–
Other	3	(3)
Income taxes	**82**	**42**
Current tax income/(expense)	(6)	31
Deferred tax income/(expense)	87	73
Income taxes	**82**	**42**
Effective overall tax rate	-43%	-22%

7. Earnings Per Share

Basic earnings per share are calculated by dividing the profit for the year after tax attributable to the ordinary shareholders of the parent company by the weighted average number of ordinary shares outstanding during the reporting period.

Diluted earnings per share are calculated by adjusting the profit after tax attributable to the ordinary shareholders of the parent company and the weighted average number of ordinary shares outstanding in the reporting period for the effects of any dilutive effects inherent in converting potential ordinary shares.

Both basic as well as diluted earnings per share attributable to the ordinary shareholders of the parent company are calculated based on the following data in accordance with IAS 33.

1 January to 31 December (in EUR million)	**2023**	**2022**
Total profit/(loss) attributable to ordinary shareholders of the parent company	273	232
Weighted average number of ordinary shares issued (in million units)	2,975	2,975
Earnings per share in EUR (basic)	**0.09**	**0.08**

1 January to 31 December (in EUR million)	**2023**	**2022**
Total profit/(loss) attributable to ordinary shareholders of the parent company	273	232
Weighted average number of ordinary shares issued plus options on shares (in million units)	2,975	2,975
Earnings per share in EUR (diluted)	**0.09**	**0.08**

In addition, the share capital of Telefónica Deutschland Holding AG is conditionally increased (see >Note 5.10 EQUITY). Shares from the conditional capital of a stock corporation are not part of the calculation of the earnings per share as they can be conditionally issued.

8. Further Information on Financial Assets and Financial Liabilities

In the following tables, the fair values of all financial assets and financial liabilities of Telefónica Deutschland Group are disclosed in accordance with the measurement categories as determined by IFRS 9 with regard to the requirements of IFRS 13.

As of 31 December 2023, the carrying amount of current financial assets and financial liabilities represents an appropriate approximation of fair value.

In addition, the tables show the categorisation of the financial assets and financial liabilities in accordance with the importance of the input factors that were used for their respective measurement. The review is performed successively from level to level. The first stage is given priority and the subsequent stages are only used for measurement if the requirements for the input factors of the first stage could not be fulfilled. For this purpose, three levels or measurement hierarchies are defined:

Level 1: Input factors at this level are quoted (unadjusted) prices for identical assets or liabilities in active markets accessible to the entity on the measurement date.

Level 2: Second-level input factors are market prices other than those quoted at level one that are observable either directly or indirectly for the asset or liability.

Level 3: Input factors that are not observable for the asset or liability.

As of 31 December 2023

Financial Assets

						Measurement hierarchy			
(in EUR million)	**Financial assets measu-red at fair value through profit or loss**	**Financial assets measu-red at fair value through other compre-hensive income**	**Financial assets measured at amorti-sed cost**	**Not in the scope of IFRS 7 (**)**	**Total carrying amount**	**Level 1 (Quoted prices)**	**Level 2 (Signifi-cant other observable input para-meters)**	**Level 3 (Significant unobser-vable input parame-ters)**	**Total fair value**
Non-current trade and other receivables (>Note 5.5)	–	280	–	–	280	–	280	–	280
Other non-current financial assets (>Note 5.6)	2	–	288	124	414	–	289	2	291
thereof: investments in start-ups	2	–	–	–	2	–	–	2	2
thereof: net investment in the lease	–	–	–	10	10	–	10	–	10
thereof: other	–	–	288	114	402	–	279	–	279
Current trade and other receivables (>Note 5.5)	–	544	597	311	1,452	–	544	–	n.a. (*)
Other current financial assets (>Note 5.6)	0	–	5	5	10	0	–	–	n.a. (*)
thereof: investments in start-ups	0	–	–	–	0	0	–	–	n.a. (*)
thereof: net investment in the lease	–	–	–	5	5	–	–	–	n.a. (*)
thereof: other	-	-	5	–	5	–	–	–	n.a. (*)
Cash and cash equivalents (>Note 5.9)	–	–	584	–	584	–	–	–	n.a. (*)
Total	**2**	**824**	**1,474**	**440**	**2,741**	**0**	**1,113**	**2**	**571**

As of 31 December 2022

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

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

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

In addition, EUR 2 million (2022: EUR 3 million) of other non-current financial assets and EUR 0 million (2022: EUR 0 million) of other current financial assets are classified as financial assets measured at fair value through profit or loss. These relate primarily to investments in start-ups. These assets were measured according to Level 3 for the investments reported in other non-current financial assets and Level 1 for the investments reported in other current financial assets. The fair value measurement according to Level 3 is based on existing business plans with assumptions regarding future business development.

The measurement at fair value according to Level 1 is based on primary market values observed on equity markets.

Trade receivables were partly classified as financial assets measured at fair value through other comprehensive income. These are receivables that can be sold as part of factoring transactions. For receivables, the fair value is determined by a risk discount based on the credit risk. In addition, a discount rate recognised in other comprehensive income is taken into account when determining the fair value of receivables.

All other financial assets as of 31 December 2023 were categorised as financial assets measured at amortised cost.

As of 31 December 2023

Financial liabilities

(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			
Non-current interest-bearing debt (>Note 5.11)	1,235	–	1,235	584	591	–	1,175
Non-current trade and other payables (>Note 5.13)	8	9	17	–	8	–	8
Non-current payables - Spectrum (>Note 5.14)	791	–	791	–	715	–	715
Current interest-bearing debt (>Note 5.11)	286	–	286	–	–	–	n.a. (*)
Current trade and other payables (>Note 5.13)	2,394	463	2,857	–	–	–	n.a. (*)
Current payables - Spectrum (>Note 5.14)	107	–	107	–	–	–	n.a. (*)
Total	**4,821**	**472**	**5,293**	**584**	**1,314**	**–**	**1,898**

As of 31 December 2022

Financial liabilities

(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			
Non-current interest-bearing debt (>Note 5.11)	1,510	–	1,510	569	821	–	1,390
Non-current trade and other payables (>Note 5.13)	7	2	10	–	7	–	7
Non-current payables - Spectrum (>Note 5.14)	891	–	891	–	764	–	764
Current interest-bearing debt (>Note 5.11)	128	–	128	–	–	–	n.a. (*)
Current trade and other payables (>Note 5.13)	2,345	316	2,661	–	–	–	n.a. (*)
Current payables - Spectrum (>Note 5.14)	107	–	107	–	–	–	n.a. (*)
Total	**4,989**	**318**	**5,307**	**569**	**1,593**	**–**	**2,162**

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

As of 31 December 2023, none of the current interest-bearing debt was included in a hedging relationship.

The fair value of the bonds (non-current and current interest-bearing debt) is determined based on primary market values (unadjusted quoted prices in active markets, level 1). The fair value of the other non-current interest-bearing debt is calculated by discounting the future cash flows using current market interest rates plus a credit spread. The credit spread is derived from the traded bonds of Telefónica Deutschland Group and is taken into account in discounting, matched to the duration.

In addition to bonds, non-current and current interest-bearing debt as of 31 December 2023 include promissory note loans and registered bonds with a total nominal value of EUR 355 million (2022: EUR 397 million) and a loan from the European Investment Bank (EIB) of EUR 558 million (2022: EUR 633 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:

1 January to 31 December 2023 (in EUR million)	**Amortised cost**		**At fair value through profit or loss**	**At fair value through other comprehensive income**
	Financial assets	**Financial liabilities**	**Financial assets**	**Financial assets**
Currency gains/currency losses	(0)	1	–	–
Result from valuations	-	-	(1)	6
Impairment/reversal of impairment losses	(37)	-	-	(63)
Effective interest income	17	–	–	–
Effective interest expense	-	(68)	-	-
Total	**(20)**	**(67)**	**(1)**	**(57)**

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

Netting

Financial assets and financial liabilities are offset, and the net amount is reported in the Consolidated Balance Sheet, when the Group currently has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The following table presents the amounts of financial assets and financial liabilities that are offset as of 31 December 2023.

As of 31 December 2023 (in EUR million)	**Trade receivables**	**Trade payables**
Gross amounts	1,439	1,997
Amounts set off in the Consolidated Balance Sheet in accordance with IAS 32.42	(9)	(9)
Net amounts presented in the Balance Sheet	**1,431**	**1,989**

As of 31 December 2022 (in EUR million)	**Trade receivables**	**Trade payables**
Gross amounts	1,439	2,112
Amounts set off in the Consolidated Balance Sheet in accordance with IAS 32.42	(31)	(31)
Net amounts presented in the Balance Sheet	**1,408**	**2,081**

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

9. List of Shareholdings and Changes in the Group Structure

In accordance with sections 285 and 313 of the German Commercial Code (HGB), the following table lists the companies making up Telefónica Deutschland Group as of 31 December 2023.

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

As of 31 December 2023 Company name, registered office	Country	Consolidation	Share in %	Equity 31 December 2022 (in EUR million)[5]	Result in FY 2022 (in EUR million)[5]
Parent company					
Telefónica Deutschland Holding AG, Munich, Germany	Germany	N/A	N/A	6,932	(14)
Subsidiaries					
Telefónica Germany Management GmbH, Munich[2]	Germany	Full financial year	100%	11	0
Telefónica Germany GmbH & Co. OHG, Munich[1,4]	Germany	Full financial year	100%	5,432	(60)
Telefónica Germany 1. Beteiligungsgesellschaft mbH, Munich[2,4,6]	Germany	Full financial year	100%	86	-*
TGCS Rostock GmbH, Munich[2,6]	Germany	Full financial year	100%	15	-*
Telefónica Germany Business Sales GmbH, Düsseldorf[6]	Germany	Full financial year	100%	5	0
Telefónica Germany Retail GmbH, Düsseldorf[2,6]	Germany	Full financial year	100%	107	-*
Wayra Deutschland GmbH, Munich[2,6]	Germany	Full financial year	100%	2	-*
O2 Telefónica Deutschland Finanzierungs GmbH, Munich[6]	Germany	Full financial year	100%	0	-*
TGCS Bremen GmbH, Munich[2,6]	Germany	Full financial year	100%	2	-*
TGCS Hamburg GmbH, Munich[2,6]	Germany	Full financial year	100%	2	-*
TGCS Nürnberg GmbH, Munich[2,6]	Germany	Full financial year	100%	4	-*
E-Plus Service GmbH, Düsseldorf[2,6]	Germany	Full financial year	100%	78	-*
AY YILDIZ Communications GmbH, Düsseldorf[2,6]	Germany	Full financial year	100%	5	-*
Ortel Mobile GmbH, Düsseldorf[2,6]	Germany	Full financial year	100%	5	-*
TCFS Potsdam GmbH, Potsdam[2,6]	Germany	Full financial year	100%	0	-*
Joint operations					
TCHIBO Mobilfunk Beteiligungs-GmbH, Hamburg[6]	Germany	Full financial year	50%	0	0
TCHIBO Mobilfunk GmbH & Co. KG, Hamburg[6]	Germany	Full financial year	50%	13	1
Associated companies					
UGG TopCo/HoldCo General Partner GmbH, Ismaning[6]	Germany	Full financial year	10%	(0)	(0)
UGG TopCo GmbH & Co. KG, Ismaning[6]	Germany	Full financial year	10%	159	(3)
Other investments[3]					
MNP Deutschland GbR, Düsseldorf[6]	Germany	Full financial year	33%	1	0
IZMF GbR, Bonn[6]	Germany	since July 2022	25%	-	-

[1] This company uses the exemption provisions pursuant to section 264b HGB.
[2] These companies use the exemption provisions pursuant to section 264 (3) HGB.
[3] Other investments are not included in the consolidation.
[4] This company makes use of the exemption provision under section 291 and does not prepare (sub-) consolidated financial statements
[5] Equity capital and result of the last financial year for which annual financial statements are available according to HGB
[6] Indirect investment by Telefónica Deutschland Holding AG
* After profit and loss transfer

10. Investments in Associated Companies

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

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

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

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

Consolidated Balance Sheet

(in EUR million)	UGG TopCo GmbH & Co. KG	
Assets	**As of 31 December 2023**	**As of 31 December 2022**
A) Non-current assets	**671**	**443**
B) Current assets	**89**	**83**
Total assets (A+B)	**760**	**525**

Equity and liabilities	**As of 31 December 2023**	**As of 31 December 2022**
A) Equity	**100**	**121**
B) Non-current liabilities	**558**	**332**
C) Current liabilities	**101**	**72**
Total equity and liabilities (A+B+C)	**760**	**525**

Condensed Statement of Comprehensive Income

(in EUR million)	UGG TopCo GmbH & Co. KG	
	As of 31 December 2023	**As of 31 December 2022**
A) Revenues	**4**	**9**
B) Profit/(loss) for the period	**(111)**	**(138)**
C) Other comprehensive incom/(loss)	**(56)**	**138**
D) Total comprehensive income/(loss)	**(167)**	**0**

Reconciliation to the carrying amount

(in EUR million)	UGG TopCo GmbH & Co. KG
Net assets as of 1 January 2023	**121**
Capital increases	147
Total comprehensive income/(loss)	(167)
Net assets as of 31 December 2023	**100**
Group share of net assets	**10**
Group share in %	10%
Carrying amount as of 31 December 2023	**11**

* The difference of EUR 1 million between the carrying amount and the Group share of net assets results from capitalised incidental acquisition costs

11. Joint Operations

Telefónica Germany GmbH & Co. OHG jointly controls TCHIBO Mobilfunk Beteiligungs-GmbH, Hamburg, and TCHIBO Mobilfunk GmbH & Co. KG, Hamburg, together with TCHIBO GmbH, Hamburg.

The business objective of TCHIBO Mobilfunk Beteiligungs GmbH is the holding of interests in other companies. The business objective of TCHIBO Mobilfunk GmbH & Co. KG, with TCHIBO Mobilfunk Beteiligungs GmbH as its personally liable shareholder, is the marketing and sale of mobile communications services to be rendered by third parties and the marketing and sale of mobile devices.

As part of the joint operation in TCHIBO Mobilfunk GmbH & Co. KG, Telefónica Germany GmbH & Co. OHG, on the one hand, reimburses the company for sales and marketing services provided by the latter and supplies the company with mobile communications devices, on the other.

12. Related Parties

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

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

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

The Notes to Telefónica Deutschland Group provide an overview of the Group companies (>Note 9 LIST OF SHAREHOLDINGS AND CHANGES IN THE GROUP STRUCTURE). In 2022 and 2023, the following were related parties from the perspective of Telefónica Deutschland Group:

Telefónica, S.A. and its subsidiaries, and significant investments of Telefónica, S.A. Group and associated companies (>Note 12.1 TRANSACTIONS WITH TELEFÓNICA, S.A. GROUP), members of the Management Board and Supervisory Board of Telefónica, S.A. Group and members of the Management Board and Supervisory Board of Telefónica Deutschland Group (>Note 12.2 TRANSACTIONS WITH MANAGEMENT BOARD AND SUPERVISORY BOARD).

The extent of the transactions conducted with Telefónica, S.A. Group and other related parties can be seen in the overviews below. Unless separately disclosed for joint ventures or associates, the transactions relate exclusively to Telefónica, S.A. and its subsidiaries.

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

Assets with and liabilities to Telefónica, S.A. Group
Telefónica Deutschland Group reports the following assets with and liabilities to the companies belonging to Telefónica, S.A. Group and associated companies:

(In EUR million)	**As of 31 December 2023**	**As of 31 December 2022**
Assets with Telefónica, S.A. Group	**868**	**1,052**
that are recognised in the following items in the Consolidated Balance Sheet:		
Inventories	0	–
Trade and other receivables	22	26
Other financial assets	269	262
Other non-financial assets	3	1
Cash and cash equivalents (cash pooling)	573	763
Assets with associated companies	**4**	**3**
that are recognised in the following items in the Consolidated Balance Sheet:		
Trade and other receivables	4	3

(In EUR million)	As of 31 December 2023	As of 31 December 2022
Liabilities to Telefónica, S.A. Group	**61**	**60**
that are recognised in the following items in the Consolidated Balance Sheet:		
Interest-bearing debt	0	–
Trade and other payables	61	60
Liabilities to associated companies	**5**	**12**
that are recognised in the following items in the Consolidated Balance Sheet:		
Trade and other payables	5	12

Inventories

Inventories result from advance payments for services. The item does not include any advance payments to Telefónica, S.A. as at the reporting dates of 31 December 2023 and 2022.

