

02 Telefónica Deutschland Finanzierungs GmbH, Munich

Financial Statements and management report

31 December 2021

Translation from the German Language¹

¹ 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

Management Report for the Financial Year 2022

The following figures have been rounded according to established commercial principles. Additions of the figures may therefore lead to different totals than those also shown in the table.

Furthermore, we would like to point out that absolute amounts of less than 500 euros are indicated either as "0" or "(0)" depending on the sign. On the other hand, for items that have no value, the indication of an error is made with "-".

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 operations) and its operating entities.

The long-term future development of business therefore depends largely on the development and ability to meet financial obligations of the operating companies of the Telefónica Deutschland Group, in particular Telefónica Deutschland GmbH & Co. OHG (referred to as “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 expected to be zero. The company does not have any significant KPIs relevant to management because it works as a financing company for the Telefónica Deutschland Group and raises funds on the capital market. Consequently, due to the lack of operating activities, there is no management control at the individual company level.

The following overall economic and legal conditions for the operating entities are thus indirectly also relevant for TDF.

The German economy resilient despite difficult conditions¹

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

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

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

¹Sources: Council of Economic Experts: Annual Report 2022/23 “Managing the energy crisis in solidarity, shaping a new reality” (9 November 2022); German Federal Ministry for Economic Affairs and Climate Action: Press release “Economic situation in Germany in November 2022” (14 November 2022); Federal Statistical Office (Destatis): Press release no. 472 (11 November 2022), Press release no. 493 (25 November 2022), Press release no. 499 (29 November 2022), Press release no. 003 (3 January 2023), Press release no. 022 (17 January 2023) and Press release no. 037 (30 January 2023); German Bundesbank: Publication “Monthly Report November 2022” (23 November 2022); Federal Employment Agency (Bundesanstalt für Arbeit): Press release no. 2 “Annual Review 2022” (3 January 2023); ifo Institute: Press release Business Climate Germany: “ifo Business Climate Remains Gloomy” (25 October 2022) and press release “ifo Business Climate Index Rises” (19 December 2022); GfK: Press release “No further crash in consumer sentiment for now” (18 November 2022) and “Consumer sentiment rises for the 3rd time in a row” (21 December 2022)

expectations as well as propensity to buy improved, and consumer confidence continued its cautious recovery. The German government's measures to cushion skyrocketing energy costs are apparently having an effect but according to the GfK, the all-clear cannot yet be given.

Technology trends bring growth potential for the telecommunications market²

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

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

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

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

The television market in Germany is also in a state of upheaval. The consumption of films, series and video clips via the internet has become an integral part of everyday media use and is gaining in popularity, according to the Digital Association Bitkom: 87% of all internet users aged 16 and over stream videos via the internet. 61% stream feature films via video-on-demand portals such as Netflix, Amazon Prime and Disney+. Laptops (84%), smartphones (79%) and smart TVs (78%) are preferred for streaming videos. A survey by Deloitte indicates that even in 2022, more subscriptions to video services were taken out than cancelled. Digitalisation is also supporting the climate neutrality goals of the German economy. The climate effects of lower CO₂ emissions through the use of digital technologies are already visible in 77% of companies. Cloud computing offers sustainable solutions for a large proportion, as running servers in large data centres is often more efficient. For half of them, the IoT offers potential for climate protection and for a third, it is the application of artificial intelligence (e.g. in predictive maintenance). Sustainability is also still important in the consumer sector. The GfK Sustainability Index continues to remain stable despite inflation and crises. Consumers continue to make sustainable purchases and are willing to pay a higher price to do so. At the same time, shopping behaviour has changed – more people are buying sustainably, but do so less frequently.

