Telefónica

Combined Separate Non-Financial Report

Telefónica Deutschland Holding AG
for the reporting year 2021

Contents

Combined Separate Non-Financial Report
S. 03–41

About this report

Telefónica Deutschland Holding AG has prepared the Combined Separate Non-Financial Report for the Telefónica Deutschland Group for the financial year 2021 in accordance with Section 315b, c of the German Commercial Code (HGB) in conjunction with Section 289b–e HGB. This report will be published on the website www.telefonica.de/nfs on 2 March 2022.

The Non-Financial Report was audited by the external audit firm PricewaterhouseCoopers GmbH in accordance with the ISAE 3000 (Revised) standard with limited assurance.

In preparing the Non-Financial Report, we based our descriptions of the concepts and presentation of the various key performance indicators (KPIs) in particular on the GRI Standards. We use this non-financial report to comply with our regulatory information and reporting obligations under REGULATION (EU) 2020/852 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 18 June 2020 on establishing a framework to facilitate sustainable investment and amending Regulation (EU) 2019/2088 (hereafter EU Taxonomy Regulation).

References to disclosures made outside of the Combined Management Report relate to supplementary information and do not constitute part of the Combined Separate Non-Financial Report. For comprehensive sustainability reporting, please see our Corporate Responsibility Report, which will be available at www.telefonica.de/responsibility from May 2022. This sustainability report is prepared in accordance with the GRI Standards ("Comprehensive" option) and in orientation to the Sustainability Accounting Standards Board (SASB) frameworks and the specifications of the Task Force on Climate-related Financial Disclosures (TCFD).

Business activities of the Telefónica Deutschland Group

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

In the mobile sector, we serve the demand for mobile services as a consequence of the digitalisation of ever more areas of life. With a total of 45.7 million mobile connections as of 31 December 2021 we are a leading provider in this market. In 2021, at EUR 5,492 million, mobile services were the most important revenue stream for the Telefónica Deutschland Group (70.7 % of the total volume). In this area, we offer private and business customers mobile voice and data services both on a contractual basis (postpaid) and in the prepaid segment. The basis for this is our mobile communications network. We offer nationwide fixed services to complement our mobile services. Our fixed line network customer base amounted to approximately 2.3 million at the 2021 year end. We belong to the Telefónica, S.A. Group, one of the world's largest telecommunications companies.

The Telefónica Deutschland Group's business model is described in detail in the "Basic information on the Group" section of the Combined Management Report 2021.

Determination of the material non-financial topics and risks

Process of preparing the Non-Financial Report

To prepare the 2021 Non-Financial Report, we analysed and evaluated sustainability issues in terms of the requirements pursuant to Section 289c HGB. The Telefónica Deutschland Group's CR strategy is managed within the organisation via the Responsible Business Plan (RBP) 2025 and aims to achieve various sustainability targets. The RBP 2025 was developed on the basis of a materiality analysis we conducted in 2020; here, a structured method was used to identify seven areas of action and 24 potentially material topics for the Telefónica Deutschland Group and then assign them to a materiality matrix.

In the process, the impact of the business activities, the short-term business relevance to the Telefónica Deutschland Group and the stakeholder relevance were ascertained. For this, we drew on quantitative customer and employee surveys, qualitative expert interviews with customers, suppliers, NGO representatives, analysts, investors and association representatives, workshops with senior management and company-, market- and sector-specific studies.

Impact analysis and examination of short-term business relevance

We performed an impact analysis in 2021 in order to update the materiality analysis. Based on this, we identified the material topics upon which the Telefónica Deutschland Group has a significant influence. In addition to the impact analysis, we used set evaluation aspects to determine the relevance to business of the topics. The results of the 2020 materiality analysis were reconfirmed. The resultant material topics were then presented to the Management Board and Supervisory Board. The Management Board approved the material topics.

Results of the materiality analysis

Based on the analysis, a total of ten topics were identified as being material, and these were assigned to six overarching sustainability aspects for the purposes of better readability:

Governance matters including the topic of governance for responsible corporate management

Customer matters, featuring the following topics:

Customer relations, product and service experience

Network quality and coverage

Matters regarding data protection and information security, featuring topics bearing the same names

Anti-corruption, anti-bribery, featuring the topic of compliance and conflicts of interest

Employee matters, featuring the following topics:

Labour management relations

Diversity, equal opportunity and non-discrimination

Training and professional development as well as lifelong learning

Employee health and safety

Environmental matters with the topic of energy and CO_2

The other topics stated which go above and beyond the aspects listed in Section 289c HGB are highly relevant to the business of the Telefónica Deutschland Group. Likewise, the company's activities have relevant impacts on these topics.

We again rated the aspect of human rights as not material within the meaning of Section 289c HGB as its business relevance remained below our threshold for this financial year in the analysis. We nevertheless consider the topic of human rights to be a fundamentally important topic and we recognise its general sociopolitical relevance, including with regard to the Supply Chain Due Diligence Act (LkSG), which will be applicable to the Telefónica Deutschland Group as of 2023. Human rights aspects are also managed and additionally guaranteed within our material topics, by means of our sustainable supply chain management and by our human rights committee. We report in detail on our due diligence obligations and measures in relation to this aspect in our CR Report and online at www.telefonica.de/human-rights.

Determination of the material non-financial risks
The analysis of the business relevance of the identified non-financial topics was followed by an assessment of the risk scenarios in terms of their probability of occurrence and their potential to have a detrimental impact. In line with the criteria of established risk management, we performed a net assessment of the risks. A detailed description of the processes can be found in the "Risk and opportunity management" section of the 2021 Combined Management Report.

Based on the probability of occurrence already determined, a conservative approach was adopted in which risks were considered with a probability of occurrence deemed to be "likely" or "highly likely". The potential for the risks to have a detrimental impact on the relevant aspects was determined on the basis of the criteria relating to the severity of the impacts on an aspect, the number of people actually or potentially affected and the possibility of restoring the original condition before the impact occurred. In this risk assessment, we identified the potential for a material risk pursuant to Section 289c HGB in the area of customer matters, which we are counteracting with comprehensive measures (see chapter "Customer matters").

