

# **O2 Telefónica Deutschland Finanzierungs GmbH Munich**

Financial statement and management report  
31 December 2018

*Translation from the German Language<sup>1</sup>*

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<sup>1</sup> This report was published in German and English.  
In case of doubt please refer to the German version which is mandatory.

O2 Telefónica Deutschland Finanzierungs GmbH

Munich

Statement of Financial Position as of 31 December 2018

Assets	31.12.2018 EUR	31.12.2017 EUR	Equity and liabilities	31.12.2018 EUR	31.12.2017 EUR
<b>A. Fixed assets</b>			<b>A. Equity</b>		
Financial assets			Nominal capital	25.000,00	25.000,00
Loans to affiliated companies	1.100.000.000,00	1.100.000.000,00		<b>25.000,00</b>	<b>25.000,00</b>
	<b>1.100.000.000,00</b>	<b>1.100.000.000,00</b>	<b>B. Provisions</b>		
			Other provisions	115.167,82	57.119,00
<b>B. Current assets</b>				<b>115.167,82</b>	<b>57.119,00</b>
Receivables and other assets			<b>C. Liabilities</b>		
			1. Bonds	1.100.000.000,00	1.100.000.000,00
Receivables from affiliated companies	16.360.266,07	11.900.123,85	thereof with a remaining term of less than 1 year EUR 0.00 (previous year: EUR 600.000,00)		
thereof due from shareholder EUR 16.339.904,98 (previous year: EUR 11.865.314,06)			thereof with a remaining term of more than 1 year EUR 1.100.000,00 (previous year: EUR 500.000,00)		
	<b>16.360.266,07</b>	<b>11.900.123,85</b>	2. Trade payables	668,61	10.192,00
			thereof with a remaining term of less than 1 year EUR 668,61 (previous year: EUR 10.192,00)		
<b>C. Prepaid expenses</b>			3. Liabilities to affiliated companies	481.572,93	0,00
	<b>3.080.071,42</b>	<b>2.696.800,00</b>	thereof with a remaining term of less than 1 year EUR 481.572,93 (previous year: EUR 0,00)		
			thereof to shareholder EUR 350.672,93 (previous year: EUR 0,00)		
			thereof with a remaining term of less than 1 year EUR 350.672,93 (previous year: EUR 0,00)		
			Other liabilities	15.737.856,71	11.807.812,85
			thereof with a remaining term of less than 1 year EUR 15.737.856,71 (previous year: EUR 11.807.812,85)		
				<b>1.116.220.098,25</b>	<b>1.111.818.004,85</b>
			<b>D. Deferred income</b>		
				<b>3.080.071,42</b>	<b>2.696.800,00</b>
<b>Total assets</b>	<b>1.119.440.337,49</b>	<b>1.114.596.923,85</b>	<b>Total equity and liabilities</b>	<b>1.119.440.337,49</b>	<b>1.114.596.923,85</b>

**O2 Telefónica Deutschland Finanzierungs GmbH**  
**Munich**

**Income Statement**  
**for the Reporting Period from 1 January 2018 to 31 December 2018**

	01.01.2018 - 31.12.2018	01.01.2017 - 31.12.2017
	EUR	EUR
1. Other operating income	2.346.685,18	241.319,85
2. Other operating expenses	-2.346.685,18	-241.319,86
3. Income from financial assets - loans thereof from affiliated companies EUR 27.055.565,08 (previous year: EUR 23.299.519,44 )	27.055.565,08	23.299.519,44
4. Other interest and similar income thereof from affiliated companies EUR 1.848.728,57 (previous year: EUR 1.800.600,00)	1.848.728,57	1.800.600,00
5. Interest and similar expenses	-28.904.293,65	-25.100.119,44
<b>6. Profit(loss) after tax</b>	<b>0,00</b>	<b>-0,01</b>
7. Expenses from profit transfer agreement (previous year: income from loss transfer agreement)	0,00	0,01
<b>8. Profit(loss) for the period</b>	<b>0,00</b>	<b>0,00</b>

**O2 Telefónica Deutschland Finanzierungs GmbH**

**Munich**

**Statement of Cash Flows  
for the Financial Year from 1 January 2018 to 31 December 2018**

	01.01.2018- 31.12.2018 EUR	01.01.2017- 31.12.2017 EUR
<b>1. Cash flow from operating activities</b>		
Profit/(loss) after tax	0,00	-0,01
Increase (+)/decrease (-) in provisions	58.048,82	-11.923,00
Increase (+)/decrease (-) in receivables from affiliated companies and other assets	-4.857.341,14	1.814.911,66
Increase (+)/decrease (-) in trade payables and other liabilities	4.785.364,82	-1.794.968,46
Cash flow from operating activities	<b>-13.927,50</b>	<b>8.020,19</b>
<b>2. Cash flow from investing activities</b>		
Proceeds (+) from disposal of long-term financial assets	600.000.000,00	0,00
Payments (-) to acquire long-term financial assets	-600.000.000,00	0,00
Interest received (+)	23.125.000,00	23.125.000,00
Cash flow from investing activities	<b>23.125.000,00</b>	<b>23.125.000,00</b>
<b>3. Cash flow from financing activities</b>		
Proceeds (+) from the issuance of bonds and from borrowings	600.000.000,00	0,00
Cash repayments (-) of bonds and borrowings	-600.000.000,00	0,00
Interest paid (-)	-23.125.000,00	-23.125.000,00
Cash flow from financing activities	<b>-23.125.000,00</b>	<b>-23.125.000,00</b>
<b>4. Cash and cash equivalents at the end of the period</b>		
Net change in cash and cash equivalents	-13.927,50	8.020,19
Cash and cash equivalents at the beginning of the period	29.528,59	21.508,40
Cash and cash equivalents at the end of the period	<b>15.601,09</b>	<b>29.528,59</b>
<b>5. Composition of cash and cash equivalents</b>		
Cash equivalents	15.601,09	29.528,59
Cash and cash equivalents at the end of the period	<b>15.601,09</b>	<b>29.528,59</b>

**O2 Telefónica Deutschland Finanzierungs GmbH**

**Munich**

**Statement of Changes in Equity  
for the Financial Year from 1 January 2018 to 31 December 2018**

	Share capital	Other retained earnings	Net income for the period	Equity
	EUR	EUR	EUR	EUR
As of 1 January 2018	25.000,00	0,00	0,00	25.000,00
As of 31 December 2018	25.000,00	0,00	0,00	25.000,00
As of 1 January 2017	25.000,00	0,00	0,00	25.000,00
As of 31 December 2017	25.000,00	0,00	0,00	25.000,00

## **O2 Telefónica Deutschland Finanzierungs GmbH, Munich**

### **Notes to the Financial Statements for the 2018 Financial Year**

#### **I. GENERAL INFORMATION ON THE ANNUAL FINANCIAL STATEMENTS**

Telefónica Deutschland Finanzierungs GmbH, Munich, was established by notary deed on 26 February 2013 for the purpose of financing the Telefónica Deutschland Group. The nominal capital was paid in on 6 March 2013. Telefónica Deutschland Finanzierungs GmbH, Munich, was renamed O2 Telefónica Deutschland Finanzierungs GmbH, Munich, (referred to in the following as “TDF” or the “Company”) with effect from 7 November 2013. The Company is registered in the commercial register of the local court in Munich under registration number HRB 204122.