Trade and other receivables

These receivables result from transactions in goods and services, such as roaming and commissions for insurance services, between Telefónica Deutschland Group and Telefónica, S.A. Group. As of the reporting dates of 31 December, the line item contains receivables from Telefónica, S.A. of EUR 0 million in 2023 (2022: EUR 0 million).

Other financial assets

Other financial assets include the share of the purchase price receivable that is not yet due as a result of the sale of major parts of the business operations of the rooftop sites to Telxius. As of 31 December 2023, EUR 0 million (2022: no other financial assets) due to Telefónica, S.A. is recognised.

Other non-financial assets

Other non-financial assets comprise advance payments made to Telefónica, S.A. Group. The item does not include any prepayments made to Telefónica, S.A. as at the reporting date of 31 December 2023 and 2022.

Cash and cash equivalents (cash pooling)

The cash-pooling receivables from Telefónica, S.A. Group relate exclusively to the cash pooling agreement with Telfisa Global B.V., which also grants an overdraft facility of EUR 854 million, which was not utilised as of 31 December 2023. For further details, please refer to >Note 5.9 CASH AND CASH EQUIVALENTS.

Trade and other payables and interest-bearing debt

Trade and other payables largely comprise liabilities from licence fees and share-based payments. As at 31 December 2023, the item includes liabilities to Telefonica, S.A. in the amount of EUR 19 million (2022: EUR 2 million). The interest-bearing debts to Telefonica, S.A. amount to EUR 0 million (2022: EUR 0 million).

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

	Revenues, other income and interest income		Expenses, depreciation of right-of-use assets, interest expenses	
	1 January to 31 December		1 January to 31 December	
(in EUR million)	**2023**	**2022**	**2023**	**2022**
Telefónica, S.A. Group	43	49	136	118
Associated companies	15	14	4	2

Revenues and other income are generated from goods and services such as roaming and mobile phone insurance, of which EUR 0 million in the financial year (2022: EUR 0 million) relates to Telefónica, S.A.

The expenses include group fees totalling EUR 39 million in 2023 (2022: EUR 35 million), of which EUR 22 million (2022: EUR 20 million) relates to Telefónica, S.A. In addition, EUR 98 million (2022: EUR 83 million) results from expenses from the purchase of goods, services and other expenses, of which EUR 0 million (2022: EUR 1 million) relates to Telefónica, S.A.

Dividend distribution to Telefónica, S.A. Group

For financial year 2022, a dividend of EUR 0.18 per dividend-entitled no-par value share, for a total of EUR 371 million, was distributed to Telefónica Germany Holdings Limited, an indirect wholly owned subsidiary of Telefónica, S.A.

12.2. Transactions with the Management Board and Supervisory Board

a) Management Board
In financial year 2023, key management personnel included the following members of the Management Board:

Markus Haas (CEO)

Markus Rolle (CFO)

Valentina Daiber

Nicole Gerhardt

Andreas Laukenmann (since 1 September 2023)

Alfons Lösing

Mallik Rao (Yelamate Mallikarjuna Rao)

In the financial years to which the Consolidated Financial Statements relate, the members of the Management Board have not carried out any transactions with Telefónica Deutschland Group other than as part of the normal trading and business activities of Telefónica Deutschland Group.

The adjustment to the remuneration system for the members of the Management Board was approved at the Annual General Meeting on 17 May 2023.

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 2023 amounted to EUR 7,596 thousand (2022: EUR 7,797 thousand). In the reporting year, the total remuneration includes share-based compensation with a fair value at grant of EUR 1,927 thousand (2022: EUR 1,561 thousand) representing 333,745 (2022: 244,477) shares.

In addition to the Telefónica Deutschland Performance Share Plan, which offers the option of payment in cash or award Telefónica Deutschland Holding AG shares, the share-based payment plans also include schemes operated by Telefónica, S.A. Under these schemes, the parent company Telefónica, S.A. awards treasury shares to the Management Board members of Telefónica Deutschland Holding AG. The expenses of Telefónica, S.A. are charged to Telefónica Deutschland Holding AG (see >Note 13 SHARE-BASED PAYMENTS for more information).

Telefónica Deutschland Group has not currently provided any collateral or granted any loans to the members of the Management Board, nor assumed any guarantees for them.

Salaries and other benefits according to IAS 24.17 that were granted to incumbent Management Board members are composed as follows:

	1 January to 31 December	
(in EUR thousand)	**2023**	**2022**
Total remuneration	**9,498**	**8,807**
thereof:		
Short-term benefits	5,669	5,499
Termination benefits	290	891
Share-based payments	3,005	1,802
Service cost	534	615

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

(In units)	**2023**	**2022**
Share options as of 1 January	**601,828**	**543,787**
Forfeited share options	(60,225)	(80,337)
Change in composition of Management Board	–	(36,676)
Newly issued share options	333,745	244,477
Actual share assignment	(72,215)	(69,423)
Share options as of 31 December	**803,133**	**601,828**

The provisions for the share-based remuneration of the Management Board in the financial year amount to EUR 3,071 thousand (2022: EUR 967 thousand). Bonus provisions for the Management Board were formed in the amount of EUR 2,266 thousand (2022: EUR 2,387 thousand). In addition, provisions have been accrued for cost reimbursements to Telefónica, S.A. from the share-based payments for the Management Board totalling EUR 1,385 thousand (2022: EUR 0 thousand).

The defined benefit pension obligations for the Management Board members in financial year 2023 amounted to EUR 7,012 thousand (2022: EUR 6,418 thousand).

As of 31 December 2023, the pension obligations for members of the former management and their surviving dependants amounted to EUR 20,576 thousand (2022: EUR 20,741 thousand).

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

In financial year 2023, the total remuneration expense for the members of the former management and their surviving dependants amounted to EUR 1,083 thousand (2022: EUR 1,041 thousand).

b) Supervisory Board

Name	Member of the Supervisory Board	Remuneration (in EUR) 2023	Remuneration (in EUR) 2022
Peter Löscher[1]	since 1 April 2020	119,000	119,000
Jaime Smith Basterra	since 4 January 2022	33,000	31,619
Christoph Braun	from 1 July 2016 to 17 May 2023	21,582	57,500
Martin Butz	since 17 May 2018	40,000	40,000
Yasmin Fahimi	since 17 May 2023	18,822	–
Pablo de Carvajal González	since 25 July 2018	–	–
María García-Legaz Ponce	since 7 June 2018	–	–
Ernesto Gardelliano	since 5 October 2020	–	–
Cansever Heil[2]	since 3 April 2019	34,705	30,000
Christoph Heil[3]	from 3 June 2013 to 17 May 2018; since 3 April 2019	34,705	30,000
Michael Hoffmann[4]	since 5 October 2012	95,500	95,500
Julio Linares López	since 16 October 2017	30,000	30,000
Stefanie Oeschger	since 3 October 2020	40,000	36,219
Thomas Pfeil[5]	since 3 June 2013	55,363	47,500
Joachim Rieger[6]	since 31 October 2014	30,000	30,247
Barbara Rothfuß[7]	since 17 May 2023	23,527	–
Dr. Jan-Erik Walter	since 3 June 2013	47,500	43,719
Claudia Weber	from 3 June 2013 to 17 May 2023	14,075	37,500

(1) Chairman of the Related Party Transactions Committee, Nomination Committee and Mediation Committee
(2) Cansever Heil was elected as a member of the Remuneration Committee with immediate effect on 17 May 2023
(3) Christoph Heil was elected as a member of the Related Party Transactions Committee with immediate effect on 17 May 2023
(4) Chairman of the Audit Committee and Remuneration Committee
(5) Thomas Pfeil was elected Deputy Chairman of the Supervisory Board on 17 May 2023 with immediate effect. He stepped down from the Related Party Transactions Committee with effect from 17 May 2023.
(6) In addition to the remuneration in accordance with section 20 of the Articles of Association of Telefónica Deutschland Holding AG, Joachim Rieger received remuneration of EUR 4,500 in 2023 (2022: EUR 247) for his activities as a member of the Supervisory Board of the subsidiary TCFS Potsdam GmbH
(7) Barbara Rothfuß was elected as a member of the Related Party Transactions Committee with immediate effect on 17 May 2023.

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 642 thousand in 2023 (2022: EUR 629 thousand). Three members of the Supervisory Board waived the remuneration owed in full.

Members of the Supervisory Board who are also employees of Telefónica Deutschland Group also receive remuneration from their employment relationship, including entitlements from share-based payment agreements, subject to compliance with the requirements for participation in each individual case, and acquire entitlements as part of pension schemes. This remuneration comprises the following for the period of appointment to the Supervisory Board:

1 January to 31 December (in EUR thousand)	2023	2022
Total remuneration	**793**	**802**
thereof:		
Short-term employee benefits	719	742
Share-based payments	45	34
Service cost	29	26

As of 31 December 2023, Telefónica Deutschland Group has not granted the members of its Supervisory Board any collateral or loans, and has not assumed any guarantees on their behalf.

13. Share-Based Payments

As of 31 December 2023, Telefónica Deutschland Group had concluded various agreements regarding share-based payments. According to the company's assessment, these are both equity-settled share-based payments and cash-settled share-based payments. The financial effects of the share-based remuneration systems are, however, of minor importance for Telefónica Deutschland Group:

In financial year 2023, personnel expenses resulting from share-based payment transactions amounting to EUR 8 million (2022: EUR 5 million) were recognised.

As of 31 December 2023, liabilities resulting from share-based payment transactions with Telefónica, S.A. amounting to EUR 9 million (2022: EUR 3 million) were recognised. Telefónica Deutschland Group occasionally receives a service from the employees without itself providing the share-based payment agreed for this purpose. Telefónica, S.A. grants own shares to employees of Telefónica Deutschland Group. The expenses of Telefónica, S.A. are charged to Telefónica Deutschland Group.

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

Telefónica Deutschland Performance Share Plan

The Telefónica Deutschland Performance Share Plan is a share-based plan for the members of the Management Board of Telefónica Deutschland Holding AG. An allocation cycle begins on 1 January of each financial year and has a performance period of at least three years. At the start of the performance period, the Supervisory Board determines the grant value equal to a percentage of the annual fixed salary for each member of the Management Board. The payout after the end of the performance period equals the product of the respective grant value, a TSR-factor (1+TSR) (total shareholder return (TSR)), which reflects the development of the share price of Telefónica Deutschland over the plan term, and a target achievement factor, which can range between 0% and a maximum value (cap). The payout is limited to 200% of the grant value (cap) and is made in cash. However, the Supervisory Board reserves the right to alternatively settle the claims in shares. Because of this and as there was no current obligation to settle in cash, it was accounted for as equity-settled until 31 December 2022. Due to the first-time payment in cash for the 2020 allocation cycle and the associated establishment of an operating practice, the accounting from 31 December 2023 will be cash-settled.

The performance period for the 2021, 2022 and 2023 allocation cycles is three years. The target achievement factor may take on a maximum value of 100% and consists of three components: The first component is based on the relative total shareholder return of Telefónica Deutschland compared to a reference group consisting of the STOXX Europe 600 Telecommunications companies (with the exception of Telefónica, S.A.) (TSR target achievement factor) and has a weighting of 50%. The second component is based on the achievement of free cash flow targets of Telefónica Deutschland (FCF target achievement factor) and has a weighting of 40%. The third component is based on the achievement of targets for the neutralisation and reduction of CO_2 emissions of Telefónica Deutschland (CO_2 target achievement factor) and has a weighting of 10%.

The fair value at grant of the entire allocation amounts to EUR 1.1 million for the 2023 allocation cycle (2022: EUR 0.9 million) and was determined based on a medium probability scenario for the TSR factor, TSR target achievement factor, FCF target achievement factor and CO_2 target achievement factor. The plan terms do not provide for the conversion of grant values into numbers of shares.

In 2022 and 2023, Telefónica Deutschland Group also granted the Telefónica Deutschland Performance Share Plan with equivalent conditions to selected senior executives.

The fair value at grant of the entire allocation in 2023 amounts to EUR 0.9 million (2022: EUR 0.8 million) and was also determined based on a medium probability scenario for the TSR factor, TSR target achievement factor, FCF target achievement factor and CO_2 target achievement factor. The plan terms do not provide for the conversion of grant values into numbers of shares.

Personnel expenses recognised for the Telefónica Deutschland Performance Share Plan amounted to EUR 3 million in 2023 (2022: EUR 1 million). A provision of EUR 4 million (2022: EUR - million) was recognised as at 31 December 2023. EUR 2 million (2022: EUR - million) of this amount is vested.

Telefónica, S.A. Performance Share Plan

The Telefónica, S.A. Performance Share Plan is a share-based plan for Management Board members and selected senior executives of Telefónica Deutschland Group, which is settled in own shares by Telefónica, S.A. (for nominated talents, the plan operates under the name “Talent for the Future Share Plan”). An allocation cycle begins on 1 January of each financial year and has a performance period of at least three years. The participant receives a certain number of Telefónica, S.A. virtual performance shares at the beginning of the performance period. For the calculation of the number of performance shares, the grant value is divided by the weighted average Telefónica, S.A. share price of the last 30 trading days prior to the start of the respective performance period. The number of real shares actually earned after the end of the plan term equals the product of the number of allocated performance shares and a target achievement factor, which can range between 0% and a maximum value (cap), depending on the achievement level of performance criteria of Telefónica, S.A. For employees who are also members of the Executive Committee of Telefónica, S.A., a holding period of 24 months for 100% of the shares earned is provided for.

The performance period for the 2021, 2022 and 2023 allocation cycles is three years. The target achievement factor may take on a maximum value of 100% and consists of three components:

The first component is based on the relative total shareholder return of Telefónica, S.A. compared to a reference group consisting of selected global telecommunications companies (TSR target achievement factor) and has a weighting of 50%. The second component is based on the achievement of free cash flow targets of Telefónica, S.A. (FCF target achievement factor) and has a weighting of 40%. The third component is based on the achievement of targets for the neutralisation and reduction of CO_2 emissions of Telefónica, S.A. (CO_2 target achievement factor) and has a weighting of 10%.

The 2020–2022 tranche was settled in financial year 2023. Based on a target achievement factor of 50%, 153,230 real shares were earned.

Personnel expenses recognised for the Telefónica, S.A. Performance Share Plan amounted to EUR 2 million in 2023 (2022: EUR 2 million).