Governance for responsible corporate management

BASIC PRINCIPLE AND CHALLENGES
Governance for responsible corporate management secures sustainable value creation

"We democratise access to a sustainable digital future to make day-to-day life better for everyone." This is the Telefónica Deutschland Group's business purpose and this therefore guides our actions. In the interests of governance for responsible corporate management, we keep an eye on the impacts that all of our business activities have on people and the environment. We guarantee this all along the value chain and at all the company levels. We aim to use technological innovations to solve societal challenges and promote sustainable development.

The Telefónica Deutschland Group's Business Principles serve as the basis of our actions. They document our understanding of governance for responsible corporate management on the basis of ethical principles, corporate standards and behaviour patterns. These are derived from the three fundamental values of integrity, reliability and transparency and serve as a binding code of conduct that sets benchmarks for our involvement in business life. The Business Principles are directed at the employees, business partners, shareholders and the company as a whole. To reinforce the earnestness of our approach, all the staff including the Management Board are given regular mandatory training in observance of the Business Principles.

The Management Board and Supervisory Board of Telefónica Deutschland Holding AG additionally feel they have an obligation to observe the principles of transparent corporate governance and regularly concern themselves with the requirements of the German Corporate Governance Code. This code stipulates standards for the supervision and management of listed companies. The Management Board runs the company on its own responsibility and in the interests of the company with the aim of achieving sustainable value creation. It is supervised in this and offered advice by the Supervisory Board. All measures and decisions of fundamental significance to the company are executed on the basis of close consultation between the Management Board and the Supervisory Board. The Management Board and Supervisory Board provide information about our corporate governance in Telefónica Deutschland Holding AG's Management Declaration, which includes the declaration of compliance with the German Corporate Governance Code, which must be submitted annually.

The reporting and due diligence obligations for companies are subject to ongoing changes, for example in relation to the European Union's Green Deal and supply chain sustainability (cf. Germany's Supply Chain Due Diligence Act (LkSG)). We are preparing for the additional requirements with various measures.

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Governance	Unit	**2021**	2020	2019
Proportion of employees and directors given training in the Business Principles and human rights[1]	%	**97.7**	95.8	96.8

[1] Proportion based on the number of employees of Telefónica Germany GmbH & Co. OHG including the subsidiaries, excluding employees on sabbatical and external consultants (employee base 7,030, previous year 7,717). The calculation includes the completed training units of the last three years. For 2021 this means 6,870 completed training units from 1 January 2019 to 31 December 2021.

PROCESSES AND MANAGEMENT
Clear governance structures and requirements

Our CR strategy is approved by the Management Board, is an integral part of the Telefónica Deutschland Group's corporate strategy and takes into account the global sustainability strategy of the Telefónica, S.A. Group. We have established clear governance structures and processes in order to put the guiding principles and requirements into day-to-day practice. The Responsible Business Plan is the key tool when it comes to our sustainability management, which is the responsibility of the Corporate Responsibility & Sustainability (CR&S) department. Its serves as the framework for the sustainability targets and activities of the departments and company sites. A more specific evaluation of our progress can be found in the CR Report 2021.
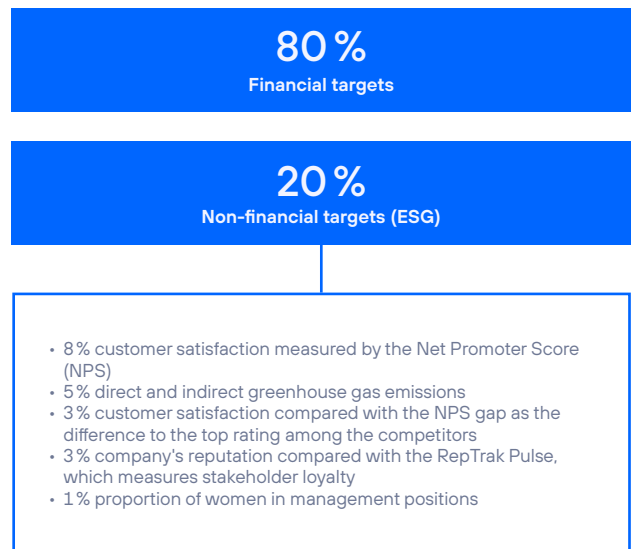
The CR&S department is responsible for managing the sustainability activities of all the departments and company sites. It monitors achievement of the CR goals and plans new measures together with the departments. The CR&S department also draws on the management systems embedded in the company which are in accordance with the standards ISO 50001 (energy management), ISO 14001 (environmental management) and ISO 9001 (quality management) for the purposes of goal formulation and a continuous improvement process.

As an executive department, the CR&S department is assigned to the Management Board division Legal and Corporate Affairs of Telefónica Deutschland Holding AG and reports directly to the Management Board member responsible for Legal and Corporate Affairs. The Supervisory Board is integrated into the creation of the Non-Financial Report for the fulfilment of the requirements pursuant to Section 315b in conjunction with Section 289b HGB. The Supervisory Board discusses the findings of the audit of the Non-Financial Report and the related performance indicators with the auditor and then passes a resolution following its own audit.

We use management bonuses as an incentive for the achievement of company targets. Since 2019 the Telefónica Deutschland Group has intentionally linked bonus payments for the Management Board and executives to the company's performance with regard to its sustainability targets. In addition to financial performance indicators, which have a weighting of 80%, there are other non-financial criteria with a weighting of 20%. The latter include boosting customer satisfaction, strengthening our reputation, reducing CO_2 emissions and increasing the percentage of women in management positions.

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Variable remuneration is linked to sustainability targets:

80%
Financial targets

20%
Non-financial targets (ESG)

- 8% customer satisfaction measured by the Net Promoter Score (NPS)
- 5% direct and indirect greenhouse gas emissions
- 3% customer satisfaction compared with the NPS gap as the difference to the top rating among the competitors
- 3% company's reputation compared with the RepTrak Pulse, which measures stakeholder loyalty
- 1% proportion of women in management positions

The bonus arrangements regarding the Telefónica Deutschland Group's targets for the financial year 2021 are the same as the previous year's performance indicators, although reducing CO_2 emissions has been afforded a greater weighting. The objective is to further embed our responsibility as a member of society and as an employer firmly in our corporate goals. Specifically, the following criteria are included:

- The Net Promoter Score (NPS) measures our customers' willingness to recommend their service provider. This makes up 8% of the bonus.
- We calculate the company's reduction in direct and indirect greenhouse gas emissions using the Greenhouse Gas Protocol. This represents 5% of the bonus.
- The NPS gap measures the difference between our NPS and that of the top competitor. This accounts for 3% of the bonus.
- The RepTrak Pulse measures the company's reputation on the basis of an algorithm developed especially. It makes up 3% of the bonus.
- The proportion of women in top management positions (appointment to senior management) serves as the performance indicator for gender equality. It accounts for 1% of the bonus.