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

Telefónica Deutschland Group continues to gain service revenue market share in the German mobile network operator market³

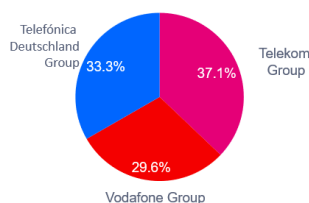
The German mobile telecommunications market currently consists essentially of three network operators and several service providers and mobile virtual network operators (MVNOs). At the 5G frequency auction, which ended in June 2019, the provider 1&1 acquired frequencies and plans to establish itself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

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

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

According to VATM data, the number of SIM cards on the market at the end of 2022, including M2M or IoT cards, was 169.3 million (end of 2021: 161.3 million). The strong SIM card growth is due to M2M and IoT cards: According to VATM, at the end of 2022, around 56.5 million SIM cards were in use for M2M and IoT applications, compared to 45.6 million at the end of 2021. These M2M or IoT cards accounted for a third of all SIM cards on the market by the end of 2022. Mobile service revenue in the German mobile phone market grew by 2.0% year-on-year in the nine-month period from January to September 2022. Telefónica Deutschland Group increased its market share in mobile network operator service revenue in the nine months from January to September from 32.6% in 2021 to 33.3% in 2022, making it the number two player in the German market.

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



Growth in German fixed-line broadband market continues⁴

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

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

⁴Sources: VATM: "Telecommunications Market Study 2022" (26 October 2022); Deutsche Telekom AG press release: "Broadband expansion: 306,000 households now have faster internet access with Telekom" (18 November 2022); Telefónica Deutschland Holding AG press release: "O₂ set to begin marketing fixed-line products to 10 million additional FTTH households" (16 November 2022)

fone and Tele Columbus. Through these partnerships, Telefónica Deutschland Group reaches more than 26 million households with fixed-line cable connections.⁵ The Telefónica Deutschland Group connects 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. Overall, the trend towards higher-speed connections continues in Germany. Estimates by VATM indicate that it will already be more than 58% of customers with a broadband connection who will be using maximum receive data rates of more than 50 Mbit/s by the end of 2022, compared to 56% at the end of 2021.

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.

TDF issued on 5 July 2018 a seven-year unsecured bond (Senior 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 bond is guaranteed by Telefónica Deutschland Holding AG, Munich.

The net proceeds from the issue of these bonds were transferred in full to the parent company Telefónica Germany GmbH & Co. OHG, Munich, in the form of intercompany loans.

3. Net assets, results of operations and financial position

Net assets

The development of net assets is as follows:

Balance sheet item	31 Dec. 2022 EUR thousand	31 Dec. 2021 EUR thousand	Change EUR thousand
Financial assets	600.000	600,000	-
Receivables from affiliated companies	5.363	5,360	2
Other assets	0	-	0
Prepaid expenses	797	1,116	-319
Total Assets	606.160	606,476	-316

The financial assets as of 31 December 2022 consist of one loan in the amount of EUR 600,000 thousand, issued by TDF to its shareholder Telefónica Germany GmbH & Co. OHG, Munich.

The receivables from affiliated companies of EUR 5,363 thousand (previous year: EUR 5,360 thousand) consist mainly of interest receivables from the loan issued to OHG, in the amount of EUR 5,149 thousand (previous year: EUR 5,149 thousand).

⁵ The number of households that can be reached as part of the cooperations should not be considered cumulatively due to overlaps.

Equity and liabilities are presented in the following table:

Balance sheet item	31 Dec. 2022 EUR thousand	31 Dec. 2021 EUR thousand	Change in EUR thousand
Equity	175	175	-
Other provisions	35	36	-1
Bonds	600.000	600.000	-
Trade payables	3	-	3
Liabilities to affiliated companies	1	-	1
Other liabilities	5.149	5.149	0
Deferred income	797	1.116	-319
Total Equity and liabilities	606.160	606.476	-316

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. Furthermore, as in the previous year, there is a capital reserve of EUR 150,000.

The category Bonds includes one bond with a nominal value of EUR 600,000 thousand in total. The remaining term of this bond is more than one year but less than five years.

The other liabilities include current interest-bearing liabilities relating to the bond that will not be paid until the following year.

Results of operations

In the financial year ending 31 December 2022, TDF reported a profit/(loss) after tax as well as a profit/(loss) for the period of EUR 0.00 (previous year: EUR 0.00).