Tranche 2020–2022	Number of shares assigned at grant	Fair value per share (in euro) at grant	Shares outstanding as of 31/12/2023	Shares outstanding as of 31/12/2022
TSR - Target achievement factor:	189,955	1.64	–	153,788
FCF - Target achievement factor:	189,955	3.21	–	153,788

Tranche 2021–2023	Number of shares assigned at grant	Fair value per share (in euro) at grant	Shares outstanding as of 31/12/2023	Shares outstanding as of 31/12/2022
TSR - Target achievement factor:	589,443	2.65	501,996	523,380
FCF - Target achievement factor:	471,554	3.16	401,597	418,704
CO_2 - Target achievement factor	117,889	3.16	100,399	104,676

Tranche 2022–2024	Number of shares assigned at grant	Fair value per share (in euro) at grant	Shares outstanding as of 31/12/2023	Shares outstanding as of 31/12/2022
TSR - Target achievement factor:	364,917	2.43	332,156	340,101
FCF - Target achievement factor:	291,934	2.95	265,725	272,081
CO_2 - Target achievement factor	72,983	2.95	66,431	68,020

Tranche 2023–2025	Number of shares assigned at grant	Fair value per share (in euro) at grant	Shares outstanding as of 31/12/2023	Shares outstanding as of 31/12/2022
TSR - Target achievement factor:	398,519	1.78	378,480	–
FCF - Target achievement factor:	318,815	2.81	302,784	–
CO_2 - Target achievement factor	79,704	2.81	75,696	–

Telefónica, S.A. Restricted Share Plan

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

The plan term according to the Restricted Share Plan is between one year and five years. At the beginning of the term, the participant receives a certain number of virtual shares of Telefónica, S.A. at an amount, which corresponds to a certain proportion of the participants' annual base salary. If the participants remain employed for the entire plan term, the maximum entitlement of 100% (cap) of the originally allocated virtual shares is in the form of real shares. The allocation of real shares requires a minimum active employment relationship of twelve months during the plan term and an active relationship at the time of settlement by Telefónica, S.A.

If participants terminate their employment relationship during the plan term as "good leavers" (e.g. due to retirement or disability), they have a percentage entitlement based on the proportion of the active employment relationship over the entire plan term, i.e. between 0% and 100%. In this case, payment is made in cash. If the participants leave Telefónica Deutschland Group for other reasons during the plan term, the entitlement lapses.

In 2023 the fair value at grant of the entire allocation of 217,326 (2022: 51,351) virtual shares amounts to EUR 0.8 million (2022: EUR 0.2 million) and was determined on the basis of the average share price over 30 trading days prior to the respective grant date. The term of the allocation extends over three years.

In financial year 2023, 49,746 (2022: 29,950) real shares were earned. As of 31 December 2023, 268,677 (2022: 63,341) virtual shares were outstanding.

Personnel expenses recognised for the Telefónica, S.A. Restricted Share Plan amounted to EUR 1 million in 2023 (2022: EUR 0 million).

Telefónica, S.A. Employee Share Plan

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

Personnel expenses recognised for the Telefónica, S.A. Employee Share Plan amounted to EUR 3 million in 2023 (2022: EUR 2 million).

14. Information Regarding Employees

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

Average headcount	**2023**	**2022**
Office staff	7,255	7,044
thereof from joint operations	13	13
Temporary staff	402	360
Total	**7,657**	**7,404**

15. Financial Instruments and Risk Management

As of the reporting date, Telefónica Deutschland Group faces a variety of risks from financial instruments. In this regard, please refer to the statements regarding risk management and financial instruments in the Combined Management Report.

Further information on risks from financial instruments

Currency risk
The effects before taxes on the Consolidated Income Statement of a simultaneous, parallel increase (decrease) in the euro of 10% in financial years 2023 and 2022 would have been as follows:

	1 January to 31 December 2023		**1 January to 31 December 2022**	
(in EUR million)	**Risk position**	**+/-10%**	**Risk position**	**+/- 10 %**
USD	(12)	1/(1)	(20)	1/(2)
GBP	0	(0)/0	0	0/(0)

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

Interest rate risk
The effects before taxes on the Consolidated Income Statement of a change in the euro interest rates of variable interest-bearing financial instruments of +/-100 basis points as of the reporting dates 31 December 2023 and 2022 are shown below. This analysis assumes that all other variables remain unchanged.

1 January to 31 December		
(in EUR million)	**2023**	**2022**
+100bp	(6)	(8)
-100bp	6	8

In addition, changes in euro interest rates affect trade receivables and other receivables recognised at fair value through other comprehensive income and therefore also affect other comprehensive income and equity. A change of +/-100 basis points at the reporting dates of 31 December 2023 and 2022, assuming all other variables remain unchanged, would have the following effect:

1 January to 31 December		
(in EUR million)	**2023**	**2022**
+100bp	(8)	(8)
-100bp	7	8

Inflation risk

The effects before taxes on the Consolidated Income Statement of a change in the inflation rate of +/-100 basis points on non-current financial receivables as of the reporting dates of 31 December 2023 and 2022 are disclosed below.

1 January to 31 December (in EUR million)	2023	2022
+100bp	4	7
-100bp	(4)	(7)

Credit risk

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

	As of 31 December 2023					
(in EUR million)	**Gross carrying amount**	**Impairment level 1**	**Impairment level 2**	**Impairment level 3**	**Credit rating**	**Average expected default rate**
Silent factoring deposit	11	11	–	–	High	0.15%
Purchase price receivable from the sale of major parts of the business operations of the rooftop sites	268	268	–	–	High	0.33%
Loan receivables	8	8	–	–	High	0.33%
Non-current financial assets	**288**	**288**				
Silent factoring deposit	5	5	–	–	High	0.15%
Current financial assets	**5**	**5**				
Other receivables	**31**	**31**	**–**	**–**	**High**	**[0.11%–0.06%]**

	As of 31 December 2022					
(in EUR million)	**Gross carrying amount**	**Impairment level 1**	**Impairment level 2**	**Impairment level 3**	**Credit rating**	**Average expected default rate**
Silent factoring deposit	53	53	–	–	High	[0.12%–0.08%]
Purchase price receivable from the sale of major parts of the business operations of the rooftop sites	263	263	–	–	High	0.21%
Loan receivables	12	12	–	–	High	0.09%
Non-current financial assets	**327**	**327**				
Silent factoring deposit	29	29	–	–	High	[0.1%–0.06%]
Current financial assets	**29**	**29**				
Other receivables	**73**	**73**	**–**	**–**	**High**	**0.04%**

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

Trade receivables are subject to the simplified approach. For more information, please see >Note 5.5 TRADE AND OTHER RECEIVABLES. Receivables from leases also follow the simplified approach. The impairment is to be determined in the amount of the credit loss expected over the total term. For individual receivables (including leases), Telefónica Deutschland Group holds certain collateral that mitigates the loss in the event of counterparty default; this collateral is taken into account in the calculation of expected credit losses in the form of the LGD (Loss Given

Default). Collateral is provided for the sale of mobile devices as part of O_2 My Handy transactions. Telefónica Deutschland Group retains the title to the mobile devices until the end customer has paid the final instalment. In addition, there is commercial credit insurance against bad debts with sales partners with a deductible of 10%.

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

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

	As of 31 December 2023		As of 31 December 2022	
(in EUR million)	**Carrying amount**	**Ratings of cash and cash equivalents**	**Carrying amount**	**Ratings of cash and cash equivalents**
Cash at bank and in hand	11	[A-1 - A-2]	13	[A-1 - A-2]
Cash pooling	573	A-3	763	A-3
Cash and cash equivalents	**584**		**777**	

Liquidity risk

On the reporting date of 31 December 2023, Telefónica Deutschland Group had unused credit lines from current overdraft facilities, loans and revolving credit facilities with a total volume of EUR 1,802 million. As of 31 December 2022, the unused credit lines amounted to EUR 1,404 million.

Cash and cash equivalents amounted to EUR 584 million as of 31 December 2023 and EUR 777 million as of 31 December 2022.

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

Maturities of financial liabilities

As of 31 December 2023

			Remaining term		
(in EUR million)	**Total carrying amount**	**Gross cash outflow**	**< 1 year**	**1-5 years**	**> 5 years**
Non-current interest-bearing debt	1,235	1,277	–	1,051	226
Non-current lease liabilities	2,559	2,687	–	1,882	805
Non-current trade and other payables	10	10	–	10	–
Non-current payables - Spectrum	791	818	–	534	284
Current interest-bearing debt	286	295	295	–	–
Current lease liabilities	555	600	600	–	–
Current trade and other payables	2,844	2,844	2,844	–	–
Current payables - Spectrum	107	108	108	–	–
Financial liabilities	**8,388**	**8,640**	**3,847**	**3,477**	**1,316**

As of 31 December 2022

			Remaining term		
(in EUR million)	**Total carrying amount**	**Gross cash outflow**	**< 1 year**	**1-5 years**	**> 5 years**
Non-current interest-bearing debt	1,510	1,572	–	1,247	324
Non-current lease liabilities	2,663	2,719	–	1,807	913
Non-current trade and other payables	10	10	–	10	–
Non-current payables - Spectrum	891	927	–	500	426
Current interest-bearing debt	128	137	137	–	–
Current lease liabilities	597	616	616	–	–
Current trade and other payables	2,661	2,661	2,661	–	–
Current payables - Spectrum	107	107	107	–	–
Financial liabilities	**8,567**	**8,748**	**3,520**	**3,565**	**1,663**

16. Capital Management

Telefónica Deutschland Group strives to guarantee the sustainability of its business and to maximise its enterprise value by permanently monitoring its capital costs in addition to its most important management performance indicators.

Telefónica Deutschland Group uses the net leverage ratio to monitor its capital structure.

The net leverage ratio compares the net financial debt level with an operational success parameter (OIBDA adjusted for exceptional effects for the last twelve months) and provides management with information about the Company's debt reduction ability. The maximum leverage ratio defined within the framework of our financing policy applicable since 1 January 2019 remains unchanged at 2.5x (>Management Report MANAGEMENT SYSTEM).

17. Contingent Assets and Liabilities

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 spectrum auction. The aforementioned frequencies were (indirectly) in dispute. The actions have now been dismissed in the court of last instance. This ends the legal disputes before the administrative courts. The possibility of further legal proceedings due to an as yet unasserted third-party claim against frequency allocations in 800 MHz cannot be ruled out. If the appeal is successful, this could result in the reassignment of the frequencies for 800 MHz acquired at the 2010 spectrum auction. However, in view of the remaining term of the frequencies until 31 December 2025, this is extremely unlikely.

Legal actions challenging the rules governing the award and the auction of frequencies in the 2 GHz and 3.6 GHz ranges from the 2019 auction ("PKE 3 + 4") could result in stricter regulations, in particular with regard to the service provider obligation (obligation of Telefónica Deutschland Group to negotiate with suitable service providers on the shared use of radio capacities). Three actions filed by service providers were dismissed in the court of last instance. It is not known whether a constitutional complaint has been lodged in this regard, but this cannot be ruled out. Another action by a service provider has not yet been decided in the court of first instance. The action of another service provider was dismissed. The appeal of the ruling to the Federal Administrative Court was accepted and heard by the Federal Administrative Court on 20 October 2021. The Federal Administrative Court (BVerwG) has ruled that additional findings by the Administrative Court of Cologne are needed to clarify whether the method used by the BNetzA to decide on the 2019 award and auction rules was free of procedural and deliberation errors. Consequently, the case was referred back to the Cologne Administrative Court. The outcome of this clarification, which has yet to be conducted by the Administrative Court, could lead to the repeal of PKEs 3 + 4, at the end of which the supply obligations/negotiation obligations could be made stricter. In addition, the actions of the Telekom Deutschland Group and the Vodafone Group were dismissed in the court of last instance by the Federal Administrative Court. It is not known whether a constitutional complaint has been lodged in this regard, but this cannot be ruled out. Telefónica Deutschland Group's appeal was accepted but then dismissed at the hearing on 20 October 2021. 1&1 Group proceedings are still pending before the court of first instance. If 1&1 Group succeeds, the obligation to allow 1&1 Group to participate in the Telefónica Deutschland Group network (e.g. roaming) could lead to a tightening of currently existing negotiation obligations.

In relation to frequency allocations at 3.6 GHz, an objection by EWE TEL GmbH against Telefónica Deutschland Group's 3,540 MHz–3,610 MHz frequency allocation of 24 September 2020 is pending. If the appeal is successful, this could result in the reassignment of the frequencies for 3.6 GHz acquired at the 2019 spectrum auction.

As one of the leading network operators in Germany, Telefónica Deutschland Group is exposed to the risk of claims concerning patent violations. In this context, patent owners could assert claims for licence payments and/or for the prohibition of the use of certain patent-violating technologies. This risk is mitigated by Telefónica Deutschland Group's exemption and compensation claims against its relevant suppliers. Besides compensation claims for legal costs, patent owners currently have potential licence claims that come under consideration on the basis of the provisional/court-assessed values in dispute. These claims are almost completely offset by the potentially mitigating exemption and compensation claims. The amount of the legal costs and licence claims is estimated in the low millions (EUR).

Estimates, assumptions and discretionary judgments are used to determine contingent assets and liabilities. These relate, inter alia, to risks from the assertion of patent infringements and participations in judicial and extra-judicial proceedings within the scope of ordinary business.

18. Purchase and Other Contractual Obligations

The following expected maturities apply to purchase and other contractual obligations:

(in EUR million)	As of 31 December 2023	As of 31 December 2022
Less than 1 year	1,524	1,837
1 to 5 years	1,384	1,744
Over 5 years	1,009	1,040
Purchase and other contractual obligations	**3,917**	**4,621**

The purchase and other contractual obligations also include short-term leases and leases of assets of low value.

As of 31 December 2023, EUR 402 million (2022: EUR 620 million) of property, plant and equipment and EUR 40 million (2022: EUR 32 million) of intangible assets are included in purchase and other contractual obligations.

The investment in UGG TopCo GmbH & Co. KG resulted in an investment obligation in the amount of EUR 70 million as of 31 December 2023 (2022: EUR 85 million).

Telefónica Deutschland Group provides absolute guarantees to secure rental obligations primarily for antenna sites. These guarantees are granted by external financial counterparts.

The guarantees amount to EUR 103 million as of 31 December 2023 (2022: EUR 126 million).

For contractual obligations arising from further leases, please refer to >Note 19 LEASES.

19. Leases

Leases

The Consolidated Income Statement presents the following income and expenses related to leases:

(in EUR million)	2023	2022
	1 January to 31 December	
Income from operating leases	4	3
Income/expenses from finance leases	(0)	1
Income/expenses relating to short-term leases	0	(3)
Expenses relating to leases of low-value assets	(3)	(3)
Depreciation of right-of-use assets	(673)	(637)
Interest expenses on lease liabilities	(36)	(15)

The total cash outflows for leases in financial year 2023 amounted to EUR 786 million (2022: EUR 662 million).

For additions to right-of-use assets in financial year 2023 and the carrying amount of the right-of-use assets as of 31 December 2023 by class of underlying assets, please refer to >Note 5.4 RIGHT-OF-USE ASSETS.

Telefónica Deutschland Group has a large number of leases that include cancellation options, extension options and automatic extensions. The different contractual agreements are included in the calculation of the potential future payment obligations resulting from the options which are not taken into account in the lease liability recognised as of 31 December 2023 as follows.

- Extension options that have not yet expired or have not yet been exercised are recognised at the value of the potential payment obligations for the entire period of all future extension options, which generally range between one month and five years.
- If automatic extensions have been agreed, these are taken into account in the calculation with the first period of the automatic extension not already included in the lease liability.
- For contracts whose expected expiry is less than the minimum term due to sufficiently probable unilateral termination options, the remaining period until the expiry of the minimum term is taken into account in the calculation.

This results in potential future payment obligations for Telefónica Deutschland Group of EUR 1,827 million as of 31 December 2023 (EUR 1,600 million as of 31 December 2022).

Telefónica Deutschland Group has various lease contracts that have not yet commenced. The future possible cash outflows for those lease contracts are EUR 1,117 million as of 31 December 2023 (EUR 1,569 million as of 31 December 2022).

Lessor

As lessor, Telefónica Deutschland Group has entered into several sublease agreements for shops and sites with antenna towers.