To promote a joint focus on the targets set, we brought the target and bonus system for employees who are eligible for bonuses into line with the more flexible model for senior management and the Management Board. This means that since 2020 all the employees who are eligible for bonuses have had the same targets, weightings and payout curves in relation to the Telefónica Deutschland Group's corporate goals.

STRATEGIC PRIORITIES
CR policies provide framework for action

Our own policies in the form of guidelines, standards and procedural instructions have a key role to play in CR management. These apply fundamental environmental, social and compliance-related standards to our processes, specify the requirements we have of our stakeholders and serve as a tool of voluntary commitment and control.

Evaluating political and societal requirements
Close interaction with the relevant external and internal stakeholders is especially important to the Telefónica Deutschland Group and contributes to the global Sustainable Development Goals (SDGs). The CR&S department maintains intensive and continuous dialogue with these stakeholders in order to understand what is expected of the company and identify important topics and trends in good time. The CR&S department regularly maintains direct contact with the individual departments and, furthermore, engages in dialogue in the context of internal steering bodies such as the CR committee, the environment and energy committee, the data protection forum and the human rights committee. Here, the general strategies are discussed, progress is established and projects and measures are evaluated. In addition, issues brought to the attention of the CR&S department are analysed by senior management within the framework of strategy workshops. The results are reported to the Management Board. When it comes to overarching specialist and Group-wide issues relevant to sustainability, the Telefónica Deutschland Group confers with the Telefónica, S.A. Group.

Using performance indicators to gauge target attainment
Our actions were guided in 2021 by clear commitments to each of the areas of action and topics of the Responsible Business Plan 2025 as the key tool when it came to our sustainability management. These commitments can only be altered through a Management Board decision in justified exceptional cases. Concrete CR targets for the commitments are established together with the departments annually and cleared by the Telefónica Deutschland Group Management Board, the highest management level. The targets are integrated into the management processes and are made quantifiable via meaningful key performance indicators (KPIs). The extent to which the CR targets have been attained is regularly reviewed together with the senior management of the departments involved. The target attainment level is also reviewed and tracked by the Management Board every six months.

Our sustainability management, which covers the criteria in the areas of the environment, social and governance (ESG), has been an integral part of our corporate strategy since 2005. We actively manage our ESG performance via regular analyses, from which we then derive optimisations and measures. For example, we organised our first virtual ESG roadshow in 2021 to explain our strategy to investors. We are increasingly achieving good to very good assessments in the ESG ratings that are most important to us (Sustainalytics, MSCI, ISS-oekom). The inclusion (of Telefónica, S.A./the Group) once again in relevant indices such as the Bloomberg Gender-Equality Index, the Dow Jones Sustainability Index (DJSI) and the CDP's climate change A List likewise reflects our strong performance.

Material non-financial topics

Customer matters

We aspire to offering our private and business customers the services that best suit their specific needs within the best network. We therefore continuously optimise the product and service experience and invest in our telecommunication network's quality and coverage.

Product and service experience

BASIC PRINCIPLE AND CHALLENGES
The focus is on the customer

Advancing digitalisation is changing all areas of our lives. The spheres of politics and business consider it their responsibility to shape this development advantageously for people. One core promise is that digitalisation will lead to further growth, general prosperity and social justice as well as sustainability. As a provider of digital telecommunications, we are at the heart of this development technologically and with the services we provide to the customers.

Our company operates in a market environment which remains rational and at the same time dynamic and was able to stand its ground in 2021 as well as record solid customer development. In an environment characterised by momentous technical change, we face the challenge of meeting technical and regulatory requirements, anticipating the customers' wishes as best we can and offering them guidance and assistance in an increasingly complex product world. We therefore aspire to enabling everyone to participate in digital life in order that they can sustainably shape their futures. At the same time, we aim to narrow the digital gap between different user groups which is caused by social and education-based disadvantages. In this regard, offering our customers transparency at all times regarding how their data is used and allowing them to determine themselves how it is used are top priorities for us.

The COVID-19 pandemic and the changed life situations of many customers resulted in an increased need for service and sales advice in the reporting year. For one thing, online sales increased enormously and a different combination of advice channels evolved due to shops being closed and the service hotlines therefore being used more heavily. We also recorded an increase in demand for advice regarding fixed line network topics, as many customers were working from home. To be able to offer our customers optimum customer care during the crisis too, we contracted additional support from our outsourcing partners for this phase. In addition, shop staff helped out with the hotline service while the shops were closed during lockdown.

Another impact of the ongoing pandemic was supply bottlenecks, which presented us with challenges regarding hardware, router and chip procurement. In addition to the COVID-19 pandemic, we faced the challenge in Germany of the floods which occurred in summer 2021. Via a separate O_2 hotline, we offered customers who were affected by the flood disaster support with questions and problems regarding products and ongoing orders. In this way, they were given swift assistance by being prioritised there and experiencing shorter waiting times. We also granted all the contract and prepaid customers living in the affected areas additional data volume at short notice immediately after the flood disaster.

We aspire to seeing the world through the eyes of our customers and offering them an excellent service experience at all times that suits their habits and individual needs. In addition to sales and service quality, the key factors when it comes to our customers' satisfaction are in particular value-for-money innovative products and tariffs, transparent product labelling and a strong brand. We consider dealing with customers fairly and with respect to be self-evident. As well as the personal contact channels, our customers have a large number of self-service offerings at their disposal, meaning they are free to choose their preferred channel. We aim to further improve the online customer experience by further expanding our attractive and simple self-service offerings.

We are also anticipating an increase in demand for customer service advice following the entry into force of the new Telecommunications Act (TKG) on 1 December 2021 as this involves stricter information obligations before a contract is concluded as well as new contract summary requirements. We thoroughly prepared for this situation change in advance by contracting additional support from partners, training the agents and adapting processes.