The main items from income statement are as follows:

Income statement item	1 Jan. 2022 31 Dec. 2022 EUR thousand	1 Jan. 2021 31 Dec. 2021 EUR thousand	Change EUR thousand
Other operating income	158	70	89
Other operating expenses	-158	-70	-89
Income from financial assets - loans	10.500	11.786	-1.286
Other interest and similar income	319	396	-77
Interest and similar expenses	-10.819	-12.183	1.364
Profit/(loss) after tax	0	0	-
Income from loss transfer / profit transferred due to a profit and loss transfer agreement	0	0	-
Profit/(loss) for the period	0	0	-

Income from financial assets – loans in the amount of EUR 10,500 thousand (previous year: EUR 11,786 thousand) result from interest income from the existing loan at the end of the reporting period.

The previous year included interest income from the loan existing at the end of the reporting period as well as interest income from a loan until the scheduled repayment of a loan on 10 February 2021 from Telefónica Germany GmbH & Co. OHG, Munich.

Interest and similar expenses in the amount of EUR 10,819 thousand (previous year: EUR 12,183 thousand) include mainly interest expense in the amount of EUR 10,500 thousand (previous year: EUR 11,786 thousand) from the bond existing at the end of the reporting period. The previous year included interest expenses from the bond existing at the end of the reporting period and from interest expenses until the scheduled repayment of a bond on 10 February 2021.

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 these 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 cash-pooling receivables from Telfisa Global B.V, Amsterdam, the Netherlands in the amount of EUR 64 thousand (previous year: EUR 146 thousand). There were no freely available bank and cash balances at the end of the reporting period (as in the previous year).

During the financial year 2022, TDF reported a negative cash flow from **operating** activity in the amount of EUR 82 thousand, in previous year TDF reported a negative cash flow from operating activities in the amount of EUR 17 thousand.

Cash flow from **investing** activities amounted to EUR 10,500 thousand in the financial year 202 (previous year: EUR 522,375 thousand). The cash inflows from investing activities result from received interest payments of EUR 10,500 thousand from the borrower OHG. In the previous year, the cash flow from investing included the scheduled repayment of the loan in the amount of TEUR 500,000 and the received interest payments in the amount of TEUR 22,375 from the borrower OHG.

Cash flow from **financing** activities in the reporting period amounted to EUR -10,500 thousand (previous year: EUR -522,375 thousand). The payments result from the interest payment in the amount of TEUR 10,500 for the issued bond. In the previous year, the bond repaid in full and on schedule on 10 February 2021 was included in the amount of TEUR 500,000 as well as the interest payment in the amount of TEUR 22,375 for this bond.

The total changes result in a negative cash flow of EUR 82 thousand for the current financial year.

4. Opportunity and risk report

TDF currently restricts its activities exclusively to financing the Telefónica Deutschland Group and especially the OHG. The entire operating business of the Telefónica Deutschland Group is conducted directly or indirectly (via subsidiaries) through OHG. The most significant and direct risk of the company therefore consists in the default of the loan issued to OHG. Thus, all other risks of TDF, as well as the measures and processes for dealing with these risks, correspond indirectly to those of the Telefónica Deutschland Group and thus in particular to those of OHG. The risks of the Telefónica Deutschland Group are presented below.

Fundamental risk management principles

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

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

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

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

The TDF Audit Committee is informed about risks through regular meetings with the management and the auditor as well as through direct discussions with responsible employees.