In November 2013, TDF issued a five-year unsecured bond (Senior Unsecured Bond) with a nominal value of EUR 600,000 thousand and a maturity on 22 November 2018 in the regulated market of the Luxembourg Stock Exchange. The repayment of this bond has been made in the current financial year.

In February 2014, TDF issued a seven-year unsecured bond (Senior Unsecured Bond) with a nominal value of EUR 500,000 thousand and a maturity on 10 February 2021 in the regulated market of the Luxembourg Stock Exchange.

Furthermore TDF issued on 5 July 2018 a seven-year unsecured bond (Senior Unsecured Bond) with a nominal value of EUR 600,000 thousand and a maturity on 5 July 2025 in the regulated market of the Luxembourg Stock Exchange. The bond serves to refinance the bond with a nominal value of EUR 600,000 thousand that matured in November 2018 and has meanwhile been repaid.

The net proceeds from each bond were directly passed from TDF to Telefónica Germany GmbH & Co. OHG, Munich.

The annual financial statements of TDF for the financial year 2018 have been prepared in accordance with the accounting principles of the German Commercial Code (HGB) as well as the GmbH Act.

As of 31 December 2018, the Company is classified as a large corporation in accordance with section 264d in conjunction with section 267 (3) HGB.

The financial year of the Company corresponds to the calendar year (1 January to 31 December).

The income statement has been prepared disclosing expenses by nature in accordance with section 275 (2) HGB.

The figures are rounded according to established commercial principles. Therefore, recalculations may slightly differ from the totals shown in the tables.

## **II. ACCOUNTING POLICIES**

### **1. Principles and comparability**

The accounting policies used in the preparation of the annual financial statements for the period ending 31 December 2018 are in accordance with the provisions of sections 242 to 256a and sections 264 to 288 of the HGB as well as the relevant provisions of the GmbH. The accounting policies and valuation methods have not changed compared to the previous year.

### **2. Fixed assets**

Within the financial assets, loans are shown at the lower of nominal value and fair value.

### **3. Current assets**

The receivables are shown at the lower of nominal value and fair value at the balance sheet date. Adequate allowances have been recognised to reflect all risks.

### **4. Prepaid expenses**

This item includes payments made prior to the balance sheet date representing expenses for a specific period after that date. The Company exercises the option set out in section 250(3) of the HGB and recognises those differences as assets.

### **5. Equity**

Subscribed capital is carried at its nominal value.

### **6. Provisions**

Other provisions reflect all identifiable risks and uncertain obligations. They are recognised at the settlement amount considered necessary on the basis of reasonable commercial assessment. Future price and cost increases are taken into account if there are sufficient objective indications that they will occur.

### **7. Liabilities**

Liabilities are recognised at their settlement amount.

### **8. Deferred income**

This item includes payments received prior to the balance sheet date representing income for a specific period after that date.

### III. NOTES TO THE BALANCE SHEET

#### 1. Financial assets

The financial assets as of 31 December 2018 consist of two loans in the amount of EUR 500,000 thousand and EUR 600,000 thousand respectively, granted by TDF to its shareholder Telefónica Germany GmbH & Co. OHG, Munich. The terms of both loans correspond to the terms of the underlying seven-year bonds which TDF issued on 10 February 2014 and 5 July 2018 respectively. The loans have fixed terms until the date of maturity of the underlying bonds on 10 February 2021 and 5 July 2025 respectively and are repayable in one amount on the due date, including all interest and costs which have not yet been paid. The underlying interest rates are 2.375 % and 1.75 % respectively and are payable annually on 10 February and 5 July respectively.

Please see the statement of changes in fixed assets for further information.

#### *Statement of Changes in Fixed Assets for the Reporting Period from 1 January 2018 to 31 December 2018*

	Acquisition costs				Accumulated depreciation				Carrying amounts	
	01.01.2018	Additions	Disposals	31.12.2018	01.01.2018	Additions	Disposals	31.12.2018	31.12.2018	31.12.2017
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
<b>Financial assets</b>										
Loans to affiliated companies	1.100.000.000,00	600.000.000,00	600.000.000,00	1.100.000.000,00	0,00	0,00	0,00	0,00	1.100.000.000,00	1.100.000.000,00
	1.100.000.000,00	600.000.000,00	600.000.000,00	1.100.000.000,00	0,00	0,00	0,00	0,00	1.100.000.000,00	1.100.000.000,00

#### 2. Receivables and other assets

The receivables from affiliated companies amount to EUR 16,360 thousand (previous year: EUR 11,900 thousand), of which EUR 16,340 thousand (previous year: EUR 11,865 thousand) relates to receivables from the shareholder Telefónica Germany GmbH & Co. OHG, Munich. These comprise interest from loans issued to the shareholder in the amount of EUR 15,738 thousand (previous year: EUR 11,807 thousand). The remaining EUR 20 thousand mainly represent receivables from Telfisa Global B.V., Amsterdam, Netherlands from the cash pooling in the amount of EUR 16 thousand.

The maturity of these receivables is less than one year.

#### 3. Prepaid expenses

This item includes mainly the amortised disgios from the issuance of seven-year bond in February 2014 and in July 2018 respectively. All components will be released over the terms of the underlying bonds on a straight-line basis until 10 February 2021 and until 5 July 2025 respectively.

#### 4. Subscribed capital

The share capital remains unchanged, amounts to EUR 25 thousand and is fully paid. It is held entirely by Telefónica Germany GmbH & Co. OHG, Munich.



## **5. Provisions**

The other provisions in the amount of EUR 115 thousand (previous year: EUR 57 thousand) mainly result from audit and consultancy fees. The increase compared to last year is mainly due to consulting fees relating to the issuance of the bond.

## **6. Bonds**

The category Bonds include two bonds with a nominal value of EUR 1,100,000 thousand in total. Both bonds are guaranteed by Telefónica Deutschland Holding AG, Munich. The bond issued on 5 July 2018 with a nominal value of EUR 600,000 thousand has a remaining maturity more than five years.

The other liabilities include short-term interest payables in relation to the bonds in the amount of EUR 15,738 thousand (previous year: EUR 11,807 thousand).

## **7. Liabilities to affiliated companies**

Liabilities to affiliated companies of EUR 482 thousand (previous year: EUR 0 thousand) relate mainly to recharged costs by Telefónica Germany GmbH & Co. OHG from issuing the bond in July 2018.

## **8. Deferred income**

Deferred income results mainly from the differences between the nominal values of the underlying loans and the amounts paid out to Telefónica Germany GmbH & Co. OHG, Munich. The deferred income is released over the term of the underlying seven-year loans.