The product and service experience was confirmed as a material sustainability topic in the course of this year's validation of the materiality analysis. The decisive factors were, on the one hand, the diverse impacts of our activities all along the value chain. The focus here is on facilitating broad and straightforward participation in digital life for our customers and promoting sustainable consumer behaviour on the basis of information, education and an appropriate product and service portfolio, from the purchasing of mobile phones through to recycling. On the other hand, a high level of customer satisfaction is one of the key success factors when it comes to our company's core business and is something we continuously seek to strengthen with our array of services.

PROCESSES AND MANAGEMENT
Transparently gauging customer satisfaction

The Chief Consumer Officer (CCO) and the Chief Partner and Wholesale Officer (CPWO) of Telefónica Deutschland Holding AG bear overall responsibility for the area of customer satisfaction. The CCO is responsible for private customer business with a clear focus on the customer experience, the CPWO has responsibility for business with partners, and the Chief Executive Officer (CEO) is in charge of the B2B division. Central management of customer satisfaction and detailed analysis of this based on customer surveys are firmly embedded in the company with the Consumer Experience department within the Customer Marketing directorate.

The Telefónica Deutschland Group pursues target-group-specific product and service strategies, for example for people with a migrant background, older or younger people, the self-employed, SMEs or major enterprises. This targeted customer segmentation is achieved among other things thanks to the Telefónica Deutschland Group's successful partner strategy. Partner brands such as ALDI TALK, Tchibo MOBIL and NettoKOM allow for targeted market entry in the discount segment and brands such as AY YILDIZ and Ortel do the same in the segment targeting ethnic groups. The business customer strategy focuses on the expansion of digital services relating to 5G, the Internet of Things (IoT), the cloud and security in order to generate added value for companies and assist them with their digitalisation by providing connectivity solutions.

Insofar as is permitted by data privacy legislation, we measure customer satisfaction at the brand level at all the direct and indirect customer touchpoints. We hope to derive relevant knowledge and measures from this in order to improve customer satisfaction further. The key performance indicators we use are the Net Promoter Score (NPS) as an important control parameter in the area of customer relations and churn rate of the O_2 brand (O_2 Consumer Postpaid).

The NPS verifies customer willingness to recommend the O_2, Blau, Tchibo MOBIL and ALDI TALK brands. It reflects the overall satisfaction with the brands as well as with their products and services. The scale ranges from 1, very low customer satisfaction, to 10, very high customer satisfaction. The NPS is determined though a telephone survey of our company's private customers and of our competitors' customers; this is conducted externally. Market research is the responsibility of the Director of the Digital & Data Competence Center (DDC) within the Finance division.

The survey is conducted several times a year according to precisely defined criteria. All NPS improvement measures have the aim of optimising the customer experience. With regard to a good customer experience, it is also important to us that we identify the difference between the customers' wishes and their perception of the service, assess the customers' overall satisfaction levels, determine whether their expectations are being met and gauge the gap when measured against a fictional ideal service provider. This is also reflected in the churn rates, which remained at historic lows, with the implied annualised churn rate for the O_2 brand improving to 11.1 % compared to 13.1 % in 2020.

The monthly postpaid churn rate improved by 0.2 percentage points to 1.2 %. The churn for the O_2 brand (O_2 consumer postpaid) was at an even lower level, improving by 0.2 percentage points year-on-year to 0.9 %[1]. This is testament to our measures to increase customer satisfaction, sustainable

[1] From this reporting year onwards, we will report the churn rate of the O_2 brand (O_2 consumer postpaid), which is more relevant for the essential topic of customer satisfaction.

quality improvements in products and services, and an O_2 network customer experience that has been awarded several distinctions.

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Customer loyalty: Churn rate of the O_2 brand[1]

	Unit	2021	2020	2019
O_2 consumer postpaid	%	0.9	1.1	1.3

[1] From this reporting year onwards, we will report the churn rate of the O_2 brand (O_2 consumer postpaid), which is more relevant for the essential topic of customer satisfaction.

STRATEGIC PRIORITIES
Clear customer service guidelines

We have developed clear customer service guidelines in line with our strategy to give our employees guidance in their customer contact and service. We defined seven strategic principles for the form to be taken by our customer and sales services in the areas of Omnichannel (OC) and Customer Sales & Services (CSS). The focus is on the customer at all times. The principles are defined more precisely with dialogue guidelines for customer contact, a quality handbook, the Internal Audit Score (IAS), quality assurance programmes and various training measures. The roles of the various contact channels were likewise reviewed, and targets and measures to boost customer satisfaction were derived. We intend to continue to ensure that the customers can reach us using their preferred channel in the future too.

Using feedback for improvements
In order to keep customer satisfaction high, the Telefónica Deutschland Group responds to incoming queries as quickly as possible and according to defined workflows. We use the feedback we receive from our customers and employees in a continuous improvement process to optimise our procedures and therefore the customer experience too. With our customers' consent, we use among other things automated speech analysis for incoming telephone calls in order to evaluate the reasons for the calls and the wishes of customers faster and to record them systematically. Our employees can also directly make a record of improvement suggestions and customer wishes that arise in dialogue with the customers and then pass these on and implement them as part of the continuous improvement process.

Through the speech analysis, examining our customers' feedback very carefully and regular employee feedback from the operating units, conspicuous fluctuations in contact reasons or voiced customer problems are reported and we use these to derive concrete improvement measures. These are analysed and implemented as promptly as possible as part of the continuous improvement process. The chosen topics are respectively assigned to a person responsible and the progress made with them is tracked via weekly documentation. The speech analysis is anonymised in order to comply with data privacy regulations.

We have set ourselves ambitious targets in the area of customer satisfaction: we want to offer excellent customer service with a high level of customer satisfaction. We evaluate the status of our target attainment on the basis of internal performance indicators taken from direct customer surveys as well as from external evaluations such as the regular tests conducted by the special-interest magazine *connect*. In 2021 we achieved good ratings for our mobile communications and our fixed line network quality in the various tests. We are also continuously improving and expanding our digital offerings and aim to provide the customers with uncomplicated customer service round the clock and independent of location. Our target is for 80 % of all instances of contact with O_2 and Blau to be digital in the self-service area by the end of 2022 (2021: 76 %, 2020: 73 %).[1]

Since 2021 we have been using the Medallia program in customer service. This allows customer feedback to be analysed even more quickly and opportunities for optimising the customer experience to be derived. Customer comments related to, for example, technical problems with the website or app, the choice of tariffs for existing customers and advisory services.