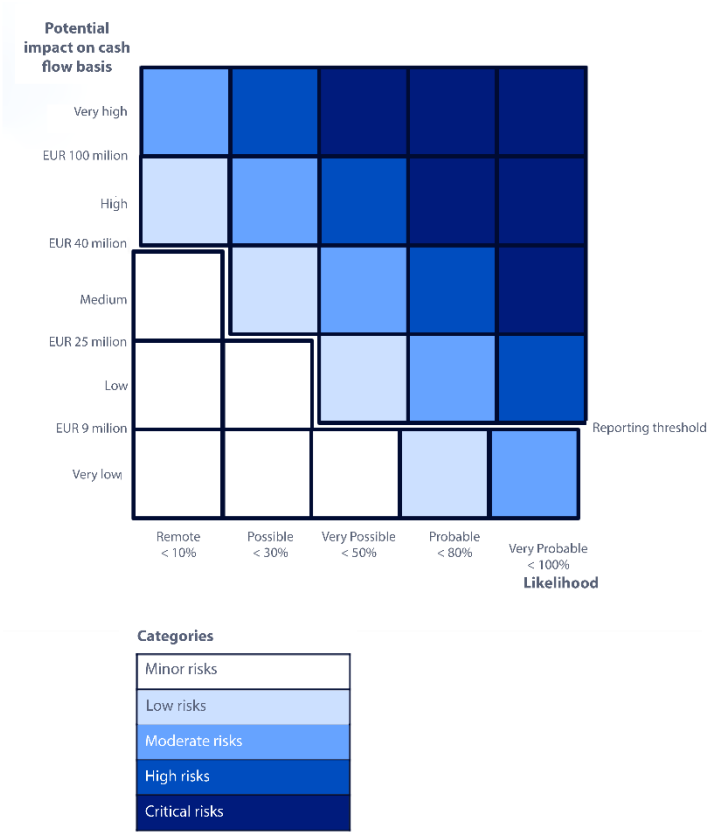
Opportunities are not recorded in the risk management system.

Risk evaluation

The following section illustrates the identified risks that can substantially impact our financial situation, our competitiveness or our ability to realise the Telefónica Deutschland Group 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 5x5 matrix as a starting point, within which the potential level of impact and the relevant likelihood of occurrence are each divided into five categories:

RISK PROFILE



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

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

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

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

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.

The main element of the assets of TDF is the loan 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 this loan. 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. The assessment of the individual risks according to the risk profile is shown in brackets.

- Business risks
 - Competitive markets and changing customer demands (critical)
 - Geopolitical risks (critical)
 - Macroeconomic factors (high)
 - Market acceptance and technological transformation (low)
 - COVID-19 pandemic (low)
 - Regulatory environment (low to high)
- Operational risks
 - Reliability of our services (high to critical)
 - Supply chain disruptions (moderate)
 - Loss of advantages in the event of reduced integration in the Telefónica, S.A. Group (low to moderate)
 - Legal risks (moderate to high)
- Financial Risks
 - Higher market interest rates (low)

Derived from the risks presented above, the specific risk of TDF arises in relation to the loan issued to OHG and the associated recoverability. This is classified as low risk by the management due to the good credit rating of the Telefónica Deutschland Group, incl. OHG, which is also confirmed by external rating agencies.

Opportunity management

Due to the structural circumstances and the financing character of TDF, there are no specific opportunities for the company. The structure of the contracts with OHG provides on the one hand for a remaining annual result to be charged to OHG by means of a profit and loss transfer agreement. Secondly, all operating costs incurred by TDF are reimbursed by OHG.

5. Accounting-Related Internal Control and Risk Management System

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

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

The risk management system 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.

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.

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

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. For the annual financial statements of the TDF, the tasks of the Audit Committee described above are assumed by the Audit Committee of the TDF.

6. Principals of the remuneration system

The Managing Directors do not receive any remuneration from TDF.

7. Forecast report 2023

Due to the fact that the company does not have any separate key performance indicators and the company has also concluded a profit and loss transfer agreement with OHG, a forecast of earnings and profits is not made. 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.

Economic Outlook⁶

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

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

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

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

T 10 – GDP GROWTH 2021 – 2023 GERMANY (PRICE-ADJUSTED)⁷

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

⁶ Source: Council of Economic Experts: Annual Report 2022/23 "Managing the energy crisis in solidarity, shaping a new reality" (9 November 2022); ifo Institute: Winter 2022 Economic Forecast (14 December 2022); Federal Statistical Office: Press release no. 037 (30 January 2023)

⁷ Source: Council of Economic Experts: Annual Report 2022/23 "Managing the energy crisis in solidarity, shaping a new reality" (9 November 2022); ifo Institute: Winter 2022 Economic Forecast (14 December 2022); Federal Statistical Office: Press release no. 037 (30 January 2023)

Market Expectations⁸

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

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

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

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

Financial Outlook

The Telefónica Deutschland Group expects for financial year 2023 low single-digit percentage year-on-year growth for revenues and OIBDA adjusted for exceptional effects. Following the successful completion of the ‘Investment for Growth’ programme in 2022, Telefónica Deutschland Group expects CapEx/Sales ratio to normalise at around 14% in financial year 2023.