# **IV. NOTES TO THE INCOME STATEMENT**

## **Other operating income and expenses**

Other operating income amounting to EUR 2,347 thousand (previous year: EUR 241 thousand) mainly results from recharging of costs to Telefónica Germany GmbH & Co. OHG, Munich. Other operating expenses amounting to EUR 2,347 thousand (previous year: EUR 241 thousand) relate to the recharging of costs and mainly include costs of issuing of the July bond.

## **Financial result**

Income from financial assets – loans in the amount of EUR 27,056 thousand (previous year: EUR 23,300 thousand) result from interest income from the loans granted to Telefónica Germany GmbH & Co. OHG, Munich. In the previous year this income was reported under other interest and similar income. This change in presentation was due to the improved clarity and in accordance with the requirements of section 275 (HGB). The comparatives have also been reclassified in the previous year's column in these financial statements.

Other interest and similar income result from the release of deferred income amounting to EUR 1,849 thousand (previous year: EUR 1,801 thousand).

Interest and similar expenses in the amount of EUR 28,904 thousand (previous year: EUR 25,100 thousand) include interest expense from the bonds of EUR 27,056 thousand (previous year: EUR 23,125 thousand) as well as the part of prepaid expenses in relation to the two disgios of EUR 1,849 thousand (previous year: EUR 1,801 thousand) which are released over the terms of the underlying bonds.

## **V. ADDITIONAL DISCLOSURES TO THE NOTES**

### **Additional disclosures to the cash flow statement**

Cash and cash equivalents ("Finanzmittelfonds") comprise solely cash and cash equivalents.

Cash includes bank balances, cash in hand while cash equivalents include all other short-term highly liquid financial investments that can be converted into cash any time. Cash equivalents with a maximum term of three months relate to cash-pooling receivables from Telfisa Global B.V, Amsterdam, the Netherlands recognised as receivables from affiliated companies.

### **Employees**

In financial year 2018 and in 2017 the Company had no employees.

### **Management**

The Managing Directors in the financial year were:

Albert Graf, Director Corporate Finance & Tax Telefónica Germany GmbH & Co. OHG, Munich.

Markus Haas, Board of Directors, CEO Telefónica Deutschland Holding AG, Munich.

Markus Rolle, Board of Directors, CFO Telefónica Deutschland Holding AG, Munich.

The Managing Directors do not receive any remuneration for their services from the Company.

### **Audit committee**

By resolution of the shareholder as of 28 April 2014 an audit committee for TDF was set up in accordance with section 324 HGB. The audit committee consists of the following members:

Dieter, Gauglitz

Chairman

German public auditor

Resident in Munich

Eckart, Kurze

Board member

Director Operational Efficiency; Telefónica Germany GmbH & Co. OHG, Munich

Resident in Munich

Marcel, Ritter

Board member

General Counsel, Telefónica Germany GmbH & Co. OHG, Munich

Resident in Duisburg

### **Remuneration of governing bodies**

The members of the Audit Committee received a total remuneration of EUR 15 thousand for their work in 2018.

### **Auditor's fee**

In accordance with section 285 no. 17 HGB, the total fee for the auditor of TDF will not be disclosed as the Company is part of the consolidation group of Telefónica Deutschland Holding AG, Munich, (Telefónica Deutschland Group) and the information is already included in the Consolidated Financial Statements.

### **Subsequent events**

There were no significant events after the end of the financial year 2018 which would need to be disclosed.

### **Consolidated financial statements**

The company that prepares the consolidated financial statements for the smallest group of companies in which the Company is included is Telefónica Deutschland Holding AG, Munich. The consolidated financial statements are published in the Federal Gazette and are available there and at the [www.telefonica.de](http://www.telefonica.de) website. The consolidated financial statements of Telefónica Deutschland Holding AG, Munich are included in the consolidated financial statements of the Spanish parent company Telefónica S.A., Madrid, Spain. Telefónica S.A., Madrid, Spain prepares the consolidated financial statements for the largest group of companies. These consolidated financial statements are available from Telefónica S.A., Madrid, Spain, and are published online at [www.telefonica.com](http://www.telefonica.com).

### **Cost reimbursement agreement**

There is an agreement between TDF and Telefónica Germany GmbH & Co. OHG, Munich, for recharging of the costs to the shareholder.

### **Profit and loss transfer agreement**

On 20 March 2013, TDF signed a control agreement with the controlling company Telefónica Germany GmbH & Co. OHG, Munich. In addition, on 20 March 2013, TDF also signed a profit and loss transfer agreement with Telefónica Germany GmbH & Co. OHG, Munich. This has been recorded in the Commercial Register on 2 April 2013.

Munich, 29 March 2019

O2 Telefónica Deutschland Finanzierungs GmbH

- Management -

Markus Haas

Markus Rolle

Albert Graf

# Management Report

## O2 Telefónica Deutschland Finanzierungs GmbH, Munich

### Management Report for the Financial Year 2018

#### 1. Business and general conditions

O2 Telefónica Deutschland Finanzierungs GmbH, Munich (referred to as “TDF” or the “Company”) acts as the financing company for the Telefónica Deutschland Group (Telefónica Deutschland Holding AG, Munich, and subsidiaries and joint ventures) and its operating entities. The following overall economic and legal conditions for the operating entities are thus indirectly also relevant for TDF.

##### *Solid economic development in Germany*

The German economy continues to grow. However, the economy is being dampened by a difficult foreign trade environment and temporary exceptional effects in the automotive industry. According to initial calculations by the Federal Statistical Office, the price-adjusted gross domestic product (GDP) in 2018 will be 1.5% higher than in the previous year. This means that the German economy has grown for the ninth consecutive year. German economic growth has lost some of its momentum, but in 2018 was still above the average of +1.2% for the last ten years. The growth drivers in 2018 were consumption and investment: Both private consumer spending (+1.0%) and government spending (+1.1%) were higher than in the previous year. The labour market continues to develop positively and in 2018 the number of people in employment reached a new high. On average, in 2018 44.8 million employed persons contributed to the economy in Germany.

##### *Trends on the German telecommunications market indicate growth potential*

The telecommunications industry is a major trailblazer for digitalisation, a process that is advancing and changing the world. Various trends are visible in the telecommunications market:

Today's consumers are mobile. They want to be online anytime, anywhere. The smart phone has developed from a pure communications device into a universal mobile companion and the control centre of mobile life. According to a survey by the industry association Bitkom, 57 million German citizens aged 14 or older used a smartphone in 2018. The smartphone is also paving the way for new technologies such as augmented and virtual reality, as well as voice control. Voice control is conquering living rooms in the form of stationary digital voice assistants such as Amazon Echo and Google Home. According to the industry association Bitkom, every eighth German citizen over the age of 18 uses an intelligent loudspeaker with a digital voice assistant.