The measures implemented in the reporting year to further improve customer service and satisfaction included:

- Optimisations of the speech dialogue system for callers
- Introduction of an English service hotline
- Customers voicing negative feedback are called back by a specially trained team

For the customers of our international brands Ortel and AY YILDIZ – primarily people with a migrant background or tourists – we continue to expand the digital access channels and are making simplified payment methods available which can be accessed at any time. We achieved our target of providing at least five new digital top-up methods in 2021. Since this year, Ortel and AY YILDIZ customers have also had the option of topping up their phones by means of instant transfer, credit card and PayPal. We also incorporated Ortel into the Alipay

[1] The calculation basis for this key figure has changed in 2021 due to the data protection regulation. Therefore, the volume of users without consent had to be extrapolated for the web (from January 2021) and app (from July 2021).

portfolio. We cover the topic of digital inclusion in detail in our CR Report.

We now offer our business customers a personalised service concept. Each of them has a designated customer service contact. The customers are then offered tailored service and therefore feel that they are in good hands.

We are now also putting standardised Group-wide IT systems in place that will help further improve communication with our private and business customers as well as the customer experience.

Promoting digital services

The focus of our measures planning is on improving the customer experience. That is why, in addition to optimising the quality of our customer service, we are also aiming to improve contact possibilities by pushing on with digital solutions based on our digital action plan. At the same time, we want to inspire our customers to make self-determined use of digital technologies with our products and base our communication measures on this. The Mein O_2 service portal allows for swift and intuitive access to self-service solutions. 850,000 customers make use of this each month. Thanks to the ongoing analysis of customer feedback and content optimisations, more than 90 % of the customers were able to solve their issues directly online in the reporting year. Artificial intelligence (AI) and dynamic execution on the basis of keywords make information access easier and reduce the number of click steps.

The O_2 Community is another important digital platform for O_2 customers. Within this dialogue channel, they can not only seek assistance from O_2 experts regarding their specific matters, but are also able to communicate with each other. For O_2, interaction with the users represents a major opportunity to better understand customer needs. There are now around 700,000 registered members and more than 4 million people are active on the platform every month.

Strong offerings for private customers

Sustainable growth and excellent customer satisfaction are top priorities for the Telefónica Deutschland Group. To achieve these, we offer, among other things, innovative tariffs that are designed to make our customers' lives simpler, faster and better. In the Internet@Home area, we offer O_2 my Home as a tariff which applies equally to DSL, cable, fibre optics and the mobile-communications-based O_2 HomeSpot. Across all the sales channels, customers virtually automatically receive the appropriate Internet service for their home. Under the umbrella of Internet@Home, we ceased to tie our Internet tariffs to a specific technology in the year under review. As a result, our

customers no longer need to give any thought to the optimum technology.

We successfully implemented our One Care programme. Our customers now experience business service for O_2 Mobile and DSL from a single source. The offering of technical service from a single source too is still in the process of being implemented.

All customers with a higher-end tariff can use the 5G network at no extra charge. We 5G-enabled an array of additional O_2 tariffs in 2021. 5G is already available in selected locations and the network is gradually being expanded. With the Mein O_2 app, our customers can select the contractual conditions themselves and decide on prepayments, the contract term, data volume and smartphone usage.

Since 2019 we have been making it possible for our customers to receive live TV at a good price any time both at home and when on the move. In addition to TV and O_2 Cloud, we have other products in our portfolio that go above and beyond mobile communications and fixed line networks, such as the smart financial assistant O_2 Money and O_2 Banking. With O_2 Money, we offer a finance app that gives the users an overview of their income and expenses, contracts and subscriptions. O_2 Banking customers use a fully fledged current account provided by our partner comdirect and can use our O_2 Banking app to effect banking transactions via a mobile device and make contactless payments. All the major providers of digital services now accept payment via mobile phone bill. Since mid-2021 we have also been offering payment via mobile phone bill in certain non-digital content scenarios such as bike sharing via nextbike.

With these options too, security comes first for us. By participating in programmes such as the Clean Market Initiative, a joint quality offensive involving all mobile operators, the Telefónica Deutschland Group has made a commitment to meeting the highest possible consumer protection standards at all times.

Via what we call our SIM swap interface, providers of security solutions can determine when a SIM card has been activated or swapped and can therefore identify possible incidences of fraud. This service is used by, among others, banks, fintech enterprises, social networks and authorities to protect users from identity theft and financial losses.

What is more, O_2 provides information on products and services that helps customers consider the smartphones offered from a sustainability perspective, from the purchasing decision through to recycling. With the O_2 sustainability mission

statement of "Let's Keep the Planet Blue" which we launched in 2021 we consolidated our environmentally friendly offerings, from the sustainable Fairphone and a mobile communications network run on green electricity to mobile phone recycling. We also launched our new mobile phone buyback programme in the year under review with which old devices can be sold to any O₂ shop for their current residual value – irrespective of where they were originally bought. With the industry-wide Eco Rating which was likewise newly introduced in 2021, replacing the former Eco Index, consumers can continue to determine the impact on the environment of the entire process of manufacturing, using and disposing of a smartphone.

Innovative solutions for business customers

In the B2B area, our business customers – a group comprising SMEs and major enterprises – can choose from a variety of tariff solutions that are secure, fair and reliable. We offer the self-employed and small businesses a complete product comprising high-data tariffs, top hardware, connectivity of a number of contracts and devices per contract, and comprehensive service.

In the year under review, we focused on the expansion of digital services for business customers in the areas of the IoT and cloud-based networks. For example, the two technologies narrowband IoT (NB-IoT) and long-term evolution for machines (LTE-M) were enabled in our network this year. These make a large number of IoT applications available to our customers that require a larger range, better building penetration, less energy consumption and operating costs which are as low as possible.

Also new in 2021, O₂ Business developed a digital connectivity solution for SMEs that enables them to easily interconnect their sites and make their existing infrastructures secure for the digital age. The product O₂ Business Smart Network is based on software-defined wide-area network (SD-WAN) technology. By consolidating all the communication technologies within a single network, a company's IT is made more efficient and more stable while remaining flexible.