Management summary

On the basis of the bond emissions issued the management of TDF considers the overall business development to be favourable and does not expect any significant changes for the financial year 2023 in the net assets, financial position and results of operations compared to 2022.

⁸ Sources: Digital association Bitkom: Press release “Majority of Germans see digitalisation as an opportunity” (21 June 2022); German Federal Ministry of Education and Research (BMBF): Digitalisation and sustainability; Initiative D21: Web Congress Digital Society 2022 “#D21TALK – Rethinking Digitalisation and Sustainability” (23 February 2022); PwC: German Entertainment and Media Outlook (GEMO) 2022-2026 (1 August 2022); Analysys Mason: Hub survey “Western European telecoms market: trends and forecasts 2021–2026” (10 November 2022); Digital association Bitkom, Study “The Future of Consumer Technology 2022” (25 August 2022); German government: Announcement on the “Gigabit Strategy” (17 March 2022); Deutsche Telekom press release: “Telekom’s fibre rollout” (14 March 2022); Telefónica Deutschland press release: “Smart marketing partnership with Unsere Grüne Glasfaser (UGG)” (2 March 2021)

Munich, 17 March 2023

O2 Telefónica Deutschland Finanzierungs GmbH

- Management -

Markus Haas

Markus Rolle

Albert Graf

O2 Telefónica Deutschland Finanzierungs GmbH

Munich

Statement of Financial Position as of 31 December 2022

Assets	31.12.2022 EUR	31.12.2021 EUR	Equity and liabilities	31.12.2022 EUR	31.12.2021 EUR
A. Fixed assets			A. Equity		
Financial assets			I. Subscribed capital	25.000,00	25.000,00
Loans to affiliated companies	600.000.000,00	600.000.000,00	II. Capital reserve	150.000,00	150.000,00
	600.000.000,00	600.000.000,00		175.000,00	175.000,00
B. Current assets			B. Provisions		
Receivables and other assets			Other provisions	34.679,02	36.127,00
1. Receivables from affiliated companies	5.362.904,27	5.360.442,06		34.679,02	36.127,00
2. Other assets	166,00	0,00	C. Liabilities		
	5.363.070,27	5.360.442,06	1. Bonds	600.000.000,00	600.000.000,00
C. Prepaid expenses			thereof with a remaining term of more than 1 year EUR 600,000,000.00 (previous year EUR 600,000.00)		
	797.142,78	1.115.999,94	2. Trade payables	2.651,20	0,00
			thereof with a remaining term of less than 1 year EUR 2,651.20 (previous year EUR 0,00)		
			3. Liabilities to affiliated companies	1.425,00	0,00
			thereof with a remaining term of less than 1 year EUR 1,425.00 (previous year EUR 0.00)		
			4. Other liabilities	5.149.315,05	5.149.315,06
			thereof with a remaining term of less than 1 year EUR 5,149,315.05 (previous year EUR 5,149,315.06)		
				605.153.391,25	605.149.315,06
			D. Deferred income		
				797.142,78	1.115.999,94
Total assets	606.160.213,05	606.476.442,00	Total equity and liabilities	606.160.213,05	606.476.442,00

O2 Telefónica Deutschland Finanzierungs GmbH

Munich

Income Statement

for the Reporting Period from 1 January 2022 to 31 December 2022

	01.01.2022 - 31.12.2022	01.01.2021 - 31.12.2021
	EUR	EUR
1. Other operating income	158.250,94	69.249,23
2. Other operating expenses	-158.454,83	-69.249,23
3. Income from financial assets - loans	10.499.999,99	11.786.458,32
thereof from affiliated companies EUR 10.499.999,99 (previous year: EUR 11,786.458.32)		
4. Other interest and similar income	319.061,05	396.357,21
thereof from affiliated companies EUR 319.061,05 (previous year EUR 396,357.21)		
5. Interest and similar expenses	-10.818.857,15	-12.182.815,53
6. Profit/(loss) after tax	0,00	0,00
7. Income from loss transfer / profit transferred due to a profit and loss transfer agreement	0,00	0,00
8. Profit/(loss) for the period	0,00	0,00