The television market is also undergoing fundamental changes in Germany that also affect the telecommunications industry. Linear television is becoming increasingly less interesting for many

people, even if it remains the most widespread form of television. On the other hand, video streaming has become an integral part of media consumption: Watching video clips, series and films on demand is already part of everyday media life for many people in Germany. This is reflected in rising user numbers and growing willingness to pay of the customers.

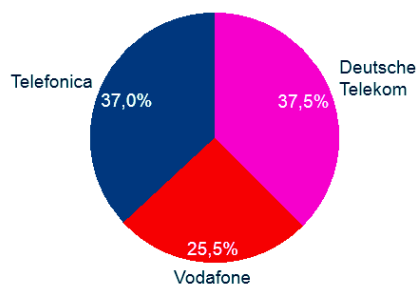
*The German mobile telecommunications market is an established market*

Following the merger of the Telefónica Deutschland Group with the E-Plus Group, the German mobile telecommunications market consists of three network operators and several service providers and mobile virtual network operators (MVNOs). At the end of September 2018, the Telefónica Deutschland Group held a market share of 37.0% with 43.0 million mobile customers (according to calculation customary to the market<sup>1</sup>: 45.4 million).

**Market share in the mobile telecommunications market**

per customer (in %)

at the end of September 2018



SOURCE: COMPANY DATA/QUARTERLY REPORTS

*German fixed-line market characterised by strong competition*

Intense competition also still prevails on the German market for fixed-line broadband services. The number of connections increased by around 3% year-on-year; the customer base is therefore estimated to have grown to 34.3 million by the end of 2018. The growth is mainly driven by cable and VDSL connections, which is in turn based on changed customer behaviour and the increased demand for high speeds. At the end of 2018, more than 33% of fixed line customers used connections of at least 50 Mbit/s; at the end of 2017 this was still at 28%. The increased customer demand for more bandwidth is also reflected in the data volume generated per broadband connection and month. According to VATM, this increased by 8% in 2018 to an average of 90 GB per connection.

SOURCE: ANALYSYS MASON, BUNDESNETZAGENTUR, VATM

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<sup>1</sup> Starting in the 2017 financial year, Telefónica Deutschland Group introduced an additional method of counting the number of mobile accesses. This method takes market practices into account, among other things, when determining the time frame for inactive customers.

## **2. Areas of operation**

TDF was established as a wholly owned subsidiary of Telefónica Germany GmbH & Co. OHG, Munich, on 26 February 2013. It is thus part of the Telefónica Deutschland Group. TDF handles major financing activities of the Telefónica Deutschland Group. The financing and procurement of the necessary funds can be carried out by issuing bonds tradable on the capital market. The Company is authorised to carry out all activities and measures which appear to be appropriate to directly or indirectly serve the business purpose of the Telefónica Deutschland Group. In particular, TDF is authorised to establish, acquire, participate in, manage or restrict itself to the management of other undertakings.

On 22 November 2013, TDF issued a five-year unsecured bond (Senior Unsecured Bond) with a nominal value of EUR 600,000 thousand and a maturity on 22 November 2018 in the regulated market of the Luxembourg Stock Exchange. The net proceeds from the issue of this bond were transferred in full to the parent company Telefónica Germany GmbH & Co. OHG, Munich, in the form of an intercompany loan in accordance with the terms and conditions of the bond (interest rate, maturity, nominal amount) under the agreement dated 22 November 2013. In the current financial year, Telefónica Germany GmbH & Co. OHG, Munich, repaid the intercompany loan to the Company. On the due date in the financial year 2018 the Company repaid the bond using the funds received from OHG. The annual nominal interest rate of the bond (and the intercompany loan) amounted 1.875%.

Furthermore as of 10 February 2014 and in the same regulated market of the Luxembourg Stock Exchange, TDF issued a seven-year unsecured bond (Senior Unsecured Bond) with a nominal value of EUR 500,000 thousand, a fixed interest rate of 2.375% and a maturity on 10 February 2021. The net proceeds from the issue of this bond were also transferred in full to the parent company Telefónica Germany GmbH & Co. OHG, Munich in the form of an intercompany loan in accordance with the bond conditions (interest rate, maturity, nominal amount) under the agreement dated 10 February 2014.

TDF issued on 5 July 2018 a seven-year unsecured bond with a nominal value of EUR 600,000 thousand also in the regulated market of the Luxembourg Stock Exchange. The bond matures on 5 July 2025. The fixed interest rate is 1.750% and the issue price was at 99.628%. The bond is denominated in EUR 100 thousand and was issued according to a bond prospect. The bond was used to refinance the bond due in November, which has been meanwhile repaid, and it is for general business purposes. Under an agreement dated 5 July 2018, the net proceeds from the issue of this bond were transferred in full to the parent company Telefónica Germany GmbH & Co. OHG, Munich, in the form of an intercompany loan in accordance with the bond conditions (interest rate, maturity, nominal amount).

The bonds represent unsecured and unsubordinated liabilities of TDF, which are of equal ranking among themselves and with all other unsecured and unsubordinated liabilities of TDF, unless these liabilities are given priority as a result of mandatory regulations. Unless previously redeemed or purchased and cancelled, each bond is repaid at the amount of its fixed denomination on the maturity date.

The bonds are guaranteed by Telefónica Deutschland Holding AG, Munich.

TDF acts as a financing company. The long-term future development of business therefore depends largely on the development of the operating companies of the Telefónica Deutschland Group, in particular Telefónica Deutschland GmbH & Co. OHG. Due to the structure of the TDF, in particular the transfer of the financing to the OHG and the corresponding charging of all costs also to the OHG, the overall result of the Company is kept at zero. In this respect, the result of TDF depends exclusively on the companies of the Telefónica Deutschland Group.



### 3. Net assets, results of operations and financial position

#### Net assets

The assets are presented in the following table:

Balance sheet item	31 Dec. 2018 EUR thousand	31 Dec. 2017 EUR thousand	Change EUR thousand
Financial assets	1,100,000	1,100,000	0
Receivables and other assets	16,360	11,900	4,460
Prepaid expenses	3,080	2,697	383
<b>Total Assets</b>	<b>1,119,440</b>	<b>1,114,597</b>	<b>4,843</b>

The financial assets as of 31 December 2018 consist of two loans in the amount of EUR 500,000 thousand and EUR 600,000 thousand respectively, granted by TDF to its shareholder Telefónica Germany GmbH & Co. OHG, Munich. The terms of both loans correspond to the terms of the underlying seven-year bonds which TDF issued on 10 February 2014 and 5 July 2018 respectively. The loans have fixed terms until the date of maturity of the underlying bonds on 10 February 2021 and 5 July 2025, respectively. The loans are repayable in one amount on the due date, including all interest and costs which have not yet been paid. The EUR 600,000 loan due in November 2018 was repaid to TDF by Telefónica Germany GmbH & Co. OHG, Munich in November 2018. The net proceeds from the bond issue received in July 2018 were transferred in full to Telefónica Germany GmbH & Co. OHG in the form of a new loan.