Where a sublease is classified as a finance lease, the Group recognises Other financial assets at the value of the net investment in the lease. Future cash inflows from minimum lease payments under finance leases are comprised as follows:

As of 31 December 2023

(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	10	0	10
Due in more than 5 years	0	0	0
Total net investment in lease	**15**	**0**	**15**

As of 31 December 2022

(in EUR million)	Future minimum lease payments	Unearned finance income	Present value of the minimum lease payments
Due within 1 year	5	0	5
Due between 1 and 5 years	12	0	12
Due in more than 5 years	0	–	0
Total net investment in lease	**17**	**0**	**18**

Where a lease is classified as an operating lease, the Group, as lessor, recognises the right-of-use asset in the Consolidated Balance Sheet. The lease payments received are recognised in profit or loss. Future income from operating leases is comprised as follows:

(in EUR million)	As of 31 December 2023	As of 31 December 2022
Due within 1 year	2	2
Due between 1 and 5 years	2	3
Due in more than 5 years	1	1
Future minimum lease payments receivables from operating leases	**5**	**6**

As lessor, Telefónica Deutschland Group has entered into several sublease agreements for cell sites with antenna towers and shops.

As a rule, only parts of the antenna towers that are also used by the company itself are leased to third parties. The shops are primarily leased spaces that are accounted for as right-of-use assets. Where a lease is classified as an operating lease, Telefónica Deutschland Group continues to recognise the leased assets in its Balance Sheet. The lease payments received are recognised in profit or loss.

The following table shows the historical cost, accumulated depreciation and residual value of the corresponding assets in the Consolidated Balance Sheet as of 31 December 2023, which are subject to sublease in the form of an operating lease agreement:

(in EUR million)	Costs	Accumulated depreciation	Residual carrying amount as of 31 December 2023
Property, plant and equipment	52	(38)	14
Right-of-use assets	37	(21)	16
Total	**89**	**(59)**	**30**

(in EUR million)	Costs	Accumulated depreciation	Residual carrying amount as of 31 December 2022
Property, plant and equipment	59	(39)	20
Right-of-use assets	39	(19)	20
Total	**98**	**(58)**	**40**

20. Total Auditor's Fees

In financial years 2023 and 2022, the services listed below provided by the Group's auditors, PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, are recognised in the Consolidated Income Statement.

Because Telefónica Deutschland Group conducts all of its business in Germany, the entire amount is incurred in Germany.

1 January to 31 December

(in EUR million)	2023	2022
Types of fee:		
Audit services	2.7	2.6
Other certification services	0.3	0.2
Other services	0.0	0.0
Total fee	**3.0**	**2.8**

The auditor's fees include the fees for auditing the Consolidated Financial Statements of Telefónica Deutschland Holding AG and fees for auditing the annual financial statements of the subsidiaries, other certification services, primarily in connection with sustainability reporting, and the audit of the content of the remuneration report. Other audit-related services and other services were performed in financial years 2023 and 2022 only to a minor extent.

21. Subsequent Events

Dividend proposal

The Management Board of Telefónica Deutschland decided on 8 February 2024 that a total cash dividend in the amount of approximately EUR 535 million or EUR 0.18 per share will be proposed at the next Annual General Meeting.

Voluntary public tender offer by Telefónica Local Services GmbH to the shareholders of Telefónica Deutschland Holding AG

The voluntary public tender offer by Telefónica Local Services GmbH to the shareholders of Telefónica Deutschland Holding AG, which was announced on 7 November 2023 and started on 5 December 2023, ended on 17 January 2024 (see >Note 1 REPORTING ENTITY). The offer was accepted for 7.86% of Telefónica Deutschland shares. Furthermore, following the announcement of the offer, Telefónica, S.A. acquired approximately 13.43% of the share capital and voting rights in Telefónica Deutschland Holding AG outside the offer. As a result, the proportion of shares in Telefónica Deutschland Holding AG held indirectly and directly by Telefónica, S.A. increased to approximately 93.10%. After the tender offer ended, Telefónica, S.A. continued with the acquisition of shares.

On 31 January 2024, Telefónica, S.A., Madrid, Spain, notified us pursuant to section 33 (1) WpHG that the share of voting rights of Telefónica Local Services GmbH in Telefónica Deutschland Holding AG, Munich, Germany, exceeded the threshold of 3% of the voting rights on 26 January 2024 and amounted to 7.86% on this date. The voting rights of Telefónica, S.A., Madrid, Spain, amounted to 94.12%. 17.04% of the voting rights are held directly by Telefónica, S.A.. Attributed voting rights are held by the following companies under its control, whose share of the voting rights in Telefónica Deutschland Holding AG amounts to 3% or more: Telefónica Germany Holdings Limited: 69.22% of the voting rights are attributable to the company pursuant to section 34 (1) sentence 1 no. 1 WpHG in conjunction with sentence 2; Telefónica Local Services GmbH: 7.86% of the voting rights are attributable to the company pursuant to section 34 (1) sentence 1 no. 1 WpHG in conjunction with sentence 2.

No additional events subject to disclosure requirements occurred after the end of financial year 2023.

22. Declaration of Compliance with the German Corporate Governance Code

The Management Board and the Supervisory Board last submitted a Compliance Declaration in accordance with Section 161 of the German Stock Corporation Act (AktG) on 25 and 27 October 2023. The complete wording of the Compliance Declaration is available on Telefónica Deutschland's website at https://www.telefonica.de/investor-relations-en/corporate-governance/declarations-reports-and-articles.html.

Munich, 15 February 2024

Telefónica Deutschland Holding AG

The Management Board

Markus Haas

Markus Rolle

Valentina Daiber

Nicole Gerhardt

Andreas Laukenmann

Alfons Lösing

Mallik Rao

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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 accounting policies, 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, 15 February 2024

Telefónica Deutschland Holding AG

The Management Board

Markus Haas

Markus Rolle

Valentina Daiber

Nicole Gerhardt

Andreas Laukenmann

Alfons Lösing

Mallik Rao

Independent Auditor's Report

To Telefónica Deutschland Holding AG, Munich

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

Audit Opinions

We have audited the consolidated financial statements of Telefónica Deutschland Holding AG, Munich, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2023, 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 2023, and notes to the consolidated financial statements, including material accounting policy information. 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 2023. 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 2023, and of its financial performance for the financial year from 1 January to 31 December 2023, 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 2023. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

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

❶ Appropriateness of revenue recognition

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

① Matter and issue

② Audit approach and findings

③ Reference to further information

Hereinafter we present the key audit matter:

❶ Appropriateness of revenue recognition

① In the Company's consolidated financial statements, revenue of EUR 8.6 billion is reported in the consolidated statement of profit and loss. This comprises revenues from the provision of services (mobile service revenues and fixed-line business), revenues from the sale of 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. Significant Accounting Policies / revenues from contracts with customers" as well as "6.1. Revenues" of the notes to the consolidated financial statements.

Other Information

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

- the statement on corporate governance pursuant to § 289f HGB and § 315d HGB
- the section “Internal control system” of the group management report.

The other information comprises further

- the separate non-financial group report to comply with §§ 315b to 315c HGB
- all remaining parts of the annual report – excluding cross-references to external information – with the exception of the audited consolidated financial statements, the audited group management report and our auditor’s report

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

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

- is materially inconsistent with the consolidated financial statements, with the group management report disclosures audited in terms of content or with our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

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

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud (i.e., fraudulent financial reporting and misappropriation of assets) or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

- Obtain an understanding of internal control relevant to the audit of the 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, actions taken to eliminate threats or safeguards applied.

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

OTHER LEGAL AND REGULATORY REQUIREMENTS

Report on the Assurance on the Electronic Rendering of the Consolidated Financial Statements and the Group Management Report Prepared for Publication Purposes in Accordance with § 317 Abs. 3a HGB

Assurance Opinion

We have performed assurance work in accordance with § 317 Abs. 3a HGB to obtain reasonable assurance as to whether the rendering of the consolidated financial statements and the group management report (hereinafter the “ESEF documents”) contained in the electronic file TDH_AG_KAP+LB_ESEF-2023-12-31.zip and prepared for publication purposes complies in all material respects with the requirements of § 328 Abs. 1 HGB for the electronic reporting format (“ESEF format”). In accordance with German legal requirements, this assurance work extends only to the conversion of the information contained in the consolidated financial statements and the group management report into the ESEF format and therefore relates neither to the information contained within these renderings nor to any other information contained in the electronic file identified above.

In our opinion, the rendering of the consolidated financial statements and the group management report contained in the electronic file identified above and prepared for publication purposes complies in all material respects with the requirements of § 328 Abs. 1 HGB for the electronic reporting format. Beyond this assurance opinion and our audit opinion on the accompanying consolidated financial statements and the accompanying group management report for the financial year from 1 January to 31 December 2023 contained in the "Report on the Audit of the Consolidated Financial Statements and on the Group Management Report" above, we do not express any assurance opinion on the information contained within these renderings or on the other information contained in the electronic file identified above.

Basis for the Assurance Opinion

We conducted our assurance work on the rendering of the consolidated financial statements and the group management report contained in the electronic file identified above in accordance with § 317 Abs. 3a HGB and the IDW Assurance Standard: Assurance Work on the Electronic Rendering, of Financial Statements and Management Reports, Prepared for Publication Purposes in Accordance with § 317 Abs. 3a HGB (IDW AsS 410 (06.2022)) and the International Standard on Assurance Engagements 3000 (Revised). Our responsibility in accordance therewith is further described in the "Group Auditor’s Responsibilities for the Assurance Work on the ESEF Documents" section. Our audit firm applies the IDW Standard on Quality Management: Requirements for Quality Management in the Audit Firm (IDW QMS 1 (09.2022)).

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 rendering of the consolidated financial statements and the group management report in accordance with § 328 Abs. 1 Satz 4 Nr. [number] 1 HGB and for the tagging of the consolidated financial statements in accordance with § 328 Abs. 1 Satz 4 Nr. 2 HGB.

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

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

Group Auditor's Responsibilities for the Assurance Work on the ESEF Documents

Our objective is to obtain reasonable assurance about whether the ESEF documents are free from material non-compliance with the requirements of § 328 Abs. 1 HGB, whether due to fraud or error. We exercise professional judgment and maintain professional skepticism throughout the assurance work. We also:

- Identify and assess the risks of material non-compliance with the requirements of § 328 Abs. 1 HGB, whether due to fraud or error, design and perform assurance procedures responsive to those risks, and obtain assurance evidence that is sufficient and appropriate to provide a basis for our assurance opinion.
- Obtain an understanding of internal control relevant to the assurance work on the ESEF documents in order to design assurance procedures that are appropriate in the circumstances, but not for the purpose of expressing an assurance opinion on the effectiveness of these controls.
- Evaluate the technical validity of the ESEF documents, i.e., whether the electronic file containing the ESEF documents meets the requirements of the Delegated Regulation (EU) 2019/815 in the version in force at the date of the consolidated financial statements on the technical specification for this electronic file.
- Evaluate whether the ESEF documents provide an XHTML rendering with content equivalent to the audited consolidated financial statements and to the audited group management report.
- Evaluate whether the tagging of the ESEF documents with Inline XBRL technology (iXBRL) in accordance with the requirements of Articles 4 and 6 of the Delegated Regulation (EU) 2019/815, in the version in force at the date of the consolidated financial statements, enables an appropriate and complete machine-readable XBRL copy of the XHTML rendering.

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the annual general meeting on 17 May 2023. We were engaged by the supervisory board on 17 July 2023. We have been the group auditor of the Telefónica Deutschland Holding AG, Munich, without interruption since the financial year 2017.

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

REFERENCE TO AN OTHER MATTER – USE OF THE AUDITOR'S REPORT

Our auditor's report must always be read together with the audited consolidated financial statements and the audited group management report as well as the assured ESEF documents. The consolidated financial statements and the group management report converted to the ESEF format – including the versions to be filed in the company register – are merely electronic renderings of the audited consolidated financial statements and the audited group management report and do not take their place. In particular, the "Report on the Assurance on the Electronic Rendering of the Consolidated Financial Statements and the Group Management Report Prepared for Publication Purposes in

Accordance with § 317 Abs. 3a HGB" and our assurance opinion contained therein are to be used solely together with the assured ESEF documents made available in electronic form.

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Holger Lutz.

Munich, February 15, 2024

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

(sgd. Holger Lutz) Wirtschaftsprüfer (German Public Auditor)	(sgd. ppa. Annika Sicking) Wirtschaftsprüfer (German Public Auditor)

Supervisory Board Report for the Financial Year 2023

Dear Shareholders,

The year 2023 brought further drastic and far-reaching changes to the geopolitical situation. The war in the Middle East has added another conflict with global consequences. The suffering of the victims of war and violence shakes us all anew every day. Economic conditions have also become even more difficult around the world, in Europe and in Germany.

In this challenging environment, the importance of telecommunications has once again become apparent. For people today, it is part of their basic services. At Telefónica Deutschland, we are democratising access to a sustainable digital future in order to create a better everyday life for everyone. The commitment to environmental, social and governance (ESG) remains an integral part of Telefónica Deutschland's corporate strategy. Particularly in geopolitically and macroeconomically challenging times, the company is demonstrating that sustainability and corporate success are not mutually exclusive, but on the contrary complement and drive each other forward.

In a challenging economic environment, Telefónica Deutschland continued its growth trajectory in the financial year 2023. The company made gains in all key operating and financial indicators. The company overachieved its ambitious forecast for the financial year. Telefónica Deutschland's very good network has sustainably established itself on a par with the competition. The service also received awards from various sources in 2023. In combination with an excellent price-performance ratio, this is winning over new and existing customers.

In the year of the 25th anniversary of the O_2 network, the company continued to make great progress in the rollout of 5G and network densification. A good three years after its launch, 95 per cent of the population can already use Telefónica Deutschland's 5G network. The company is therefore well on track to achieve nationwide 5G coverage by the end of 2025 at the latest. Continuous investment in network quality is not only reflected in low churn rates, but also in consistently high network test ratings. The renowned connect magazine has rated the O_2 network as "very good"* for the fourth time in a row.

Peter Löscher

Chairman of the Supervisory Board
of Telefónica Deutschland Holding AG

With its "Accelerated Growth & Efficiency Plan" strategic plan for the years 2024 to 2026, Telefónica Deutschland has a clear plan to grow profitably over the next three years.

In the spirit of good corporate governance, the Supervisory Board collaborated well with the Management Board with regard to all significant topics on the basis of trustful cooperation, advised it in managing the company and fulfilled its controlling responsibilities in the reporting period.

It thus consistently and responsibly performed its duties as set out by law, the Articles of Association and the by-laws.

* Source: connect mobile network and 5G network test, issue 01/2024: Overall rating “very good” (895 points) for O_2: overall, “very good” was awarded twice (926 and 895 points) and “outstanding” was awarded once (967 points)

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.

The Supervisory Board consisted of the following members throughout the financial year 2023: Peter Löscher (Chairman), Martin Butz*, Pablo de Carvajal González, María García-Legaz Ponce, Ernesto Gardelliano, Cansever Heil*, Christoph Heil*, Michael Hoffmann, Julio Linares López, Stefanie Oeschger, Thomas Pfeil*, Joachim Rieger*, Jaime Smith Basterra and Dr. Jan-Erik Walter*. Christoph Braun* (Deputy Chairman) and Claudia Weber* were members of the Supervisory Board from the beginning of the financial year until the end of their term of office at the end of the company's Annual General Meeting on 17 May 2023. The other employee representatives were re-elected as members of the Supervisory Board as part of the elections for employee representatives to the Supervisory Board. Yasmin Fahimi and Barbara Rothfuß were newly elected to the Supervisory Board as employee representatives in place of the retiring members with effect from the end of the company's Annual General Meeting on 17 May 2023. Thomas Pfeil was elected Deputy Chairman at a Supervisory Board meeting on the same day. Further information, including curricula vitae of the members of the Supervisory Board, can be found on the Company's website at www.telefonica.de/supervisory-board.

In accordance with the recommendation of C.10 of the German Corporate Governance Code, the member Michael Hoffmann, who is independent of the controlling shareholder as well as of the Company and the Management Board, is the Chairman of the Audit Committee.