O2 Telefónica Deutschland Finanzierungs GmbH

Munich

Statement of Changes in Equity
for the Reporting Period from 1 January 2022 to 31 December 2022

	Subscribed capital	Capital reserve	Profit/(loss) for the period	Equity
	EUR	EUR	EUR	EUR
As of 1 January 2022	25.000,00	150.000,00	0,00	175.000,00
As of 31 December 2022	25.000,00	150.000,00	0,00	175.000,00
As of 1 January 2021	25.000,00	150.000,00	0,00	175.000,00
As of 31 December 2021	25.000,00	150.000,00	0,00	175.000,00

Statement of Cash Flows

for the Reporting Period from 1 January 2022 to 31 December 2022

	01.01.2022- 31.12.2022 EUR	01.01.2021- 31.12.2021 EUR
1. Cash flow from operating activities		
Profit/(loss) after tax	0,00	0,00
Increase (+)/decrease (-) in provisions	-1.447,98	2.836,75
Increase (-)/decrease (+) in receivables from affiliated companies and other assets	234.049,53	10.965.215,78
Increase (+)/decrease (-) in other liabilities and other equity and liabilities	-314.780,97	-10.985.110,44
Cash flow from operating activities	-82.179,42	-17.057,91
2. Cash flow from investing activities		
Proceeds (+) from disposal of long-term financial assets	0,00	500.000.000,00
Interest received (+)	10.500.000,00	22.375.000,00
Cash flow from investing activities	10.500.000,00	522.375.000,00
3. Cash flow from financing activities		
Cash repayments (-) of bonds and borrowings	0,00	-500.000.000,00
Interest paid (-)	-10.500.000,00	-22.375.000,00
Cash flow from financing activities	-10.500.000,00	-522.375.000,00
4. Cash and cash equivalents at the end of the period		
Net change in cash and cash equivalents	-82.179,42	-17.057,91
Cash and cash equivalents at the beginning of the period	146.064,81	163.122,72
Cash and cash equivalents at the end of the period	63.885,39	146.064,81
5. Composition of cash and cash equivalents		
Cash equivalents	63.885,39	146.064,81
Cash and cash equivalents at the end of the period	63.885,39	146.064,81

O2 Telefónica
Deutschland
Finanzierungs
GmbH,
Munich

Notes to the Financial Statements for the Financial Year 2022

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 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. This was repaid as scheduled on 10 February 2021.

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 net proceeds from each bond were directly passed from TDF to Telefónica Germany GmbH & Co. OHG, Munich (hereinafter also “OHG”). In the reporting period, OHG repaid the intercompany loan to the Company in the amount of EUR 500,000 thousand.

The annual financial statements of TDF for the financial year 2022 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 2022, 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 2022 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

Financial assets are generally recognised at nominal value or - if the impairment is expected to be permanent - at the lower fair value.

3. Current assets

The receivables and other assets 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.

9. Other operating income

Other operating income includes recharging of costs to Telefónica Germany GmbH & Co. OHG, Munich according to the agreement.

10. Income from financial assets - loans

Income from loans from financial assets includes interest income from the loans granted by Telefónica Germany GmbH & Co. OHG, Munich.

11. Interest and similar expenses

Interest and similar expenses mainly comprise interest expenses from bonds.

III. NOTES TO THE BALANCE SHEET

1. Financial assets

The financial assets as of 31 December 2022 consist of one loan in the amount of EUR 600,000 thousand, granted by TDF to its shareholder Telefónica Germany GmbH & Co. OHG, Munich. The terms of the loan correspond to the terms of the underlying seven-year bond which TDF issued on 5 July 2018. The loan has fixed terms until the date of maturity of the underlying bond on 5 July 2025 and is repayable in one amount on the due date, including all interest and costs which have not yet been paid. The underlying interest rates is 1.750 % and is payable annually on 5 July. The loan in the amount of EUR 600,000 thousand continues to be reported under fixed assets as of 31 December 2022 due to the unchanged character.