The receivables and other assets of EUR 16,360 thousand (previous year EUR 11,900 thousand) consist mainly of interest receivables from the loans granted to Telefónica Germany GmbH & Co. OHG, Munich, in the amount of EUR 15,738 thousand (previous year: EUR 11,807 thousand). The increase compared to previous year corresponds to the higher interest income in the current financial year. The underlying interest rates are 2.375 % and 1.750 % respectively and are payable annually from Telefónica Germany GmbH & Co. OHG to TDF on 10 February and 5 July respectively.

As of 31 December 2018, prepaid expenses included mainly the amortised disgios from the issuance of the seven-year bonds issued in February 2014 and in July 2018 respectively. The change in prepaid expenses results from their release over the terms of the underlying bonds on a straight-line basis until 10 February 2021, 5 July 2025 and until 22 November 2018 respectively.

Equity and liabilities are presented in the following table:

<b>Balance sheet item</b>	<b>31 Dec. 2018 EUR thousand</b>	<b>31 Dec. 2017 EUR thousand</b>	<b>Change in EUR thousand</b>
Equity	25	25	0
Other provisions	115	57	58
Bonds	1,100,000	1,100,000	0
Trade payables	1	10	-10
Liabilities to affiliated companies	482	0	482
Other liabilities	15,738	11,808	3,930
Deferred income	3,080	2,697	383
<b>Total Equity and liabilities</b>	<b>1,119,440</b>	<b>1,114,597</b>	<b>4,843</b>

The Company's share capital remains unchanged at EUR 25 thousand and is fully paid. It is held entirely by Telefónica Germany GmbH & Co. OHG, Munich.

The other provisions of EUR 115 thousand (previous year: EUR 57 thousand) mainly relate to consultancy and audit fees.

The category Bonds include two bonds with a nominal value of EUR 1,100,000 thousand in total. Thereof the seven-year bond amounts to EUR 500,000 thousand and with a maturity of three years has a maturity of less than five years as of 31 December 2018. The second bond of a nominal value EUR 600,000 thousand and a maturity of seven years has a remaining maturity of more than five years. Both bonds are guaranteed by Telefónica Deutschland Holding AG, Munich (the ultimate parent of the Telefónica Deutschland Group).

The liabilities to affiliated companies of EUR 482 thousand (previous year: EUR 0 thousand) result mainly from the recharging of issue costs from Telefónica Germany GmbH & Co. OHG in connection with the placement of the bond in July 2018.

The other liabilities include current interest bearing liabilities relating to the bonds that will not be paid until the following year. In the period between 5 July 2018 and 22 November 2018, liabilities from bonds amounted to EUR 1,700,000 thousand and this amount decreased to EUR 1,100,000 thousand upon repayment of the bond due on 22 November 2018 (by EUR 600,000 thousand). The temporary increase in liabilities from bonds in the affected months led to higher interest expenses compared to the previous year.

Deferred income results from the amortised differences between the nominal values of the underlying loans and the amounts paid out to Telefónica Germany GmbH & Co. OHG, Munich. The deferred item is released over the term of the underlying loan.

## Results of operations

In the financial year ending 31 December 2018, TDF reported a profit/(loss) after tax of EUR 0,00 (previous year: EUR 0,01), which would be subsequently settled with Telefónica Germany GmbH & Co. OHG, Munich, in accordance with an existing control and profit and loss transfer agreement. As expected, this resulted in an annual result of EUR 0.00 for the current financial year.

The main items from income statement are as follows:

<b>Income statement item</b>	<b>1 Jan. 2018 31 Dec. 2018 EUR thousand</b>	<b>1 Jan. 2017 31 Dec. 2017 EUR thousand</b>	<b>Change EUR thousand</b>
Other operating income	2,347	241	2,105
Other operating expenses	-2,347	-241	-2,105
Income from financial assets - loans	27,056	23,300	3,756
Other interest and similar income	1,849	1,801	48
Interest and similar expenses	-28,904	-25,100	-3,804
<b>Profit/(loss) after tax</b>	<b>0</b>	<b>0</b>	<b>0</b>
Expenses from profit transfer agreement (previous year: income from loss transfer agreement)	0	0	0
<b>Profit/(loss) for the period</b>	<b>0</b>	<b>0</b>	<b>0</b>

The other operating income amounting to EUR 2,347 thousand (previous year: EUR 241 thousand) mainly results from recharging of costs to Telefónica Germany GmbH & Co. OHG, Munich. Other operating expenses amounting to EUR 2,347 thousand (previous year: EUR 241 thousand) relate to the recharging of costs and mainly include costs of issuing of the July bond.

Income from financial assets – loans of EUR 27,056 thousand (previous year: EUR 23,300 thousand) results from interest income from the loans granted to Telefónica Germany GmbH & Co. OHG, Munich.

Interest in respect of financial assets – loans is shown for the first time in the current financial year under this item of the income statement. This was a change in presentation compared to the previous year. In the previous year, this income was reported under other interest and similar income. The comparatives have also been reclassified in the previous year's column of the financial statements. As of 5 July 2018, TDF issued a loan of EUR 600,000 thousand to Telefónica Germany GmbH & Co. OHG using the proceeds from the 1.75% seven-year bond. Until the repayment of the loan due in November 2018, the total balance of financial assets amounted to EUR 1,700,000 thousand. The higher balance of financial assets in the affected months led to higher interest income compared to the previous year.

Other interest and similar income result from the release of deferred income amounting to EUR 1,849 thousand (previous year: EUR 1,801 thousand).

Interest and similar expenses in the amount of EUR 28,904 thousand (previous year: EUR 25,100 thousand) include interest expense from the bonds of EUR 27,056 thousand (previous year: EUR 23,125 thousand) as well as the part of prepaid expenses in relation to the two disgios of EUR 1,849 thousand (previous year: EUR 1,801 thousand) which are released over the terms of the underlying bonds. On 5 July 2018, TDF issued a seven-year unsecured bond that refinanced the bond which matured in November 2018. As a result, the balance of bonds was higher in the affected months, resulting in higher interest expense compared to the previous year.

The profit/(loss) for the period in 2018 amounted to EUR 0,00 and thus corresponds to the forecast made in the previous year for the current financial year ("unchanged from the previous year").

## Financial position

### Principles and goals of financial management

The risk control and a central management are fundamental principles of the TDF financial management. 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 them using corresponding measures. At present there are no circumstances which would indicate that TDF cannot meet its financial obligations.

The development of cash and cash equivalents as well as the corresponding cash flows are presented in the separately disclosed cash flow statement.

Cash and cash equivalents include bank balances, cash in hand in the amount of EUR 0 thousand (previous year: EUR 0 thousand) and also cash-pooling receivables from Telfisa Global B.V, Amsterdam, the Netherlands in the amount of EUR 16 thousand (previous year: EUR 30 thousand).

During the financial year 2018, TDF reported a negative cash flow from **operating** activity in the amount of EUR 14 thousand, in previous year TDF reported a positive cash flow from operating activities in the amount of EUR 8 thousand.