In accordance with section 100 para. 5 of the German Stock Corporation Act (AktG), the Supervisory Board included at least one member with expertise in the field of accounting and auditing, Michael Hoffmann, and at least one further member with expertise in the field of accounting and auditing, Ernesto Gardelliano, in the reporting period. In addition, Thomas Pfeil, Stefanie Oeschger and Jaime Smith Basterra also have corresponding expertise. The members of the Supervisory Board as a whole were familiar with the sector in which the Company operates.

Composition of the Management Board

At the beginning of the financial year 2023, the Management Board of Telefónica Deutschland Holding AG consisted of six members: Markus Haas, Chief Executive Officer, Markus Rolle, Chief Financial Officer, Valentina Daiber (Chief Officer Legal and Corporate Affairs), Nicole Gerhardt (Chief Organisational Development & People Officer and Labour Director ("Arbeitsdirektorin")), Alfons Lösing (Chief Partner & Wholesale Officer) and Mallik Rao (Chief Technology & Information Officer). Andreas Laukenmann (Chief Consumer Officer) was appointed to the Management Board with effect from 1 September 2023. He took over the Consumer division from Markus Haas, who had headed it on an interim basis from the beginning of the financial year.

* Employee Representative

Cooperation between the Management Board and Supervisory Board

The Management Board and Supervisory Board cooperate in a trusting manner in all relevant matters within and outside of Supervisory Board meetings and in the interest of the company.

In the reporting period, the Supervisory Board advised and monitored the Management Board in accordance with legal requirements.

The Management Board involved the Supervisory Board in all material decisions in a timely manner, submitted reports to the Supervisory Board in oral and written form and provided additional information when required, if necessary also by means of an expert opinion from external advisors. In the financial year 2023, this included, for example, developments in the partner business in connection with the contractual relationship with the 1&1 Group. Where approval by the Supervisory Board was required by law, the articles of association or the by-laws, this was given after intensive consultation, evaluation and discussion in the Supervisory Board and – where relevant – in the committees set up by the Supervisory Board for this purpose.

In addition, the Management Board provided the Supervisory Board monthly with a written report, which covered in particular relevant financial key performance indicators (KPIs).

During the reporting period, the Chairman of the Supervisory Board regularly exchanged information with the Management Board, in particular with the CEO. Regular alignment meetings took place between the Chairperson of the Supervisory Board and the CEO. In particular, they discussed the current status and future development of the company, the progress of ongoing important projects, such as on the digital transformation of the IT architecture, strategy, business policy, corporate planning, risks and opportunities and their management, as well as compliance, governance and sustainability (ESG) topics. Furthermore, there is a lively exchange between the Chairperson of the Supervisory Board and the CEO outside of regular meetings. The Chairman of the Supervisory Board informed the other members of the Supervisory Board about important topics discussed.

In addition to the meeting activities, pre-alignment meetings for the respective meetings and other information provided to the Supervisory Board by the Management Board during the year, an annual strategy workshop was again held in which the strategy of the company was analysed in the light of current developments and for each Management Board department and discussed and coordinated in an informal setting. In that context, it was discussed how corporate responsibility and ESG (Environmental, Social, Governance) are included in the Company's operations and strategy and the strategy and its implementation were reflected.

Meetings of the Supervisory Board

In 2023, the Supervisory Board held five regular meetings and three extraordinary meetings. Four meetings were held in person, with the option of virtual participation via video conference. Four meetings (including the extraordinary meetings) were held as virtual meetings via video conference. The Supervisory Board's regular consultations focused in particular on the presentation of the company's current situation, including in the individual business areas, as well as key strategic topics such as regulation, digitalisation and transformation, but also the impact of current geopolitical developments on the company. The Supervisory Board met regularly, at least quarterly, even without the Management Board. These meetings dealt with internal Supervisory Board topics such as the effectiveness survey and further training of the Supervisory Board, the composition and composition of its committees, as well as Executive Board topics and succession planning.

There has been one regular Supervisory Board meeting so far in 2024. The balance sheet meeting for the financial year 2023 took place on 19 February 2024. In addition to financial topics, the balance sheet meeting dealt in particular with preparations for the 2024 Annual General Meeting and the remuneration report for 2023. In the internal part of the meeting, the Supervisory Board's report on the financial year 2023 was one of the topics discussed.

Material topics dealt with by the Supervisory Board

The first regular meeting of the Supervisory Board in the financial year 2023 was the balance sheet meeting for the financial year 2022, which took place on **17 February 2023**. This meeting focussed on the review and approval of the annual and consolidated financial statements and the combined management report for the financial year 2022, as well as the dependency report and the separate non-financial Group report and the proposals for the distribution of profits. In addition to these topics, the Supervisory Board dealt in particular with the strategic priorities for 2023 at this meeting, as well as the agenda for the Annual General Meeting on 17 May 2023. In the internal part of the meeting, the Supervisory Board dealt in particular with the draft version of the remuneration report, further development of the remuneration system and succession planning for the Management Board. The Supervisory Board also dealt with the Supervisory Board's report on the financial year 2022.

At the Supervisory Board meeting on **4 May 2023**, the meeting focused in particular on business performance in the first quarter, financial topics (in particular the results for Q1, the Annual Financial Statements of the direct subsidiaries and digitalisation in the area of finance), an update on the areas of business partner business, technology & information including the digital transformation and the annual in-depth update on security, internal audit and risk management update including the annual audit plan. The Supervisory Board also dealt with the upcoming 2023 Annual General Meeting, while the **internal part** of the meeting included succession planning and the Supervisory Board's annual training plan.

The regular terms of office of the employee representatives on the Supervisory Board ended at the end of the Annual General Meeting on 17 May 2023. The terms of office of the members of the Supervisory Board elected as part of the elections for employee representatives to the Supervisory Board (see section Composition of the Supervisory Board) began with effect from the end of the company's Annual General Meeting on 17 May 2023, while the terms of office of Claudia Weber and Christoph Braun ended at the same time. A Supervisory Board meeting was held immediately after the Annual General Meeting on **17 May 2023**. At this meeting, Thomas Pfeil was elected Deputy Chairman of the Supervisory Board. The Supervisory Board also elected the employee representatives on the committees after the end of their respective terms of office at the end of the Annual General Meeting.

At the meeting on **20 July 2023**, the Management Board reported on the company's situation in the second quarter, among other things. In addition to financial topics including guidance options, the agenda of the meeting also included a detailed update on current issues and compliance. The Management Board also reported on the ISO 27001 certification as proof of the effectiveness of the information security management system. In the **internal part** of the meeting, the Supervisory Board dealt in particular with remuneration and corporate governance issues, such as the upcoming annual effectiveness survey of the Supervisory Board. Succession planning for the Management Board was also discussed and Andreas Laukenmann was appointed as a member of the Management Board for the Consumer division with effect from 1 September 2023.

At the meeting on **27 October 2023**, the Supervisory Board dealt with the company's situation in the third quarter and the Long Term Business Plan 2024-2026. In addition, the Management Board presented the status and developments of the private customer and partner business in particular, also with regard to the contractual relationship with the 1&1 Group and gave an update on various Management Board areas. In the **internal part** of the meeting, the main corporate governance topics discussed were the Compliance Declaration 2023 on the recommendations of the German Corporate Governance Code to be published annually, the results of the Supervisory Board's effectiveness survey and corresponding measures. Succession planning for the Management Board was also discussed.

At the extraordinary Supervisory Board meeting on **9 November 2023**, the Supervisory Board dealt with the announcement of a voluntary public acquisition offer by Telefónica Local Services GmbH on 7 November 2023, a wholly owned subsidiary of Telefónica, S.A. ("Public Acquisition Offer"). The Supervisory Board resolved to establish an Acquisition Offer Committee consisting of three independent shareholder representatives and three employee representatives in order to deal with the tasks of the Supervisory Board in connection with the acquisition offer appropriately and without conflicts of interest, in particular to evaluate the offer and prepare the legally required statement for resolution by the full Supervisory Board.

At the extraordinary meeting on **12 December 2023**, the Supervisory Board with the involvement of legal and financial advisors resolved on the statement prepared by the Acquisition Offer Committee.

At the Supervisory Board meeting on **18 December 2023**, a review of the operationally successful year 2023 for the company, the priorities for 2024 and financial topics were discussed, among other things. The meeting focused on the Long Term Business Plan 2024-2026 and the resolution on the 2024 budget as well as an update from the Management Board departments and the agenda for the 2024 Annual General Meeting.

Where necessary, the Supervisory Board also passed resolutions outside of meetings, in particular by e-mail. For example, the Management Declaration, the final agenda for the 2022 Annual General Meeting and its implementation as a virtual meeting and various Management Board topics were passed in this way after respective pre-dealing in meetings held in person or in virtual meetings and in committees (where relevant).

Committees of the Supervisory Board

As of 31 December 2023, the Supervisory Board has installed five committees: an Audit Committee, a Remuneration Committee, a Nomination Committee, a Related Party Transactions Committee and a Mediation Committee. The Audit Committee, the Remuneration Committee, the Related Party Transactions Committee and the Nomination Committee meet regularly, the Mediation Committee meets only as required and did not meet in the reporting year. In the financial year 2023, a temporary Acquisition Offer Committee was also implemented, which met exclusively in connection with the Supervisory Board's tasks relating to the public acquisition offer.

The **Audit Committee** is inter alia responsible for preparing the resolution of the Supervisory Board regarding the approval of the financial statements and the non-financial group report, discusses the quarterly information and half-year reports with the Management Board, monitors the accounting processes and the audit of the financial statements, compliance (including data protection and information security) and the effectivity of the internal control system, the risk management system and internal audit systems. It furthermore is responsible for the coordination with and selection of the auditor as well as assessing its independence and evaluation of the quality of the audit work.

During the reporting year, the Audit Committee consisted of the following members:

- Michael Hoffmann (chairman; independent financial expert)
- Martin Butz
- Ernesto Gardelliano (financial expert)
- Thomas Pfeil (financial expert)
- Stefanie Oeschger (independent financial expert) and
- Dr. Jan-Erik Walter.

In 2023, the Audit Committee met four times, on 17 February, 4 May, 20 July and 27 October 2023. Three meetings were held as in-person meetings and one meeting was held as virtual meeting via videoconference. The topics discussed included, among other things, financial and non-financial reporting including sustainability topics (ESG), the financial results, other finance topics, internal audit, risk management, compliance, data protection, cyber security and business continuity management, as well as the assessment of quality of the auditor's work. Furthermore, the Supervisory Board's meeting on financial statements and corresponding recommendations to the full board were prepared.

In 2024, the Audit Committee met once, on 19 February 2024, with the focus on preparing the Supervisory Board's balance sheet meeting and recommending the auditor for resolution by the Annual General Meeting. If necessary, the Audit Committee also took resolutions outside meetings by e-mail during the reporting period.

During the reporting year, the Chairman of the Audit Committee maintained close contact with the auditors and internal (especially finance) departments as well as the Management Board also outside of meetings and informed the other members of the Audit Committee about important topics arising from this exchange. Furthermore, the Chairman of the Audit Committee regularly reports to the Supervisory Board on the activities of the Audit Committee.

During the reporting year, the **Remuneration Committee** consisted of the following members:

- Michael Hoffmann (chairman; independent)
- María García-Legaz Ponce
- Cansever Heil (since 17 May 2023) and
- Dr. Jan-Erik Walter.

Claudia Weber left the Remuneration Committee as of the end of the company´s AGM on 17 May 2023.

The **Remuneration Committee** is responsible for the preparation of topics relating to the remuneration of the Management Board and Supervisory Board. Insofar as Supervisory Board compensation is concerned, this applies only to the extent that it falls within the remit of the Supervisory Board, particularly in the context of the "say on pay" requirements. The Remuneration Committee makes recommendations to the full Supervisory Board in this regard.

The Remuneration Committee met five times in 2023, on 31 January, 17 March, 28 March, 3 July and 29 September 2023. All meetings were held as virtual meetings via videoconference. The Remuneration Committee dealt intensively, among other things, with preparations for resolutions of the Supervisory Board on Management Board remuneration issues, the adjustment of the Management Board remuneration system, and the remuneration report. The prepared also related in particular the implementation of the elements of the remuneration systems in remuneration components, including the proposal of concrete targets and review of the respective target achievement.

Furthermore, the Remuneration Committee also passed resolutions by e-mail outside of meetings during the reporting period.

The Chairman of the Remuneration Committee reported regularly on the activities of the Remuneration Committee at the internal part of the meetings of the Supervisory Board.

The **Nomination Committee** proposes suitable candidates to the Supervisory Board for election proposals to the Annual General Meeting. As of 31 December 2023, the Nomination Committee consisted of the following members:

- Peter Löscher (Chairman; independent)
- Pablo de Carvajal González
- Ernesto Gardelliano and
- Jaime Smith Basterra.

The Nomination Committee met twice in the reporting year 2023, on 17 February 2023 and on 18 July 2023 in the form of a virtual meeting via video conference. At this meeting it dealt with succession issues on the Supervisory Board. The composition criteria and requirements for members of the Supervisory Board, also in the context of the term of two members expiring at the end of the AGM 2024 and the thus required election proposal of the Supervisory Board to the AGM were discussed.

The Chairman of the Nomination Committee reports regularly on the activities of the Nomination Committee at the internal meetings of the Supervisory Board.

The **Related Party Transactions Committee** monitors and resolves on certain transactions with affiliated companies, in particular transactions with affiliated companies pursuant to sections 111a, b German Stock Corporation Act (AktG), instead of the full Supervisory Board. As a rule, the majority of its members have no conflicts of interest with regard to the controlling shareholder.

The Related Party Transactions Committee consists of the following five members:

- Peter Löscher (Chairman)
- Pablo de Carvajal González
- Michael Hoffmann
- Christoph Heil (since 17 May 2023) and
- Barbara Rothfuß (since 17 May 2023).

Christoph Braun and Thomas Pfeil left the Related Party Transactions Committee at the end of the company´s AGM on 17 May 2023.

The Related Party Transactions Committee met three times in 2023, on 17 February, 20 July and 27 October 2023. All meetings were held as in person meetings. At these meetings, the Related Party Transactions Committee dealt with the quarterly monitoring of transactions with affiliated companies and dealt with transactions with affiliated companies that did not trigger any disclosure obligations under section 111c of the German Stock Corporation Act (AktG).

The Chairman of the Related Party Transactions Committee reports regularly on the activities of the Related Party Transactions Committee at the meetings of the Supervisory Board.

As of 31 December 2023, the **Mediation Committee** with the responsibilities as defined in section 31 Co-Determination Act (Mitbestimmungsgesetz) consisted of the following members:

- Peter Löscher (Chairman)
- Julio Linares López
- Thomas Pfeil (since 17 May 2023) and
- Barbara Rothfuß (since 17 May 2023).

Christoph Braun and Christoph Heil left the Mediation Committee at the end of the Company´s AGM on 17 May 2023.

There was no need for the Mediation Committee to convene in the reported year.

In order to deal with the tasks of the Supervisory Board in connection with the public acquisition offer of Telefónica Local Services GmbH appropriately and without conflicts of interest, the Supervisory Board implemented an additional decision-making committee, the **Acquisition Offer Committee**, on 9 November 2023. In place of the Supervisory Board and within the scope of the authorisation granted, this committee performed the tasks of the Supervisory Board in connection with the public tender offer, in particular the evaluation of the offer and the preparation of the legally required statement for resolution by the full Supervisory Board.

The members of the Acquisition Offer Committee are:

- Peter Löscher (Chairman, independent)
- Martin Butz
- Christoph Heil
- Michael Hoffmann (independent)
- Thomas Pfeil and
- Jaime Smith Basterra (independent).

The Acquisition Offer Committee met four times in the past financial year. As part of its duties, the committee formed a well-founded and reasoned opinion on the acquisition offer and prepared a corresponding statement for resolution by the full Supervisory Board.