To strengthen our business customer line of business, we set up a partnership with the Telefónica Tech Group, which specialises in digital products and services, in 2021. The technology provider is a member of the international Telefónica Group and will henceforth serve as the preferred partner for digital services and related wholesale products. Its portfolio includes services in the areas of cybersecurity, the cloud, the IoT, big data and blockchains.

The O₂ mobile phone buyback programme allows business customers to erase their smartphones in accordance with data protection requirements and have them disposed of in an eco-friendly way.

Network quality and coverage

BASIC PRINCIPLE AND CHALLENGES
Enabling access to digital technologies

The Telefónica Deutschland Group manages more than 45.7 million connections in the area of mobile communications alone and therefore connects the most people in Germany. We want to guarantee access to digital technologies ideally everywhere and at any time, and therefore have a particular social responsibility – we want to reduce the digital gap where people have no access for technical, social, economic or other reasons in order that ideally everyone can enjoy the advantages of digitalisation. We are making the new 5G mobile communications standard available to the mass market and are playing a part in affording everyone access to high-tech digital communications with attractive 5G tariffs and large data packages.

Fast expansion of the 5G network will help us offer our customers the greenest mobile communications network in Germany by 2025. 5G transmission is significantly more energy-efficient than the preceding standards[1], meaning we will be able to reduce electricity consumption per transmitted byte by up to 90 %, even though the data volume will increase sharply.

We are developing a network which will serve companies and users as the basis for realising digital business models and applications such as making their production and logistics workflows more flexible. In particular in the case of applications in the area of Industry 4.0, 5G technology can result in faster logistics thanks to real-time data transmission – thereby reducing production process energy consumption. Our 5G network will help companies in many industries reduce their carbon emissions and develop sustainable business models.

The pandemic helped to further accelerate digitalisation in all areas in the year under review, resulting in greater data traffic and therefore entailing increasing network stability requirements. Our systems and processes ensure that we are warned of capacity issues and other network malfunctions early on, thus allowing the stability of our network to be improved.

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[1] Source: Study "Energy and Resource Efficiency of Digital Infrastructures. Results of the 'Green Cloud Computing' Research Project" commissioned by the German Environment Agency (UBA), September 2020.

The flood disaster in western Germany in summer 2021 resulted in outages and energy supply disruptions. A number of mobile network sites were also affected, but no major damage was experienced by the mobile network systems; these tend to be located on higher ground. Many of our company's engineers and network service providers were involved in special efforts to reinstate mobile communications in order to swiftly enable those affected to communicate with the outside world once again.

Network quality and coverage were confirmed as a material sustainability topic in the course of this year's validation of the materiality analysis. Our network's quality and coverage have a direct influence on customer satisfaction and are therefore one of the key success factors in our company's core business area.

PROCESSES AND MANAGEMENT
Identifying and remedying network faults quickly

Our private and business customers trust in the reliability of our services. They expect network failures to be rectified quickly. By monitoring our network elements comprehensively and continually investing in our network structure, we aim to ensure that the negative impacts on our customers are kept to a minimum.

Network quality and coverage are the responsibility of the Chief Technology & Information Officer (CTIO). A specialised network department is responsible for efficiently monitoring and resolving problems in the mobile communications and fixed line network. It ensures that the impacts of work in the network are kept minimal for the customers, that customer complaints are analysed and that failures are remedied as quickly as possible. The individual specialist departments then optimise the internal processes, taking the technical framework conditions into account. With regard to our network elements, we want to continuously raise the level of automation. Since 2017 we have been using a measurement tool to analyse and gauge the quality of the network. The tool generates comprehensive figures. This enables us to recognise service restrictions or increased capacity demand at a mobile network site sooner and react correspondingly.

Investing in network expansion
Our Investments for Growth programme is crucial to the expansion of our mobile communications network. Here, we are focusing on three pillars of growth that will build on the network quality equality already achieved:

- Increase in the share of the mobile communications market in rural areas while consolidating our strong position in built-up areas

- Intelligent pooling of mobile communications and fixed line network products as well as fixed-network substitutes (FSM) on the basis of a technology-agnostic approach
- Making the most of opportunities in the B2B market, in particular in the SME segment (small and medium-sized enterprises)

To make our customers' user experience better and better, we will invest in particular in network expansion in the course of our three-year investment programme. The programme saw its investment focus in 2021 and has the aim of improving the supply of 4G in particular to rural areas and 5G preferably to built-up areas.

STRATEGIC PRIORITIES
Tapping new potential with 5G

We succeeded in significantly expanding our 5G network coverage in 2021. Expansion of the new mobile communications technology is focused on what is known as "pure 5G", which is transmitted via the most powerful 3.6 GHz frequency. More than 4,000 3.6 GHz antennas had been put into operation by the end of 2021. We are now putting more than 100 of these 5G antennas online every week. To develop rural areas more quickly, we are also using, among other things, dynamic spectrum sharing (DSS) antenna technology, which enables 5G and LTE frequencies to be used in tandem, as well as 5G on the wide-coverage 700 MHz frequency. Our customers now benefit from significantly higher data rates and reduced data usage time lags. We have narrowly achieved our target of providing at least 30 % of the German population with 5G with a combination of the three frequency bands pure 5G (3.6 GHz), 5G DSS (1,800 MHz) and 700 MHz. The Telefónica Deutschland Group is therefore on track to supply half the population with 5G by the end of 2022 and the whole of Germany with 5G by the end of 2025.

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5G coverage	Unit	2021
Coverage of the total German population with 5G[1]	Rounded in %	30

[1] The selected population-based evaluation does not only include the household-based coverage calculation with fixed location reference as reported to the "Bundesnetzagentur". It also includes commuter flows of the population, so that part of the population is counted both at their place of residence and at their place of work (maximum population). In this way, the Telefónica Deutschland Group takes into account that services are not only demanded stationary at the place of residence, but also on the move.

The Telefónica Deutschland Group now operates its own 5G backbone. As such, it has created the foundations for releasing the new network standard from its technical dependency on 4G and establishing it separately as what is known as "stand-alone 5G". In the future, the pure 5G network will also make the most sophisticated applications possible both for private and business customers, such as connected driving. From a technical point of view, the company is already in a position to roll out a nationwide stand-alone 5G network. We will offer our customers access to this technology as soon as stand-alone 5G offers them real added value such as applications in real time or separately secured networks and there are enough devices around that support the technology. Immediately after the launch of the 5G network last year, we began to transfer our 5G backbone to the cloud, initially for industrial applications. This makes setting up 5G campus networks considerably easier, accelerates the roll-out of new industrial applications and reduces the time to the market launch of new products and applications.