Cash flow from **investing** activities amounted to EUR 23,125 thousand in the financial year 2018 (previous year: EUR 23,125 thousand). Cash inflows from investing activities amounting to EUR 23,125 thousand (previous year: EUR 23,125 thousand) result from received interest payments made by the borrower Telefónica Germany GmbH & Co. OHG, Munich in the amount of EUR 23,125 thousand as well as from the repayment of the loan due in the 2018 financial year of EUR 600,000 thousand. In addition, the loan of EUR 600,000 thousand granted in the financial year 2018 led to payments in cash flow from investing activities. In the current financial year was OHG not required to pay any interest to TDF for the loan issued to OHG on 5 July 2018.

Cash flow from **financing** activities in the reporting period amounted to EUR -23,125 thousand (previous year: EUR -23,125 thousand). The cash inflow from financing activities of EUR 600,000 thousand from the bond issued in the 2018 financial year. In addition, the repayment of the bond in the amount of EUR 600,000 thousand and interest payments for the two issued bonds in the amount of TEUR 23,125 resulted in cash outflows from financing activities.

In the current financial year the Company did not have to pay any interest on the bond issued on 5 July 2018.

The total changes result in a negative cash flow of EUR 13 thousand for the current financial year.

As of 31 December 2018, TDF had an unused credit facility amounting to EUR 6 thousand (previous year: EUR 6 thousand).

#### **4. Opportunity and risk report**

TDF currently restricts its activities exclusively to financing the Telefónica Deutschland Group. Accordingly, the risks and opportunities of O2 Telefónica Deutschland Finanzierungs GmbH, Munich, as well as the measures and processes for handling risks and opportunities are essentially the same as those applicable for the Telefónica Deutschland Group, which are summarised below.

##### **General financial market risks**

In the course of our business activities, we are confronted with various business, operational, financial and other (global) risks. We provide our services on the basis of the organisational, strategic and financial decisions made and precautions taken by us.

Every business activity involves risks that can prejudice the process of goal-setting and goal fulfilment. These risks arise from the uncertainty of future events – often due to insufficient information – and can result in objectives being missed. If risks are not recognised and dealt with, they can endanger the successful development of the company. In order to respond appropriately to this fact, the company's management has introduced a risk management process. This is intended to guarantee timely and complete transparency with regard to new risks or changes to existing risks.

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

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

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

Opportunities are not recorded in the risk management system.

### **Risk evaluation**

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

Based on the combination of the potential level of impact and the estimated likelihood of occurrence, the individual risks are divided into three categories (significant, moderate and minor risks). All risks with a very high potential level of impact are seen as significant for the company; this does not take into account the estimated likelihood of occurrence. With a growing likelihood of occurrence, risks with a high or medium potential level of impact also fall into this category. Risks with a very low potential impact are assessed as minor risk, regardless of the estimated likelihood of occurrence.

Minor risks are not included in the reporting to the Management Board and therefore are not included in the risk summary in the following section. Such risks are identified, documented and administered by the relevant management levels as part of the risk management process.

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

In addition our Company can be influenced by other or additional risks of which we are presently unaware or that we do not consider significant 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.

We have summarised the risks according to their risk areas as follows:

- Business risks
  - Competitive markets and changing customer demands
  - Market acceptance and technological transformation
  - Regulatory environment
  - Insurances



- Operational risks
  - Service quality
  - Supplier defaults
  - Dependence on the major shareholder Telefónica S.A. and of KPN
  - Legal risks
- Financial risks
  - Taxes
- Other (Global) risks

TDF currently restricts its activities exclusively to financing the Telefónica Deutschland Group. The main elements of the assets of TDF are the loans granted to Telefónica Germany GmbH & Co. OHG, Munich. The economic existence of TDF is thus primarily dependent on whether Telefónica Germany GmbH & Co. OHG, Munich is able to meet its obligations in relation to these loans. All interest and capital payments relating to all debt securities currently issued by TDF are secured by a full and unlimited guarantee by the guarantor Telefónica Deutschland Holding AG. These guarantees are enforceable in accordance with the law of the Federal Republic of Germany.

Accordingly, the risks and opportunities of O2 Telefónica Deutschland Finanzierungs GmbH, Munich, as well as the measures and processes for handling risks and opportunities are essentially the same as those applicable for the Telefónica Deutschland Group and are therefore presented individually below.

#### *General financial market risks*

The Telefónica Deutschland Group is exposed to various financial market risks as part of its business activity. In the context of the above-mentioned the risk management process, these risks are regarded as low.

Should these financial market risks occur, they could have a negative effect on the net assets, financial position and results of operations of the Group.

The Telefónica Deutschland Group has developed guidelines for risk management processes and for the use of financial instruments including a clear separation of tasks with respect to financial activities, invoicing, financial reporting and associated controlling. Derivative financial instruments are used solely to manage interest rate and currency risks. The Telefónica Deutschland Group has developed guidelines derived from established standards for the evaluation of risks and monitoring with regard to the use of financial derivatives.

#### *Market risk*

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

### *Interest rate risk*

Interest risks arise predominantly from floating-rate cash pooling accounts and deposits of the Telefónica Deutschland Group at Telfisa Global B.V., Amsterdam, Netherlands, as well as through loan agreements as borrower and interest swaps.

In February 2014, interest rate swap was signed by Telefónica Germany GmbH & Co. OHG, Munich, in connection with the issue of the bond for a partial amount of the its nominal value. Under this interest rate swap contract, the Telefónica Germany GmbH & Co. OHG, Munich pays a variable interest rate on a nominal amount and receives a fixed interest rate on the same amount in return. The nominal amount of this interest rate swap is used to offset the effects of future changes in market interest rates on the fair value of the underlying fixed-rate financial debt from the bond issue (fair value hedge).

### *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 Telefónica Deutschland Group's maximum credit risk initially corresponds to the carrying amount of its financial assets (excluding any guarantees or securities).

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

In accordance with Telefónica corporate policy, the Telefónica Deutschland Group has concluded cash pooling and deposit agreements with Telfisa Global B.V., Amsterdam, Netherlands, a subsidiary of the Telefónica S.A. Group, with regard to its cash surpluses and deposits its cash surpluses there. Telefónica S.A. is rated by international rating agencies with an investment grade rating.

### *Liquidity risk*

Liquidity risk encompasses the risk that the Telefónica Deutschland Group may be unable to sufficiently comply with its financial obligations. To safeguard liquidity, cash inflows and outflows are permanently monitored and centrally controlled on the basis of detailed financial planning. The Telefónica

Deutschland Group works on its liquidity management closely with the Telefónica S.A. Group and, in accordance with the corporate policy, has concluded cash-pooling and deposit agreements with Telfisa Global B.V., Amsterdam, Netherlands. In addition to operating liquidity, the opportunities arising on the financial markets are continuously examined with a view to ensuring the financial flexibility of the Telefónica Deutschland Group. A risk with regard to the repayment of the loans granted to Telefónica Germany GmbH & Co. OHG is assessed as low due to the sufficient free credit lines at the level of Telefónica Germany GmbH & Co. OHG.