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. One exception to this related to the extraordinary Supervisory Board meeting on 12 December 2023 regarding the public acquisition offer of Telefónica Local Services GmbH, in which the members Pablo de Carvajal González, María García-Legaz Ponce, Ernesto Gardelliano and Julio Linares López declared themselves to be biased with regard to the public acquisition offer and did not participate in the meeting or the resolution.

The individual meeting attendance during the financial year 2023 was as follows:

Member of the Supervisory Board	Number of Meetings*	Attendance	Non-Attendance	Attendance Quota
Peter Löscher	17	17	0	100%
Christoph Braun	3	3	0	100%
Martin Butz	16	16	0	100%
Pablo de Carvajal González	13	9	4	69%
Yasmin Fahimi	6	3	3	50%
María García-Legaz Ponce	13	11	2	85%
Ernesto Gardelliano	14	12	2	86%
Cansever Heil	10	10	0	100%
Christoph Heil	14	14	0	100%
Michael Hoffmann	24	22	2	92%
Julio Linares López	8	6	2	75%
Stefanie Oeschger	12	12	0	100%
Thomas Pfeil	17	17	0	100%
Joachim Rieger	8	7	1	88%
Barbara Rothfuß	8	8	0	100%
Jaime Smith Basterra	14	14	0	100%
Dr. Jan-Erik Walter	17	17	0	100%
Claudia Weber	5	5	0	100%
Total	**219**	**203**	**16**	**93%**

* 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. Michael Hoffmann only partly participated in the meeting on 27 October 2023.

The meetings of the Supervisory Board and its committees in the reporting year were held either as in-person meetings or as virtual meetings by video conference. Video conferences always included the option of dialling in by telephone. No meeting was held as a telephone conference. In the case of in-person meetings, it was possible to participate via video or telephone dial-in if someone was otherwise unable to attend.

The overview on the individual meeting attendance is also available on the Company´s website at www.telefonica.de/supervisory-board/members-attendance-at-meetings.

Corporate Governance

Good corporate governance is essential for corporate success and is therefore in the interest of the company's shareholders. Further details on the corporate governance of Telefónica Deutschland Holding AG can be found in the Management Declaration pursuant to sections 289f, 315d German Commercial Code (HGB) in the Annual Report and on the company's website at https://www.telefonica.de/investor-relations-en/corporate-governance/declarations-reports-and-articles.html.

On 25 / 27 October 2023, the Management Board and the Supervisory Board approved a new Compliance Declaration pursuant to section 161 German Stock Corporation Act (AktG). The Compliance Declaration was published on the company's website at https://www.telefonica.de/investor-relations-en/corporate-governance/declarations-reports-and-articles.html. Previous versions of the Compliance Declaration can be also found on the website.

Five of the 16 members of the Supervisory Board in the reporting year held positions in the administrative, management or supervisory bodies of the majority shareholder or its affiliated companies. Both the Supervisory Board members and the Management Board members disclose potential conflicts of interest promptly to the Supervisory Board.

The members of the Supervisory Board Pablo de Carvajal González, Maria García-Legaz Ponce and Ernesto Gardelliano are also active in executive functions of the Bidder Parent Company in connection with the public takeover offer of Telefónica Local Services GmbH. Supervisory Board member Julio Linares López held executive positions at the Bidder Parent and its subsidiaries from 1970 until March 2022, including as Chief Operating Officer and Deputy Chairman of the Board of Directors of the Bidder Parent from 2007 to 2012. Mr Linares López is currently a member of the board of trustees of the Telefónica Foundation (Fundación Telefónica), which is closely linked to the Bidder Parent. These four Supervisory Board members have therefore declared themselves to be biased with regard to the Offer and the submission of the legally required statement. In accordance with their own declarations of bias, these members of the Supervisory Board did not participate in any deliberations or resolutions of the Supervisory Board with regard to the Offer and the Statement adopted in this respect or in discussions with other third parties.

In the reporting period, no conflicts of interest within the meaning of the German Corporate Governance Code arose.

Diversity

As of 31 December 2023, the Supervisory Board comprised five female and eleven male members. Thus, the Supervisory Board continues to fulfil the requirements of section 96 para. 2 German Stock Corporation Act (AktG) which the Supervisory Board 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, respectively three (since 17 May 2023) female members on the employee representative side and two female members on the shareholder representative side.

The minimum gender diversity quota for the Management Board to be fulfilled by 30 June 2022 is 25%. It was met throughout the whole financial year 2023 like in the financial year 2022 (two of seven, at the beginning of the period six members are female). With more than one member, the requirements of Sect. 76 para 3a Stock Corporation Act (AktG) are also met.

Support of Members of the Supervisory Board

The members of the Supervisory Board are adequately supported when taking up their duties. In particular, an introduction to the activities of the Supervisory Board at Telefónica Deutschland takes place upon taking office. As part of this introduction, the Supervisory Board office with legal advisors explain the practical and legal principles and also highlight specific issues relating to stock corporation law. Training and further development requirements of the Supervisory Board are regularly assessed during the course of its work. In the reporting year, general information was presented, in particular on corporate governance issues and new legal framework but also on relevant specific legal topics. In the temporal and thematic context of the strategy workshop, training sessions were organised by the company on new topics related to the company's strategy, in particular on the capital market's view of the company and on new requirements for sustainability in the company and ESG (environmental, social, governance) reporting. The Supervisory Board was also informed about technology trends relevant to the company.

Review of the Financial Statements 2023

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 2023 and provided each with an unqualified audit opinion. The annual financial statement of Telefónica Deutschland Holding AG and the combined management report for Telefónica Deutschland Holding AG and the Telefónica Deutschland Group were prepared in accordance with German commercial law. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as they are applied in the European Union (EU) and the additional requirements which have to be applied in accordance with section 315e para 1 German Commercial Code (HGB). The auditor carried out the audit in accordance with section 317 German Commercial Code (HGB) considering German principles of proper auditing set by the Institute of Public Auditors in Germany (IDW).

The financial statement documentation of Telefónica Deutschland Holding AG and the Group, the separate non-financial Group report for Telefónica Deutschland Holding AG for the financial year 2023 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 19 February 2024 ("Bilanzsitzung"). The Audit Committee and the full Supervisory Board thoroughly reviewed the Annual Financial Statement ("Jahresabschluss"), the Group financial statements, the combined Management Report for Telefónica Deutschland Holding AG and the Group, the separate non-financial Group report, the respective auditor´s reports and the Management Board proposal for the distribution of profit and discussed the documents in detail together with the auditor on 19 February 2024. The auditor also reported on scope, material aspects and results of his audit. There was no report on material weaknesses of the internal control system and the risk management system. Management Board explained in this meeting besides the annual financial statement of Telefónica Deutschland Holding AG and the Group, the combined management report for Telefónica Deutschland Holding AG and the Group and the separate non-financial Group report. The Supervisory Board approved the auditor's findings in the audit reports and had no objections after its own assessment.

At its meeting on 19 February 2024, the Supervisory Board approved the annual financial statements of Telefónica Deutschland Holding AG and the consolidated financial statements together with the combined management report for the financial year 2023; the financial statement of Telefónica Deutschland Holding AG is thereby adopted.

Relations to affiliated companies

The report on relations to affiliated companies (dependency report) as prepared by the Management Board pursuant to section 312 of the German Stock Corporation Act was also audited by the auditor. With respect thereto, the auditor issued the following unqualified opinion ("Uneingeschränkter Bestätigungsvermerk"):

"On the basis of our statutory audit and assessment we confirm that

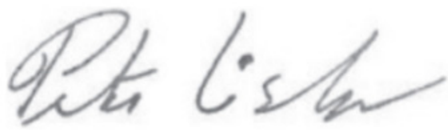
1. the factual disclosures provided in the report are correct,
2. the Company's consideration concerning legal transactions referred to in the report was not unduly high,
3. there are no circumstances indicating a materially different assessment of the measures referred to in the report than the assessment reached by the management board."

The dependency report as prepared by the management board and audited by the auditor as well as the audit report on the dependency report were submitted to the Supervisory Board and discussed in detail in the meeting on 19 February 2024 also with the auditor. Having reviewed the dependency report and the corresponding audit report, the Supervisory Board agreed with the results of the audit of the dependency report and as the result of its own assessment had no objections against the dependency report and the Management Board's declaration contained therein.

The Supervisory Board would like to thank the entire management board for their outstanding performance in the once again challenging 2023 financial year and for their cooperation, which has always been based on trust. We are particularly pleased that we could complete the excellent management team with Andreas Laukenmann. The Supervisory Board would also like to take this opportunity to thank the members who left the Supervisory Board in 2023 for the long and trusted cooperation and their contribution to the company. Furthermore, the Supervisory Board would also like to thank all Telefónica Deutschland employees, who once again showed outstanding commitment during this special period and made a very significant contribution to the success of the company.

Munich, 19 February 2024

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, 315d of the German Commercial Code (HGB)

This Management Declaration of Telefónica Deutschland Holding AG ("Company") is based on Sections 289f, 315d of the German Commercial Code (HGB) in the version applicable at the time the statement was issued, as well as the German Corporate Governance Code in the version dated 28 April 2022, published in the Federal Gazette on 27 June 2022.

1. Declaration of Compliance in accordance with Section 161 of the German Stock Corporation Act (AktG)

Pursuant to Section 161 of the German Stock Corporation Act (AktG), the Management Board and the Supervisory Board of a listed stock corporation are required to declare annually that the company has complied and is complying with the recommendations of the "Government Commission for the German Corporate Governance Code" (GCGC), as published in the official part of the Federal Gazette by the Federal Ministry of Justice, or, alternatively, are to declare which recommendations the company has not followed or does not follow and why not. The declaration shall be made permanently publicly available on the company's website.

On 25/27 October 2023, the Management Board and Supervisory Board of Telefónica Deutschland Holding AG issued the following Declaration of Compliance pursuant to Section 161 para. 1 AktG:

"Compliance Declaration

The Management Board and the Supervisory Board of Telefónica Deutschland Holding AG (the "Company") last issued a compliance declaration pursuant to section 161 (1) of the German Stock Corporation Act (AktG) on 27/28 October 2022.

The Management Board and Supervisory Board of the Company hereby declare pursuant to section 161 (1) AktG that the recommendations of the German Corporate Governance Code ("GCGC") as amended on 28 April 2022, published in the Bundesanzeiger (Federal Gazette) on 27 June 2022, will be complied with in the future and have been complied with - to the extent required by the GCGC - since the last compliance declaration was issued, with the following exceptions:

1. The Supervisory Board establishes the performance criteria for all variable remuneration components at the beginning of a financial year, as the completion of the previous year is awaited in order to be able to adjust performance criteria accordingly if necessary. G.7, which recommends a determination in the respective previous year for the upcoming financial year, was and will be deviated from with regard to the time component.

2. The Company complies with the statutory obligations (in particular Section 162 of the German Stock Corporation Act (AktG)) with regard to the publication of the comprehensibility of the achievement of targets and does not provide any additional information, as in the case of strategically important targets this may conflict with the Company's confidentiality interests. In this respect, the Company has deviated and continues to deviate in part from G.9, which recommends that the rationale and the amount should be comprehensible.

3. Mostly, it is possible to dispose of long-term variable grant amounts after three years. This is considered appropriate, as the Company operates in an extremely volatile and innovative market environment. In this respect, we have deviated and will deviate from G.10, which recommends a period of four years.

4. The Supervisory Board is of the opinion that it is strategically reasonable for the members of the Management Board to participate in share-based programs of Telefónica, S.A. These provide that in the event of termination of a Management Board contract, payment is made upon exit. In this respect, deviations from G.12, which recommends payment according to the due dates or holding periods specified in the contract, have been and will be made.

25 October 2023 | 27 October 2023

The Management Board | The Supervisory Board"

The current Compliance Declaration is available on the Company's website at www.telefonica.de/compliance-declaration-october-2023. Previous Declarations of Compliance are also available on the Company´s website.

2. Relevant disclosures of management practices

Telefónica Deutschland Holding AG and its governing bodies are committed to efficient, sustainable and transparent corporate management as well as to values that form the basis of common business principles described in the Company's code of conduct called "Our Business Principles for responsible corporate governance". This code includes various fundamental principles and guidelines aimed to direct both management and employees in their daily work. It provides valuable help, particularly with respect to business situations in which legal and/or ethical conflicts of interest arise so that decisions can be taken with integrity and professionalism, both in the design and implementation of work processes and in the manner in which the Company interacts with customers, shareholders, employees, suppliers and other stakeholders.

The Company's Business Principles are available on the website of Telefónica Deutschland Holding AG at www.telefonica.de/geschaeftsgrundsaetze.

Compliance with the Business Principles is of eminent significance since the Company's reputation is built on and affected by decisions and actions taken by its administrative bodies and employees. It is therefore carefully monitored by means of close cooperation between the functions Compliance, OD&P (Organizational Development & People; HR), Internal Audit, Corporate Responsibility and Legal.

The Company's compliance program includes the main areas of anti-corruption with clear guidelines and procedures, competition law and the avoidance of ethically inappropriate behavior. Employees and third parties have the possibility to report potential breaches of law – especially indications of corruption and breaches pursuant to Section 2 of the Whistleblower Protection Act – inter alia via the internal reporting channel (tell-us@telefonica.com) and within an external whistleblower system (www.telefonica.de/ombudsmann), anonymously if necessary.

Sustainability (ESG)

In the spirit of responsible corporate governance, the Company also keeps an eye on the impact on people and the environment in its business activities. Sustainability is firmly anchored in its business areas. The Management Board ensures that the risks and opportunities associated with social and environmental factors, as well as the ecological and social impacts of the Company's activities are identified systematically and assessed. In addition to long-term economic objectives, the corporate strategy also gives appropriate consideration to ecological and social objectives. Corporate planning includes corresponding financial and sustainability-related objectives.

The Company manages implementation and target achievement via the Responsible Business Plan 2025 (see https://www.telefonica.de/sustainability/responsible-business-plan-2025.html). In the Corporate Responsibility Report, the Company reports transparently and comprehensively on the progress of its sustainability activities (see https://www.telefonica.de/sustainability/reporting.html).

Risk Management and Internal Control System

For the Management Board and Supervisory Board of Telefónica Deutschland Holding AG, internal control and risk management are fundamental. The handling of risks is of great importance for the Company´s success and for a professional management. At Telefónica Deutschland Holding AG, an internal control system (ICS) to ensure the effectiveness and economic validity of business activities, lawful financial reporting and compliance with the relevant legal regulations, as well as a risk management system to detect, assess, control, manage and monitor risks have therefore been implemented as integral components of corporate governance. The internal control system and the risk management system, which also cover sustainability-related objectives, are monitored by the Management Board. The appropriateness and effectiveness of the internal control system and the risk management system are monitored in particular by the Audit Committee.

You may find further details in the Sections "Report on Risks and Opportunities" respectively "Accounting-Related Internal Control and Risk Management System" and "Internal control system" within the Annual Report.

Compliance

Telefónica Deutschland Group is committed to comply with all laws, regulations, processes, rules and enactments applicable to its business activity. The Company has a compliance department that is concerned with the implementation and optimisation of the compliance organisation within the whole Company, the coordination of compliance activities and advises employees on their questions concerning compliance topics.

The approach pursued is preventive, raising awareness and informing employees in order to preclude potential violations of rules. Employees and third parties have the possibility to report possible violations of the law within the meaning of Section 2 of the Whistleblower Protection Act and other laws, possible violations of internal guidelines and business principles via an internal reporting channel (tell-us@telefonica.com) as well as via an external whistleblower system (www.telefonica.de/ombudsmann), anonymously if necessary.

The compliance program focuses on behaviours protecting fair competition, avoiding corruption and conflicts of interests as well as on ethically appropriate behaviour. These topics are covered by mandatory online trainings, as are the areas of data protection, anti-discrimination and information security. Each employee is required to complete certain mandatory training sessions in regular intervals based on their job responsibilities. Clear guidelines and policies were established for the most important compliance matters. In the financial year 2021, the audit company BDO AG Wirtschaftsprüfungsgesellschaft audited and certified the adequacy of the Company's compliance management system in the area of anti-corruption in accordance with the IDW PS 980 standard. This confirmed that the Compliance Management System insofar has all the relevant elements for detecting compliance violations, that these have been implemented and are regularly monitored.