Open radio access network for greater competition and diversity

The Telefónica Deutschland Group was the first mobile communications network operator in Germany to incorporate open radio access network (open RAN) into its mobile communications network, enabling the first O₂ customers to make use of it. In contrast to the developments until now of leading mobile communications technology manufacturers, open RAN has a modular set-up featuring the hardware and software of various producers. The technical components are easily interchangeable thanks to the open interfaces. The Telefónica Deutschland Group is also involved in the Open RAN Lab project. This is a platform promoted by the German Federal Ministry for Digital and Transport (BMDV) which is open to all interested market players. Here, network operators, network suppliers, start-ups, scientists, research institutes and SMEs can come together to promote the further development of open RAN, in particular for the needs of the European market. In the medium to long term, this opening should lead to greater competition and provider diversity in the telecommunications market and accelerate the roll-out of new services.

Switch-off of 3G, further expansion of 4G

At the same time as expanding 5G, we are systematically improving our 4G/LTE network. We took our 3G sites offline in 2021. We use the frequencies this freed up for 4G, making our network even more powerful and offering our customers higher data rates, more capacity and improved voice quality.

A 4G network that continues to grow is important because around 99 % of all mobile data flows via this network infrastructure and 4G will remain the backbone of our mobile communications network in the years to come. Our expansion programme focuses not only on towns and cities, but also and above all on regions of Germany which have previously been undersupplied. In regions with insufficient capacity, we are replacing old sites with new platform sites with far greater capacity. We expanded over 9,000 sites in this way in 2021 to offer faster Internet especially in rural regions.

We now supply more than 99 % of households with 4G/LTE. As such, the Telefónica Deutschland Group complies with the nationwide requirement stipulated by the Federal Network Agency for Electricity, Gas, Telecommunications, Post and Railway (Bundesnetzagentur) of 98 % household coverage with a download speed of 50 Mbit/s. We are also focusing on expanding 4G/LTE along important transport infrastructures such as motorways, federal highways and railway lines. The Telefónica Deutschland Group is gradually closing the remaining coverage gaps, ideally to enable customers to benefit from a fast 4G/LTE network everywhere.

Partnerships on our high-performance mobile network

As part of wholesale agreements, we also make our mobile communications network available to other telecommunications providers such as mobilcom-debitel and 1&1 Group. For example, as planned, the Telefónica Deutschland Group established a new contractual basis for the future configuration of its existing partnership with 1&1 Group in the form of a national roaming agreement in spring 2021.

Partnerships for an efficient fixed line network

We offer our customers broad fixed line network coverage in Germany based on future-proof broadband cooperation models. Through successful partnerships, we offer our customers a broad infrastructure mix of cable, fibre optics, 4G/5G and DSL. We are working with a number of alternative telecommunications service providers and other network operators, focusing here on regional partnerships. The high-performance cable infrastructure of Vodafone and Tele Columbus has enabled us to reach households throughout Germany with broadband cable since 2021. Going forward, our cooperation with Deutsche Telekom will enable us to sell VDSL products from the Deutsche Telekom network to our customers, as well as in the future fibre optics.

Since spring 2021 we have also been offering O₂ my Home products via fibre optics provided for our O₂ brand by the company Unsere Grüne Glasfaser (UGG). As the company's

key account, we are marketing broadband products via this infrastructure. UGG is a joint venture between the Telefónica, S.A. Group and Allianz. The Telefónica Deutschland Group holds a 10% stake in the company. Over the next five years, UGG intends to provide 2.2 million households in predominantly rural and previously undersupplied regions with fibre optics, investing up to EUR 5 billion in expansion in the process.

Data protection and information security

BASIC PRINCIPLE AND CHALLENGES
Responsible digitalisation calls for data protection and information security that are rigorous

Data security is of huge importance to society as the trust of people and their protection from risks serve as the foundations of successful digitalisation. The ongoing digitalisation process challenges us to rethink data protection and privacy, among other things against the background of the increasing general threat of cyberattacks.

The challenges of data protection and information security have been further heightened by the array of digital formats as a visible expression of the changes in the working world, the preferred option of working from home during the pandemic and the digitalisation impetus triggered by this – not only at our company, but also in our collaboration with our business partners.

Major company-wide IT projects in which the infrastructure is rearranged and data is transferred to the cloud call for careful planning and consideration of the data protection and information security requirements. At the same time, our company has to adapt to rapidly changing legal parameters. In addition to the tightening of the legal situation regarding the transfer of data to non-EU countries as a result of the Schrems II ruling, we have to respond to other national and EU-wide legislative initiatives that involve considerable advisory and implementation work, such as the amendment of Germany's Telecommunications Act (TKG) in 2021, what is known as the Catalogue of Security Requirements 2.0 and other new regulations regarding data protection and security in the digital world.

We are a company at which data is generated within its core business. Every day, millions of customers place their trust in the mobile network and services of the Telefónica Deutschland Group. Data protection and information security are therefore material topics when it comes to our company's responsible business conduct. It is about nothing less than the protection of our company and the trust that our customers place in us. Legal compliance in this area is essential for our reputation and for customer retention, both of which are crucial to business success. It also plays an important part in risk prevention as sanctions such as fines are then effectively avoided.

We therefore make the protection and security of customer data a top priority and ensure that people remain in control of their data. We guarantee data protection and IT security on the basis of the relevant laws and regulations as well as internal requirements, some of which go above and beyond the legal requirements. We also make a commitment in our Business Principles to data protection and to observing information security and transparency. The Telefónica Deutschland Group treats personal and sensitive data confidentially and protects this data from any unauthorised access by third parties.

We protect the data of our customers as well as our employees, partners and investors in our processes and products. We guarantee that the Telefónica Deutschland Group's business activities comply with data protection regulations by means of suitable measures. In this context, continuously raising our employees' awareness of new data protection requirements is crucial.