### *Capital management*

The Telefónica Deutschland Group strives to guarantee the sustainability of its business and to maximise its enterprise value by permanently monitoring its capital costs, equity ratio and OIBDA (Operating Income before Depreciation and Amortization).

### **Opportunity management**

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

The opportunities and growth potential identified in the strategic goal-setting process are prioritised as part of an annual planning process in close cooperation with the individual business areas and relevant strategic goals are derived from this. To measure the strategic implementation, concrete financial objectives in the form of finance-related 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 occurs both as part of budget creation for the coming twelve months as well as within long-term planning.

Opportunities are neither recognized in the risk register nor quantified.

Major opportunities are summarized as follows:

- Greater demand for mobile data and LTE
- Expansion of our LTE network
- Cooperation with Telekom Deutschland GmbH in the fixed line network
- Digital innovation
- Digitalisation of service processes
- Membership of the Telefónica S. A. Group

## **Accounting-Related Internal Control and Risk Management System**

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

The primary goal of the accounting-related internal control and risk management system of the Telefónica Germany Group is to ensure proper financial reporting in the sense of ensuring that the Financial Statements comply with all relevant provisions.

The risk management system also includes an accounting-related perspective with the aim of ensuring the reliability of financial reporting. The accounting-related internal control system ("ICS") introduced by Telefónica Germany Group for all subsidiaries also complies with the German Commercial Code (HGB). Establishing and effectively maintaining appropriate internal controls for financial reporting is the responsibility of the Management Board and is performed taking company-specific requirements into account.

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 Financial Statements.

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. 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 of Telefónica Germany Group 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 Audit Committee of the TDF oversees the ICS. 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 TDF 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.

For the Company the conceptual framework described above is supplemented by a HGB chart of accounts.

The O2 Telefónica Deutschland Finanzierungs GmbH is included in the aforementioned Group-wide accounting-related internal control system.

O2 Telefónica Deutschland Finanzierungs GmbH does not have its own internal control system, but is included into the aforementioned Group-wide accounting-related internal control system described above. Telefónica Germany GmbH & Co. OHG, operates the internal control system for the Company.

## **5. Employees**

The Company did not have any employees in the financial year 2018 (same as in previous year).

## **6. Principals of the remuneration system**

The Managing Directors do not receive any remuneration from TDF.

## 7. Forecast report 2019

The forecast report describes the probable development of TDF in the course of the financial year 2019. The report contains comments and information regarding future events. Forward-looking comments and information are based on expectations and assumptions of the Company at the time when this management report is published, on the basis of known and unknown opportunities and risks. The success of the Company, the business strategy and also the results of the Company are influenced by a wide range of factors outside the control of the Company.

If such opportunities or risks occur or if uncertain factors materialise, or if it becomes apparent that one of the underlying assumptions was not correct, the actual development of the Company may differ (positively as well as negatively) from the expectations and assumptions in the forward-looking comments and information set out in this forecast report.

As a result of the close personnel and economic links between TDF and the Telefónica Deutschland Group, TDF is subject to the same business and framework conditions as well as the same regulatory environment as the Telefónica Deutschland Group. The future development of TDF is very much dependent on the capital requirements and the form of financing chosen by the Telefónica Deutschland Group. The assessment of the future development of TDF is therefore based on forecasts of the business developments of the Telefónica Deutschland Group, which is summarised below.

Since TDF's business activities mainly consist of managing the financing activities of the Telefónica Deutschland Group, its future development is largely determined by the Telefónica Deutschland Group's business policy.

### *Economic outlook*

According to initial calculations by the Federal Statistical Office, the German economy grew by 1.5% in real terms in 2018 compared with the previous year. For 2019, however, economists expect a slowdown in the growth of the German economy, with gross domestic growth (GDP) of only 1.2%. Private consumption remains one of the drivers of the economy. This is primarily due to the continued positive development of the labour market and the increasing purchasing power of households.

The international environment and the planned withdrawal of the United Kingdom from the European Union (Brexit) continue to pose a risk to economic development in Europe and especially in Germany.

SOURCE: GfK KONSUMKLIMA, BUNDESBANK, BMWI, FEDERAL STATISTICS OFFICE, EXPERTS AT ECONOMIC RESEARCH INSTITUTIONS

### *GDP growth 2017 –2019 Germany (calendar adjusted)*

in %	2017	2018	2019
Germany	2.2	1.5	1.2

### *Market Expectations*

Digitalisation and technologies such as artificial intelligence are increasingly shaping everyday life and bringing change to industries. A large number of trends will continue or gain in importance. The trend towards connectable products is continuing.

The market for data consumption is characterised by a steadily growing demand for internet services, such as the use of internet videos across all end devices, but also games and the new applications already mentioned. As a result, the demand for larger data volumes and higher transmission speeds is also increasing. This means that the monetisation of mobile data business will remain a strong focus of telecommunications providers. Analysts expect average data usage per mobile customer to rise to just under 3 GB per month in 2019. This represents an increase of over 50% compared to 2018.

SOURCE: OVUM, ANALYSYS MASON, BITKOM, BMWI, PWC

### *Financial Outlook 2019*

In 2019, Telefónica Deutschland Group will continue to build on its operational and financial achievements of the financial year 2018, which were in line with our expectations. Based on IAS 18 accounting standards, total operating revenue came in flat at +0.5% year-on-year excluding a significant headwind from regulation in the amount of EUR 44 million (-0.1% year-on-year including the negative regulatory effects). OIBDA (based on IAS 18) adjusted for exceptional effects grew slightly at +3.4% year-on-year excluding regulatory effects of EUR 54 million (+0.4% year-on-year including these effects), benefitting from the delivery of approx. EUR 100 million of revenue and OIBDA-relevant synergies. In total, we have now reached EUR 820 million (>90%) of the total synergy target of cumulated Operating Cash Flow savings of EUR 900 million in 2019. Our final integration project, the consolidation of our networks, is now completed and marks a major milestone on our way to becoming Germany's "Mobile Customer and Digital Champion". Furthermore, Telefónica Deutschland Group invested EUR 966 million in CapEx with a C/S ratio of 13.2% in 2018, also in line with our guidance of 12-13% of C/S for the financial year 2018.

For 2019 we expect total revenue to remain broadly stable year-on-year (excluding the above-mentioned negative regulatory effects of approx. EUR 60-70 million) for the Telefónica Deutschland Group. Handset revenue continue to depend on market dynamics as well as the launch cycles and availability of new device generations. In the fixed business, the wholesale customer migration as a prerequisite for the decommissioning of our ULL broadband access infrastructure is now completed and we expect returns to normalise over time, as we market fixed broadband and converged products based on our wholesale access to competitors' networks. In the mid-term, we expect to grow our revenues with the market, capturing market share in Internet-of-Things (IoT). Our own customers are our biggest asset and we are looking to reward and develop them, while serving many more customers based on our successful multi-channel, multi-brand approach. Our assumptions are based on a sustained rational competitive environment as well as stable economic conditions.