The existing Compliance Management System is continuously enhanced in order to adjust it to the changing legal and economic conditions of business operations. The Management Board and the Supervisory Board (especially the Audit Committee which is in charge of monitoring internal control systems and compliance) is informed regularly on compliance activities. Both the Management Board and the Supervisory Board regularly address the topic of compliance. The Compliance Officer reports directly to the Management Board.

In this overall context, the Company has also a Capital Market Law department in the General Counsel area which, among other things, ensures compliance with the Market Abuse Regulation (EU) № 596/2014, e.g. with insider rules (including trainings and maintaining insider lists recording persons in accordance with the Market Abuse Regulation who act for the Company and have authorised access to inside information).

The Company's Data Protection Officer monitors compliance with data protection legislation. This is a top priority for the Company. Data Protection and Security, including Business Continuity, report directly to the Corporate & Legal Affairs Management Board department.

3. Composition and working procedures of the Management Board, Supervisory Board and the Supervisory Board's Committees

As a German stock corporation, Telefónica Deutschland Holding AG has a dual management system consisting of a Management Board and a Supervisory Board, in which corporate management and corporate control are separated and, accordingly, the tasks and responsibilities are clearly divided between the Company's Management Board and Supervisory Board.

Management Board

At the beginning of the financial year 2023, the **Management Board** of Telefónica Deutschland Holding AG comprised six members: Markus Haas, Chief Executive Officer ("CEO"), Markus Rolle, Chief Financial Officer ("CFO"), Valentina Daiber (Chief Officer Legal and Corporate Affairs), Nicole Gerhardt (Chief Organizational Development & People Officer and Labour Director "Arbeitsdirektorin"), Alfons Lösing (Chief Partner and Wholesale Officer) and Mallik Rao (Chief Technology & Information Officer). Andreas Laukenmann (Chief Consumer Officer) was appointed to the Management Board with effect from 1 September 2023. He took over the Consumer division from Markus Haas, who has led it on an interim basis from the beginning of the financial year.

Further information on the members of Management Board and their respective office periods are available at www.telefonica.de/management-board. Initial appointments of Management Board members are in principle not for longer than three years.

The Supervisory Board ensures together with the Management Board that there is long-term succession planning. In this context, the Supervisory Board draws up a requirement profile for each role on the Board of Management, taking into account not only the statutory requirements and the recommendations of the German Corporate Governance Code, but also the diversity concept adopted by the Supervisory Board for the Board of Management and the specific criteria relating to skills, experience and knowledge. These requirement profiles are reviewed on an ongoing basis and adjusted as necessary, in particular with regard to legal changes. The Supervisory Board also makes use of external expertise, if necessary, in the preparation and further development of the profiles. On the basis of the requirement profiles, the Supervisory Board regularly exchanges views with the Management Board on suitable successor candidates from the Telefónica Deutschland Group for Management Board positions and also considers short- and medium-term succession. Based on the requirement profiles, individual development needs are also identified and addressed, if necessary, with the involvement of external expertise. External candidates are also included in the consideration.

In accordance with its business principles, the Company has committed explicitly to diversity and equal opportunities in the Company. Supervisory Board and Management Board are convinced that diversity sustainably serves the Company´s best interest. The Diversity Concept for the Management Board consists of the following diversity criteria detailed pursuant to Section 289f para. 2 no. 6 German Commercial Code (HGB).

Members of Management Board shall especially provide longstanding leadership from different areas relevant to the Company. At least one member shall have international work or educational experience and the Management Board as a body shall have longstanding experience in telecommunications, finance, sales and staff management.

The Supervisory Board determined in December 2017 in accordance with Section 111 para. 5 AktG (in the version applicable at the time) a gender diversity quota of at least 25 % for the Management Board, to be met by 30 June 2022, which was fulfilled during the entire financial year 2023, as it was throughout the 2022 financial year (two of regularly seven – six at the beginning of the reporting period - members of the Management Board are female). The Second Management Positions Act (FüPoG II) stipulates a representation requirement of at least one woman and at least one man on the Management Board for companies such as Telefónica Deutschland Holding AG that are listed on the stock exchange, have equal codetermination and have a Management Board with more than three members. This minimum representation requirement applies from 1 August 2022. Telefónica Deutschland Holding AG has complied with or exceeded this requirement in the financial year 2023 and since the Company's IPO.

Also considering the abovementioned minimum gender quota or the minimum requirement of participation in the Management Board and taking into account the age limit of 62 years for members of the Management Board as determined in the Management Board service agreements, the Company aims at competencies, skills and experience complementing each other in the best interest of the Company for the boards.

Such objectives were and shall be considered by Supervisory Board for appointment and succession planning of members of Management Board and have been met throughout the reporting period. The fulfilment may also be verified via the Curricula Vitae of the members of the Management Board published on the Company´s website at www.telefonica.de/management-board.

As part of the diversity strategy and in order to further increase the proportion of women in management positions, the Management Board has voluntarily set targets for the proportion of women in senior leadership positions (highest management level including the Management Board). The target figure for the proportion of women of 31%, to be met by 31 December 2022 to be achieved via the company's diversity strategy, was reached and exceeded by this date at 32.1%. As of 31 December 2023, the proportion of women was 32.2%.

The Management Board manages the Company's business in its own responsibility with the objective of creating sustainable value in the Company's interest, taking into consideration the interests of its shareholders, employees and other stakeholders of the Company. The work of the Management Board is governed in particular by the by-laws of the Management Board and by the Company's Articles of Association. The Management Board develops the strategic direction of the Company, coordinating this regularly with the Supervisory Board, and also ensures its implementation.

Each Management Board member is responsible for managing the area of business allocated to her or him, but without prejudice to their joint responsibility for managing the Company as a whole. All matters of fundamental or material importance for the Company and/or its affiliates, in particular matters regarding organisation, Corporate policy, investment and financial planning as well as all investments significantly exceeding the annual budget approved by the Supervisory Board have to be resolved by the entire Management Board. Furthermore, every Management Board member may submit matters to the full Management Board for decision. Transactions and measures of particular significance are also subject to the prior approval by the Supervisory Board.

Management Board meetings are held regularly, generally once per week. Meetings may also be held by phone or video conference or hybrid. Resolutions of the Management Board may also be passed outside of meetings, in particular by e-mail.

The Management Board reports regularly to the Supervisory Board on the Company's course of business, inter alia by providing the Supervisory Board with written reports each month covering key performance indicators for the Company's business. Moreover, the Management Board must inform the Supervisory Board about any transactions of possible material significance to the Company's profitability or liquidity. Finally, the Management Board must report to the Supervisory Board any important events or affairs subject to Section 90 para. 1 sentence 3 AktG. The Management Board meets these requirements as defined by law.

Supervisory Board

The **Supervisory Board** of the Company comprises sixteen members, eight shareholder and eight employee representatives.

At the beginning of the financial year 2023, the Supervisory Board comprised the following members: Peter Löscher (Chairman), Martin Butz*, Christoph Braun* (Deputy Chairman), Pablo de Carvajal González, María García-Legaz Ponce, Ernesto Gardelliano, Cansever Heil*, Christoph Heil*, Michael Hoffmann, Julio Linares López, Stefanie Oeschger, Thomas Pfeil*, Joachim Rieger*, Jaime Smith Basterra, Dr. Jan-Erik Walter* and Claudia Weber*. Following the election of all employee representatives, Christoph Braun and Claudia Weber left the Supervisory Board and its committees at the end of the company's Annual General Meeting on 17 May 2023. Instead of the retiring members, Yasmin Fahimi and Barbara Rothfuß were newly elected to the Supervisory Board as employee representatives with effect from the end of the company's Annual General Meeting on 17 May 2023. Thomas Pfeil was elected Deputy Chairman at a Supervisory Board meeting on the same day.

* Employee representative

Further information, including the curricula vitae of the members of the Supervisory Board, can be found on the Company's website at www.telefonica.de/supervisory-board.

As of 31 December 2023, the Supervisory Board consisted of five female and eleven male members. Therewith Supervisory Board continued to fulfill the requirements of Section 96 para. 2 AktG (30 % minimum gender diversity quota), such quota to be fulfilled separately by shareholder and employee representatives following a resolution by the shareholder representatives. This quota was met with two or three (from 17 May 2023) female members on the employee representative side and two female members on the shareholder representative side throughout the whole financial year.

The members of the Supervisory Board as a whole are familiar with the sector in which the Company operates. According to the German Stock Corporation Act (AktG), at least one member of the Supervisory Board must have expertise in the field of accounting and at least one other member of the Supervisory Board must have expertise in the field of auditing. The Supervisory Board includes Michael Hoffmann, Ernesto Gardelliano, Stefanie Oeschger, Jaime Smith Basterra and Thomas Pfeil as members each with expertise in the fields of accounting and auditing.

The criteria of the diversity concept of the Supervisory Board consist of the competence profile and the composition objectives of the Supervisory Board, which ensure in the opinion of the Supervisory Board diversity in the Supervisory Board which serves the Company´s best interest. Taking into account the German Corporate Governance Code, Supervisory Board established a competence profile that is described in detail below.

The Supervisory Board is to be composed in such a way that its members as a whole possess the knowledge, ability and expert experience required to properly advise and supervise the Management Board. Each member of the Supervisory Board should be prepared and in a position to invest sufficient time and input and have the necessary personal qualities, in particular integrity, motivation and personality to fulfil their office. All members of the Supervisory Board shall consider responsible and ethical behaviour of a reputable business person.

In addition, each member of the Supervisory Board should have specialist knowledge in at least one of the areas relevant for advising and supervising the Management Board. The different professional backgrounds, specialist knowledge as well as personal experience of the members should complement each other, so that the Supervisory Board can draw upon as wide a range as possible of experience and varieties of specialist knowledge, e.g. Finance, M & A, Marketing & Sales, Legal and Regulatory, HR, Network & Technology.

The members of the Supervisory Board as a whole should have expertise regarding sustainability issues relevant to the company.

The Supervisory Board has specified concrete objectives regarding its composition considering inter alia the specifics of the Company, its shareholders' structure and the Company's international activities, diversity and taking into account that half of the members of the Supervisory Board are elected by the employees pursuant to German Co-Determination law. In this context, the Supervisory Board has set the following objectives regarding its composition:

- The Supervisory Board shall have at least two independent members within the meaning of no. C.6 of the German Corporate Governance Code on the shareholder side. Independence within such meaning is given if the Supervisory Board member is independent of Telefónica Deutschland Holding AG and its Management Board and independent of the controlling shareholder.
- The Supervisory Board should not include any persons who hold an office (e.g. at a significant competitor) which may create a material and not only temporary conflict of interest.
- In accordance with legal requirements, at least 30 % of the members of the Supervisory Board should be female, at least 30 % male.
- At least one third of the Supervisory Board members to be elected by the General Meeting should have international working experience, knowledge of the English language as well as an understanding of global economic contexts ("internationality").
- The standard term of office of Supervisory Board members should regularly end with the Annual General Meeting following the Supervisory Board member reaching 75 years of age unless an individual member´s experience is of special value to the Company and the Supervisory Board has approved such exception.
- A standard limit of 15 years, i.e. three full terms of office, shall apply to members of the Supervisory Board. In the Company´s best interest and upon approval by Supervisory Board, deviation from the general maximum period is possible, especially in order to fulfill other composition criteria.

In the Supervisory Board´s (shareholder side) opinion, taking into account the stipulations of C.7 and C.9 of the German Corporate Governance Code concerning independency, a number of at least two members of the shareholder side independent of the controlling shareholder and a number of at least five independent of Telefónica Deutschland Holding AG and the Management Board is appropriate.

A Supervisory Board member is independent of the controlling shareholder if he or she or a close family member is neither a controlling shareholder nor a member of the controlling shareholder's executive governing body or has a personal or business relationship with the controlling shareholder that could give rise to a material and not merely temporary conflict of interest. A Supervisory Board member is independent of the Company and its Management Board if he or she has no personal or business relationship with the Company or its Management Board that could give rise to a material and not merely temporary conflict of interest.

As of 31 December 2023, in the opinion of the Supervisory Board (shareholder side), all eight members of the shareholder side were independent of Telefónica Deutschland Holding

AG and its Management Board. In addition, according to the assessment of the Supervisory Board (shareholder side), the following four members of the shareholder representatives on the Supervisory Board were also independent of the controlling shareholder: Peter Löscher, Michael Hoffmann, Stefanie Oeschger and Jaime Smith Basterra.

According to the recommendations of the German Corporate Governance Code, the Chairman of the Supervisory Board, the Chairman of the Audit Committee and the Chairman of the committee dealing with Management Board remuneration should be independent of the Company and the Management Board. The Chairman of the Audit Committee should also be independent of the controlling shareholder. These requirements are met. The Supervisory Board is convinced that the aforementioned objectives also reflect the shareholder structure appropriately. The Supervisory Board currently considers these concrete objectives and the requirements of the competence profile to have been met.

The abovementioned competence profile and the concrete composition objectives form the requirements of the diversity concept to be met by the Supervisory Board.

The Nomination Committee and the Supervisory Board as a whole consider competence profile and composition criteria when recommending candidates to the Annual General Meeting and thus implement the diversity concept of the Supervisory Board.

The requirements defined by the diversity concept were met in the reporting period as evidenced by the Curricula Vitae of the Supervisory Board members detailing professional and personal backgrounds including current mandates, published under www.telefonica.de/supervisory-board. Furthermore, the respective office duration to each member is published there.

The status of the implementation of the competence profile is disclosed as follows:

	Internationality	**Leadership**	**Familiarity Telecommunications Sector**	**Finance**	**M&A / Strategy**	**Marketing & Sales**
Peter Löscher	x	x	x	x	x	x
Pablo de Carvajal González	x	x	x		x	
María García-Legaz Ponce	x	x	x	x	x	
Ernesto Gardelliano*	x	x	x	x	x	
Michael Hoffmann*	x	x	x	x	x	x
Julio Linares López	x	x	x		x	x
Stefanie Oeschger*	x	x	x	x	x	x
Jaime Smith Basterra*	x	x	x	x	x	x
Martin Butz**	x	x	x	x		x
Yasmin Fahimi**		x				
Cansever Heil**		x	x			x
Christoph Heil**			x			
Thomas Pfeil*, **			x	x		
Joachim Rieger**			x			x
Barbara Rothfuß**			x			
Dr. Jan-Erik Walter**			x	x		

	Legal / Regulatory	**HR**	**Network/ Technology**	**Sustainability / ESG**	**Digital Transformation / Cyber Security / Innovation**
Peter Löscher		x	x	x	x
Pablo de Carvajal González	x	x		x	
María García-Legaz Ponce		x		x	
Ernesto Gardelliano*		x		x	
Michael Hoffmann*		x		x	
Julio Linares López	x	x	x		x
Stefanie Oeschger*		x		x	x
Jaime Smith Basterra*		x	x		x
Martin Butz**		x	x		
Yasmin Fahimi**		x		x	x
Cansever Heil**		x			
Christoph Heil**	x	x	x		x
Thomas Pfeil*, **		x	x	x	
Joachim Rieger**		x			
Barbara Rothfuß**		x	x		
Dr. Jan-Erik Walter**		x		x	

* Financial Expert
** Employee representative, HR experience as member of works council or trade union

The Supervisory Board advises and monitors the Management Board in the management of the Company on an ongoing basis. The monitoring and advice provided by the Supervisory Board also include sustainability topics. The Supervisory Board is consulted in all matters outside the ordinary course of business which are of material importance to the Company. The Supervisory Board appoints and dismisses the members of the Management Board and determines the remuneration of the Management Board. The Supervisory Board Chairman coordinates the activities of the Supervisory Board and cooperation with the Management Board. The principles governing the work of the Supervisory Board and its cooperation with the Management Board are essentially described in the by-laws for the Supervisory Board published at the website of the Company and in the Company's Articles of Association.