Statements of Changes in Financial Assets for the Reporting Period from 1 January to 31 December 2022

	Acquisition costs				Accumulated depreciations				Carrying amounts	
	01.01.2022 EUR	Additions EUR	Disposals EUR	31.12.2022 EUR	01.01.2022 EUR	Additions EUR	Disposals EUR	31.12.2022 EUR	31.12.2021 EUR	31.12.2021 EUR
Financial Assets										
Loans to affiliated companies	600,000,000.00	0.00	0.00	600,000,000.00	0.00	0.00	0.00	0.00	600,000,000.00	600,000,000.00
	600,000,000.00	0.00	0.00	600,000,000.00	0.00	0.00	0.00	0.00	600,000,000.00	600,000,000.00

2. Receivables from affiliated companies

The receivables from affiliated companies amount to EUR 5,363 thousand (previous year: EUR 5,360 thousand), of which EUR 5,299 thousand (previous year: EUR 5,211 thousand) relates to receivables from the shareholder Telefónica Germany GmbH & Co. OHG, Munich. These comprise interest from loan issued to the shareholder in the amount of EUR 5,149 thousand (previous year: EUR 5,149 thousand).

Furthermore, EUR 64 thousand (previous year: EUR 146 thousand) are included in receivables from affiliated companies which represent receivables from Telfisa Global B.V., Amsterdam, Netherlands from the cash pooling. The maturity of these receivables is less than one year.

3. Prepaid expenses

This item includes mainly the amortised disgios of EUR 797 thousand (previous year: EUR 1,116 thousand) from the issuance of the seven-year bond in July 2018. The prepaid expenses will be released over the terms of the underlying bond on a straight-line basis until 5 July 2025.

4. Equity

The subscribed capital remains unchanged, amounts to EUR 25 thousand and is fully paid. It is held entirely by Telefónica Germany GmbH & Co. OHG, Munich. The capital reserve consists of a contribution to the capital reserve of EUR 150 thousand according to section 272 (2) no. 4 HGB made by the shareholder.

5. Bonds

The category Bonds includes one bond with a nominal value of EUR 600,000 thousand (previous year: 600,000 thousand). The bond is guaranteed by Telefónica Deutschland Holding AG, Munich.

6. Other liabilities

The other liabilities include short-term interest payables in relation to the bond in the amount of EUR 5,149 thousand (previous year: EUR 5,149 thousand).

7. Deferred income

Deferred income results from the differences between the nominal value of the underlying loan and the amount paid out to Telefónica Germany GmbH & Co. OHG, Munich. The deferred income is released on a straight-line basis over the term of the underlying seven-year loan.

IV. NOTES TO THE INCOME STATEMENT

Financial result

Income from financial assets – loans in the amount of EUR 10,500 thousand (previous year: EUR 11,786 thousand) result from interest income from the existing loan at the end of the reporting period.

The previous year included interest income from the loan existing at the end of the reporting period as well as interest income from a loan until the scheduled repayment of a loan on 10 February 2021 from Telefónica Germany GmbH & Co. OHG, Munich.

Interest and similar expenses in the amount of EUR 10,819 thousand (previous year: EUR 12,183 thousand) include mainly interest expense in the amount of EUR 10,500 thousand (previous year: EUR 11,786 thousand) from the bond existing at the end of the reporting period. The previous year included interest expenses from the bond existing at the end of the reporting period and from interest expenses until the scheduled repayment of a bond on 10 February 2021.

V. ADDITIONAL DISCLOSURES

In 2022, the war in Ukraine had a strong negative impact on the global economy. However, the Ukraine crisis did not have a significant impact on the company's net assets, financial position and results of operations.

The further development of the war and its impact on TDF are constantly monitored, analysed and evaluated by the management team since the beginning of the war.