## Management summary

Currently, TDF in its capacity as a financing company restricts its activities exclusively to financing the Telefónica Deutschland Group. In 2014 and 2018 and in line with its business purpose, TDF successfully issued two bonds with a nominal value of EUR 500,000 thousand and EUR 600,000 thousand and a maturity on 10 February 2021 and 5 July 2025 respectively. TDF has made the proceeds of the bond issue available to Telefónica Germany GmbH & Co. OHG, Munich in the form of a loan and based on the same conditions. The bonds are guaranteed by Telefónica Deutschland Holding AG, Munich. TDF does not currently employ any staff itself. Due to the close personnel and economic links, the probable business development of the Company as well as the main opportunities and risks correspond to those applicable for the Telefónica Deutschland Group. On the basis of the emissions issued, the management of TDF considers the overall business development to be favourable and does not expect any significant changes in the net assets, financial position and results of operations compared to 2018.

Furthermore, on the basis of the expectations outlined above and due to the existing cost recharging and loan agreements with Telefónica Germany GmbH & Co. OHG, Munich, for TDF as well as for the coming financial year we expect to achieve a profit/(loss) after tax in a similar amount as in the previous year. This result will be subsequently settled by OHG in accordance with the control and profit and loss transfer agreement.

Munich, 29 March 2019

O2 Telefónica Deutschland Finanzierungs GmbH

- Management –

Markus Haas

Markus Rolle

Albert Graf



# Declaration of the Statutory Representatives

To the best of our knowledge, and in accordance with the applicable reporting principles and with generally accepted accounting principles, the Annual Financial Statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the Management Report includes a fair view of the development and performance of the business and the position of the company, together with a description of the material opportunities and risks associated with the expected development of the company.

Munich, 29 March 2019

O2 Telefónica Deutschland Finanzierungs GmbH

- Management -

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Managing Director

Markus Haas

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Managing Director

Markus Rolle

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Managing Director

Albert Graf

## INDEPENDENT AUDITOR'S REPORT

To O2 Telefónica Deutschland Finanzierungs GmbH, Munich

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

#### *Audit Opinions*

We have audited the annual financial statements of O2 Telefónica Deutschland Finanzierungs GmbH, Munich, which comprise the balance sheet as at December 31, 2018, the income statement, the cash flow statement and the statement of changes in equity for the financial year from January 1 to December 31, 2018, and notes to the financial statements, including the recognition and measurement policies presented therein. We also audited the management report of O2 Telefónica Deutschland Finanzierungs GmbH for the financial year from January 1 to December 31, 2018.

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

- the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law and give a true and fair view of the assets, liabilities and financial position of the Company as at December 31, 2018 and of its financial performance for the financial year from January 1 to December 31, 2018 in compliance with German Legally Required Accounting Principles, and
- the accompanying management report as a whole provides an appropriate view of the Company's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

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

#### *Basis for the Audit Opinions*

We conducted our audit of the annual financial statements and of the management report in accordance with § 317 HGB and Regulation (EU) No. 537/2014 (referred to hereafter as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Management Report" section of our auditor's report. We are independent of the Company in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these

requirements. In addition, in accordance with Article 10(2)(f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5(1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the annual financial statements and on the management report.

### *Key Audit Matters in the Audit of the Annual Financial Statements*

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual financial statements for the financial year from January 1 to December 31, 2018. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

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

#### ① Recoverability of loans to affiliated companies

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:

#### ① Recoverability of loans to affiliated companies

- In the Company's annual financial statements, loans to affiliated companies amounting to € 1.1 billion (99% of total assets) are reported under the "Financial assets" balance sheet item. This relates to two loans granted to the sole shareholder Telefónica Germany GmbH & Co. OHG, Munich, with nominal values of € 500 million and € 600 million that are due for repayment in February 2021 and July 2025 respectively. In both cases, the conditions and sums of the loans correspond to the underlying seven-year bonds, which were stated on the liabilities side of the balance sheet under the item "Bonds" in the amount of € 1.1 billion (99% of the balance sheet total). For commercial law purposes, the loans to affiliated companies are evaluated based on the acquisition cost or, provided there are indications for a reduction in value, based on the lower fair value. Indications for a reduction in value of other loans are deemed to exist if there are signs for a deterioration in the economic situation of Telefónica Germany GmbH & Co. OHG, Munich, that result in liquidity or solvency in relation to the bonds being limited. Recoverability is evaluated primarily on the basis of the assessment of the operational business as well as the solvency of Telefónica Germany GmbH & Co. OHG, Munich. Because the estimates of the executive directors are required for the assessment of the loans and due to their material importance for the net assets and results of operations of the Company, this matter was of particular importance for our audit.

- ② As part of our audit, we examined and assessed, among other matters, the procedure for evaluating and assessing the presence of indications for a reduction in value in the loans to affiliated companies held. We also assessed, in particular, the information upon which the executive directors based their assessment. In addition, we have assessed the anticipated future income from the operating business activities using the business plan of Telefónica Germany GmbH & Co. OHG, Munich. In doing so, we assessed the appropriateness of the assumptions and expectations underlying the business plan, including, in particular, with respect to the further implementation of planned measures and the anticipated growth rate, and considered whether the business plan was drawn up properly on this basis. Furthermore, we assessed the possibilities for the financing of the Telefónica Deutschland Group and especially of Telefónica Germany GmbH & Co. OHG, Munich, including, in particular, against the backdrop of the availability of credit lines not drawn down (unutilized credit facilities). Based on the audit procedures that we carried out, we were able to assure ourselves that the information underlying the valuation assumptions made by the executive directors is, on the whole, suitable for carrying out an assessment on the presence of indications for value impairments of the loans to affiliated companies in a proper manner.
- ③ The Company's disclosures relating to the financial assets are contained in section "III/1. Financial assets" of the notes to the financial statements.

*Responsibilities of the Executive Directors and the Audit Committee for the Annual Financial Statements and the Management Report*

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

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

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

accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the management report.

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

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

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

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

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

- Identify and assess the risks of material misstatement of the annual financial statements and of the management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal control relevant to the audit of the annual financial statements and of arrangements and measures (systems) relevant to the audit of the management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems of the Company.
- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the annual financial statements and in the management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles.
- Evaluate the consistency of the management report with the annual financial statements, its conformity with German law, and the view of the Company's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

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

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

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

#### ***OTHER LEGAL AND REGULATORY REQUIREMENTS***

#### ***Further Information pursuant to Article 10 of the EU Audit Regulation***

We were elected as auditor by the shareholder meeting on November 26, 2018. We were engaged by the audit committee on December 7, 2018. We have been the auditor of O2 Telefónica Deutschland Finanzierungs GmbH, Munich, without interruption since 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).

***GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT***

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

Munich, March 29, 2019

PricewaterhouseCoopers GmbH  
Wirtschaftsprüfungsgesellschaft

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

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