The Supervisory Board holds at least two meetings in a calendar half-year. Meetings of the Supervisory Board may also be held by telephone or video conference or hybrid, and resolutions of the Supervisory Board may also be passed outside of meetings, in particular by e-mail.

The Supervisory Board reviews the efficiency and effectiveness of its activities and of its committees at least once a year by conducting an extensive survey among all its members thus also in the financial year 2023. 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 2023 there were five regular and one temporary committee of the Supervisory Board. The Supervisory Board may implement further committees if necessary. The Supervisory Board receives regular reports on the work of the committees. Details on these committees are also published at the Company´s website, www.telefonica.de/supervisory-board/committees.

The **Audit Committee** is inter alia responsible for preparing the decision of the Supervisory Board regarding the approval of the financial statements and the non-financial report (including sustainability reporting), discusses the quarterly information and half-year reports with the Management Board, monitors the accounting processes and auditing, compliance (including data privacy and information security) and the effectiveness of the internal control system, the risk management system and internal audit systems. It furthermore is responsible for the coordination with and selection and independence of the auditor as well as the evaluation of the quality of the audit work.

As of 31 December 2023, the Audit Committee consisted of the following members:

- Michael Hoffmann (Chairman) (independent, financial expert with expertise in accounting and auditing)
- Martin Butz
- Ernesto Gardelliano (financial expert with expertise in accounting and auditing)
- Stefanie Oeschger (independent, financial expert with expertise in accounting)
- Thomas Pfeil (financial expert with expertise in accounting and auditing) and
- Dr. Jan-Erik Walter.

The members of the Audit Committee as a whole are familiar with the sector in which the Company operates. According to the German Stock Corporation Act (AktG), at least one member of the Audit Committee must have expertise in the field of accounting and at least one other member of the Audit Committee must have expertise in the field of auditing. According to the German Corporate Governance Code the expertise in the field of accounting shall consist of special knowledge and experience in the application of accounting principles and internal control and risk management systems, and the expertise in the field of auditing shall consist of special knowledge and experience in the auditing of financial statements. Accounting and auditing shall also include sustainability reporting and its audit and assurance. The chairman of the audit committee shall have appropriate expertise in at least one of the two areas. The Audit Committee in its current composition meets all aforementioned requirements with its members Michael Hoffmann, Ernesto Gardelliano, Stefanie Oeschger and Thomas Pfeil.

Michael Hoffmann was long-standing Chairman of the Management Board of Lekkerland AG & Co. KG and Chairman of the Management Board of Carl Zeiss Vision International GmbH. He has also been Chairman of the Audit Committee of Telefónica Deutschland Holding AG for around 11 years now, Chairman of the Audit Committee of also listed Westwing Group SE for over five years and holds a degree in business administration. Thus, he has special knowledge and experience in the application of accounting principles and internal control and risk management systems including sustainability reporting, and special knowledge and experience in the auditing of financial statements including the audit of sustainability reporting. Michael Hoffmann follows current developments in the field of sustainability reporting and its auditing and contributes related insights to the Supervisory Board and the Audit Committee of Telefónica Deutschland Holding AG.

Ernesto Gardelliano is the Group Controller & Planning Director of Telefónica, S.A. since July 2017, a listed multinational telecommunications company headquartered in Madrid, Spain. His areas of responsibilities cover Operating Businesses and Global Areas control, budgets and strategic planning. Before that he was Chief Financial Officer of Telefónica Latinoamérica in São Paulo. He held multiple other finance positions in different companies, inter alia as a longstanding CFO at Movicom BellSouth in Argentina. He is a Certified Public Accountant and holds a degree in Business Administration & Management. Thus, he has special knowledge and experience in the application of accounting principles and internal control and risk management systems including sustainability reporting, and special knowledge and experience in the auditing of financial statements including the audit of sustainability reporting. Ernesto Gardelliano follows current developments in the field of sustainability reporting and its auditing and contributes related insights to the Supervisory Board and the Audit Committee of Telefónica Deutschland Holding AG.

Thomas Pfeil and Stefanie Oeschger in the Audit Committee as well as Jaime Smith Basterra in the Supervisory Board also have respective financial expertise.

The **Remuneration Committee** is mainly responsible for the preparation of all board remuneration topics and gives recommendations to the Supervisory Board in this regard.

As of 31 December 2023, the members of the Remuneration Committee were:

- Michael Hoffmann (Chairman) (independent)
- María García-Legaz Ponce
- Cansever Heil (since 17 May 2023) and
- Dr. Jan-Erik Walter.

Claudia Weber left the Remuneration Committee with effect of the end of the company's Annual General Meeting on 17 May 2023.

The **Nomination Committee** proposes suitable candidates to the Supervisory Board for election proposals for members of the Supervisory Board to the Annual General Meeting.

The Nomination Committee is composed exclusively of shareholder representatives and consisted of the members as of 31 December 2023:

- Peter Löscher (Chairman) (independent)
- Ernesto Gardelliano
- Pablo de Carvajal González and
- Jaime Smith Basterra (independent).

As of 31 December 2023, the **Mediation Committee** with the responsibilities as defined in Section 31 Co-Determination Act (MitbestG) consisted of the following members:

- Peter Löscher (Chairman) (independent)
- Julio Linares López
- Thomas Pfeil (since 17 May 2023) and
- Barbara Rothfuß (since 17 May 2023).

Christoph Braun and Christoph Heil left the Mediation Committee with effect of the end of the company's Annual General Meeting on 17 May 2023.

The **Related Party Transactions Committee** was implemented by the Supervisory Board in accordance with Section 107 para. 3 sentences 4 to 6 AktG. It monitors and resolves on certain transactions with related enterprises instead of the Supervisory Board as whole, especially on transactions with related parties pursuant to Sections 111a, b AktG.

As of 31 December 2023, the Related Party Transactions Committee consisted of the following members:

- Peter Löscher (Chairman)
- Pablo de Carvajal González
- Michael Hoffmann
- Christoph Heil (since 17 May 2023) and
- Barbara Rothfuß (since 17 May 2023).

Christoph Braun and Thomas Pfeil left the Related Party Transactions Committee with effect of the end of the company's Annual General Meeting on 17 May 2023.

In order to handle the tasks of the Supervisory Board in connection with the public acquisition offer of Telefónica Local Services GmbH appropriately and without conflicts of interest, the Supervisory Board implemented temporarily an additional resolving committee, the **Acquisition Offer Committee**, on 9 November 2023. This committee performed the tasks of the Supervisory Board in connection with the public acquisition offer in place of the Supervisory Board and within the scope of the authorization granted.

The members of the Acquisition Offer Committee were as of 31 December 2023:

- Peter Löscher (Chairman, independent)
- Martin Butz
- Christoph Heil
- Michael Hoffmann (independent)
- Thomas Pfeil and
- Jaime Smith Basterra (independent).

Further details on composition and activities of the committees of the Supervisory Board are available in the Supervisory Board Report.

4. Remuneration systems and Remuneration Report

The Supervisory Board resolved changes to the remuneration system for the members of the Management Board of Telefónica Deutschland Holding AG on 23 March 2023 on the recommendation of its Remuneration Committee and submitted it to the Annual General Meeting on 17 May 2023 for approval. The Annual General Meeting approved the remuneration system for the Management Board with a majority of 84.38 %.

The Annual General Meeting last adjusted the remuneration of the Supervisory Board set out in Article 20 of the Articles of Association on 19 May 2022 and approved the underlying remuneration system with a majority of 99.82 %.

The applicable remuneration system for the Management Board pursuant to Section 87a para. 1 and 2 sentence 1 AktG, the latest resolution on the remuneration of the Supervisory Board pursuant to Section 113 para. 3 AktG and the remuneration report and the auditor's report pursuant to Section 162 AktG are publicly accessible on the Company's website www.telefonica.de/remuneration-systems-and-remuneration-reports.

5. Relevant Shareholdings of Management and Supervisory Board

As of 31 December 2023, some members of the Management Board and the Supervisory Board held shares of Telefónica Deutschland Holding AG. No member of a board holds options on shares of Telefónica Deutschland Holding AG.

As per 31 December 2023, the Management Board held approximately 0.018 % of the shares of Telefónica Deutschland Holding AG. The acquisition of these shares by the Management Board took place via the stock market or outside a trading venue and was published in each case – if applicable – as managers´ transactions.

As per 31 December 2023, the Supervisory Board held approximately 0.0001 % of the shares of Telefónica Deutschland Holding AG. The acquisition of these shares by the Supervisory Board took place via the stock market and was published – if applicable - as managers´ transactions.

All members of the boards had stated on 14 December 2023 that they intended to tender their shares in Telefónica Deutschland Holding AG in context of the acquisition offer of Telefónica Local Services GmbH.

6. Relationship to Shareholders and the General Meeting

The shareholders are generally informed four times a year about the financial and earnings situation and business development. The Company provides for further information on its website (http://www.telefonica.de/investor-relations-en) especially the financial calendar. Furthermore, analyst conferences, roadshows and meetings with analysts take place, including on ESG (environmental, social, governance) issues, some of which are also attended by the Chairman of the Supervisory Board.

Other information relevant for shareholders such as ad hoc notifications, information on transactions of managers and their closely related parties, voting rights notifications and corporate news as well as the Company´s Articles of Association is also available at this site: www.telefonica.de/investor-relations-en.

The shareholders exercise their rights according to the law and the Articles of Association before and during the General Meeting, especially by asking questions to the Management Board and exercising their voting rights (amongst others on profit distribution, discharge and the election of the auditor). In order to facilitate shareholders personally exercising their rights in connection with the Annual General Meeting, Telefónica Deutschland Holding AG makes the relevant documents and information available on its website in advance of each Annual General Meeting.

In the interest of the environment, the Company no longer provides printed information or annual financial statement documents to the extent permitted by law.

14 February 2024	14 February 2024
The Management Board	The Supervisory Board

Glossary

The glossary also contains abbreviations as used in the Combined Management Report.

AI	Artificial Intelligence
AktG	Aktiengesetz (German Stock Corporation Act)
ARPU	Average Revenue per User
Augmented Reality (AR)	Computer-aided augmentation of reality
Bitkom	Bundesverband Informationswirtschaft, Telekommunikation und neue Medien e. V., Berlin (German Federal Association for Information Technology, Telecommunications and New Media, Berlin)
BMI	Bundesministerium des Innern und für Heimat (German Federal Ministry of the Interior)
BNetzA	Bundesnetzagentur (German Federal Network Agency)
bp	Basis point
Broadband	Refers to telecommunication in which a wide band of frequencies is available to transmit information
Cap	Capping limit
CapEx	Capital Expenditure: investments in property, plant and equipment and intangible assets excluding investments in mobile frequency licences and business combinations
CapEx/Sales ratio	Investment ratio: reflects the percentage share of investments in revenues
CDS	Credit Default Swap
Churn	Loss of customers
Cloud services	Dynamic infrastructures, software and platform services, which are available online
DBO	Defined Benefit Obligation
DSL	Digital Subscriber Line: technology to transmit data in the local loop to private end customers
EBITDA	Earnings before Interest, Tax, Depreciation and Amortisation
EIB	European Investment Bank
ESG	Environmental, Social, Governance
EU	European Union
Euribor	Euro Interbank Offered Rate
FCF	Free cash flow
FCF aL	Free cash flow after lease
FMS	Fixed-Mobile Substitution: replacing fixed-network services with mobile telephony services
FTE	Full-time equivalent
FTTB	FTTB – Fibre to the Building or Fibre to the Basement: in telecommunications, FTTB means that the fibre-optic cable is terminated in the user's house (basement)
FTTH	FTTH – Fibre to the Home: in telecommunications, FTTH means that the fibre-optic cable is terminated right in the user's home or apartment
GB	Gigabyte
Gbit	Gigabit
GCGC	German Corporate Governance Code
GDP	Gross domestic product
GHz	Gigahertz
HGB	Handelsgesetzbuch (German Commercial Code)
IAS	International Accounting Standards
IASB	International Accounting Standards Board
ICS	Internal Control System
IDW	Institut der Wirtschaftsprüfer in Deutschland e. V. (Institute of Public Auditors in Germany), Düsseldorf
IFRS	International Financial Reporting Standards
IoT	Internet of Things

ISIN	International Securities Identification Number
IT	Information Technology
IZMF	Informationszentrum Mobilfunk (Mobile Telecommunications Information Centre)
Joint venture	A joint agreement under which the parties having joint control have rights to the net assets of the agreement
KPI	Key Performance Indicator
KRITIS	Kritische Infrastruktur (Critical infrastructure)
LGD	Loss Given Default
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
MitbestG	Mitbestimmungsgesetz (German Co-Determination Act)
MTR	Mobile network termination rate
MVNO	Mobile Virtual Network Operator
NRA	National Roaming Agreement
O2 (Europe) Limited	O2 (Europe) Limited, Slough, United Kingdom
O_2 Mobile	O_2 Mobile refers to the mobile tariffs of the O_2 Telefonica core brand O_2 with postpaid payment methods; our customers are able to choose between different contract terms and data volumes from several gigabytes per month up to real data flat rates
O_2 My Handy	Monthly payment model for mobile phones and other hardware
OIBDA	Operating Income before Depreciation and Amortisation
OpCF aL	Operating Cash Flow after Lease: EBITDA aL minus CapEx
OTT	Over-the-top: IP-based and platform-independent services and applications (WhatsApp, Facebook etc.)
Postpaid/Prepaid	In contrast to postpaid contracts, prepaid contracts purchase the credit balance in advance without a fixed contractual commitment
PPA	Power Purchase Agreement
RCF	Revolving Credit Facility
Roaming	Using a communication device or subscriber identity in a different network other than one's home network
s	Second
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 capabilities
Smartwatch	A mobile device which consists of an electronic watch ("wearable") with additional computer functions, attached to a bracelet
SME	Small and medium-sized enterprises
SMS	Short Message Service
SoHo	Small offices/Home offices
SOX	Sarbanes-Oxley-Act: US law on improving the reliability of reporting
Spectrum	Frequency rights of use or mobile frequency licences
TDD	Time Division Duplex
Telefónica Deutschland	Telefónica Deutschland Holding AG, Munich, Germany
Telefónica Deutschland Group	The companies included in the Consolidated Financial Statements of Telefónica Deutschland
Telefónica, S.A.	Telefónica, S.A., Madrid, Spain
TKG	Telekommunikationsgesetz (German Telecommunications Act)
TKMV	Telekommunikationsmindestversorgungsverordnung (German Telecommunications Minimum Supply Ordinance)
Translation risk	The risk arising from the translation of accounting items at a later reporting date
TSR	Total Shareholder Return (return on shares)
UGG	Unsere Grüne Glasfaser
VATM	Verband der Anbieter von Telekommunikations- und Mehrwertdiensten e. V. (Association of Telecommunications and Value-Added Service Providers), Berlin
VDSL	Very High Data Rate Digital Subscriber Line: DSL technology with significantly higher data transfer rates (see also DSL)
Vectoring	Vectoring is a noise-cancelling technology that removes the electro-magnetic interference between lines, enabling higher bit rates
Virtual Reality (VR)	Computer-generated representation of a world (in real time)
Wholesale	Selling services to third parties who sell them to their own end customers either directly or after further processing

Imprint

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Phone: +49 89 2442 0
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Investor Relations
Telefónica Deutschland Holding AG
Investor Relations
Georg-Brauchle-Ring 50
80992 Munich, Germany
Phone: +49 89 2442 1010
E-mail for private investors: shareholder-deutschland@telefonica.com
E-mail for institutional investors: ir-deutschland@telefonica.com

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