Neither the COVID-19 pandemic nor climate change had a significant impact on TDF's financial figures.

Additional disclosures to the cash flow statement

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 2022 and in 2021 the Company had no employees.

Management

The Managing Directors in the financial year were:

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

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

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

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

Audit committee

By shareholder resolution of 28 April 2014 an audit committee for TDF was set up in accordance with section 324 HGB, comprising the following members as at 31 December 2022:

Dieter, Gauglitz
Chairman
German public auditor
Resident in Munich

Eckart, Kurze
Board member
Director Organisational 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

By shareholder resolution of 20 December 2022, the following members of the Audit Committee were elected with effect from 01 January 2023:

Dieter, Gauglitz
Chairman
German public auditor
Resident in Munich

Eckart, Kurze
Board member
Director Organisational Efficiency; Telefónica Germany GmbH & Co. OHG, Munich
Resident in Munich

Julia Müller-Schlereth
Board member
Group Head Treasury & Finance, MeinAuto Management GmbH
Resident in Munich

The term of office of the members of the Audit Committee amounts to four financial years (until 31 December 2026).

Remuneration of governing bodies

The members of the Audit Committee received a total remuneration of EUR 15 thousand (previous year: EUR 15 thousand) for their work in 2022.

By shareholder resolution of 20 December 2022, the remuneration for the members of the Audit Committee was adjusted. The remuneration as of 01 January 2023 amounts to TEUR 21.

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 reporting period 31 December 2022 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 Company Register and are available there and at the 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.

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, 17 March 2023

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 for financial reporting and with generally accepted accounting principles, the 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 entity, together with a description of the material opportunities and risks associated with the expected development of the entity for the remaining months of the financial year.

Munich, 17 March 2023

O2 Telefónica Deutschland Finanzierungs GmbH

- Management -

Managing Director
Markus Haas

Managing Director
Markus Rolle

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 31 December 2022, the statement of profit and loss, statement of changes in equity and cash flow statement for the financial year from 1 January to 31 December 2022 and notes to the financial statements, including the presentation of the recognition and measurement policies. In addition, we have audited the management report of O2 Telefónica Deutschland Finanzierungs GmbH for the financial year from 1 January to 31 December 2022.

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

- the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law and give a true and fair view of the assets, liabilities and financial position of the Company as at 31 December 2022 and of its financial performance for the financial year from 1 January to 31 December 2022 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 the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Management Report" section of our auditor's report. We are independent of the Company in accordance with the requirements of European law and German commercial and professional law,

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

Key Audit Matters in the Audit of the Annual Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual financial statements for the financial year from 1 January to 31 December 2022. 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

- ① In the Company's annual financial statements, loans to affiliated companies amounting to € 600 million (99 % of total assets) are reported under the "Financial assets" balance sheet item. This relates to the loan granted to the sole shareholder Telefónica Germany GmbH & Co. OHG, Munich, with a nominal value of € 600 million that is due for repayment in July 2025. The conditions and the amount of the loan correspond to the underlying seven-year bond, which is reported on the liabilities side under the balance sheet item "Bonds" in the amount of € 600 million (99 % of total assets). Loans to affiliated companies are measured in accordance with German commercial law based on the acquisition cost or, provided there are indications for an impairment, based on the lower fair value. Indications for an impairment 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 significance in terms of the amount for the assets, liabilities and financial performance 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 an impairment of 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 examined 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 with respect to revenue and operating income before depreciation and amortization (OIBDA), 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 performed, we were able to satisfy ourselves that the information underlying the measurement 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 an appropriate 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 (i.e., fraudulent financial reporting and misappropriation of assets) 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, 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 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 23 November 2022. We were engaged by the audit committee on 9 January 2023. We have been the auditor of the O2 Telefónica Deutschland Finanzierungs GmbH, 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).

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Holger Lutz.

Munich, March 17, 2023

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

(sgd. Holger Lutz)
Wirtschaftsprüfer
(German Public Auditor)

(sgd. ppa. Annika Sicking)
Wirtschaftsprüfer
(German Public Auditor)