PROCESSES AND MANAGEMENT
Clear rules and processes established

Clear rules and processes help to systematically meet the data protection requirements, guarantee information security and ensure that the relevant laws and regulations are complied with. This involves our regularly revising existing and adopting new guidelines if additional regulatory needs are identified and then implementing these in the company. The decisive frameworks include the Group's data protection standard, which forms the foundation of the data protection management system (DPMS) with our guidelines concerning data protection. These present our principles in handling data and in our communication with our customers and the public in a transparent manner.

The internal guidelines concerning security (Security Global Policy) and rules for minimum security requirements (Corporate Rule on Minimum Controls) apply throughout the organisation. These are supplemented by a wealth of additional guidelines, standards and procedural instructions on various aspects of data protection and security. These include the guidelines for reporting data protection and information security incidents, the guidelines on data protection information obligations, the guidelines on data protection agreements, the checklist for the rights of data subjects in accordance with the General Data Protection Regulation (GDPR) regarding the processing of users'/customers' data, the Privacy Consulting Process (PCP), the guidelines on the use of social apps and various procedural instructions. Our approach to identifying and minimising information security risks is documented in our security concept in accordance with Section 166 Telecommunications Act (TKG). Our privacy policy contains clear guidelines on the protection of personal data that often go above and beyond the statutory specifications. All the employees receive annual mandatory training on data protection. All employees are additionally obliged to observe data and telecommunications secrecy.

The Data Protection Officer and Chief Security Officer are responsible for the management and strategic focus of data protection and information security. They report directly to the Telefónica Deutschland Group's Management Board member responsible for Legal and Corporate Affairs. The Management Board is thoroughly briefed on information security and data protection at least twice every quarter. In addition to reporting regularly to the company's Security Committee, Deep Dive Corporate Security and Deep Dive Data Protection, the departments also regularly report to the Supervisory Board's Audit Committee, doing so four times in the financial year 2021. The Chair of the Audit Committee reports to the Supervisory Board on the activities of the Audit Committee.

The aim of efficient structures and processes is to prevent violations in the areas of data protection and information security. With our company-wide DPMS and information security management system (ISMS), we manage the processes that secure data protection standards, our targets, responsibilities and training as well as regular checking of measures that have been implemented. Information security managers and data protection coordinators have additionally been established in the departments as fixed points of contact in order to improve management of the DPMS. The departments' systems and processes are regularly subjected to internal security and data protection assessments.

We work with business partners who accept our data protection rules in accordance with the guidelines on data protection agreements and the corresponding agreements. We also conduct data protection and information security audits among other things at our service providers' sites. Likewise, the Telefónica Deutschland Group has clear processes and regulations in place for involving subcontractors and sets corresponding requirements for contracts. Additionally, company processes are reviewed again and again by the Federal Network Agency for Electricity, Gas, Telecommunications, Post and Railway (Bundesnetzagentur) and the Federal Commissioner for Data Protection and Freedom of Information (BfDI) as the competent authorities.

We also have set rules in place for reporting data protection and security incidents; these are set out in the guidelines on security incidents and in the procedural instructions for data protection incidents and are communicated within the company. Our data protection hotline serves our customers as a first, conveniently reached point of contact for the reporting of incidents. Our suppliers and their employees can moreover turn to us via the Telefónica Deutschland Group's supplier platform if they have any complaints. We endeavour to answer all data protection enquiries quickly and clearly and have defined clear operating processes for this.

Before data is processed, we perform standardised checks within the IT development and analysis processes and in other division-specific processes. Our objectives in the area of data protection and information security are:

- Ruling out the initiation of proceedings due to the violation of data protection regulations by achieving the best possible compliance with the data protection regulations
- Presenting data usage transparently
- Being able to react swiftly to major disruptions and dangerous situations that may occur, such as network failures, data misuse and bomb threats
- Localising areas of action pertaining to information security

In the past financial year, one proceeding was initiated for violation of data protection and infringement of legal regulations in this area; it was discontinued without the imposition of a fine, however. No sanctions in the form of fines have been imposed as a result of data privacy violations. 16 reportable security breaches or incidents with regard to confidentiality, integrity and availability in connection with network and information security were identified in 2021.

The events that occurred relate exclusively to the protection objective of availability and are, among other things, due to disruptions at carriers or of network elements. No sanctions in the form of fines have been imposed due to security breaches or other network security incidents.

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Data protection and information security

In numbers	2021	2020	2019
Proceedings initiated due to data protection violations (Section 169 German Telecommunications Act (TKG))[1]	0	3	0
Penalties in the form of fines as a result of data protection violations in the reporting year	0	0	0
Reportable security breaches or incidents relating to information and network security	16	25	26
Penalties in the form of fines paid in relation to security breaches or other network security incidents	0	0	0

[1] Initiated proceedings during the reporting period are to be understood as proceedings that are ongoing and have not been concluded. The three proceedings reported for the 2020 financial year were still ongoing in the current reporting year. Concluded proceedings generally lead to a penalty, a fine or an abandonment of proceedings as a result of the authority's suspicion not being borne out. Fines are reported in the indicator "Penalties in the form of fines as a result of data protection violations during the year".

STRATEGIC PRIORITIES
Pressing ahead with raising awareness and educating

We provide regular, targeted and comprehensible information about how we process data. We base our actions on the principles of self-determination, transparency, protecting personal data, and innovation as enshrined in our guidelines regarding data protection.

The most important information tools our customers can access in a direct and targeted manner include the Telefónica Deutschland Group's data protection website and our brands' respective data protection websites. These explain in detail what types of data the Telefónica Deutschland Group processes, how we protect the data of our customers and what they themselves can do to protect their data. Consumers can also exercise their rights in accordance with the GDPR. The customers are also provided with data protection information concerning our contracts upon concluding a contract.

Our employees regularly undergo mandatory training in the area of data protection and information security, including

with the support of external data protection and security experts. Data protection coordinators who serve as an interface between a department's staff and the data protection team are regularly given especially extensive training.

In 2021 we continued with the employee campaign initiated in the previous year to raise awareness among all the employees regarding the processing of personal data in day-to-day business and the importance of data protection and provide them with concrete tips on how they can protect our company, our customers and themselves. Various events were held on the topic of cybersecurity, including Cyber Security Month in October and the Digital Basics professional development initiative for all employees.

The data protection team implemented an initiative in the reporting year to improve and simplify the data protection processes and means of communication, placing the focus on the employees. This involved the optimisation of the data protection pages and presentation of the relevant processes on the intranet. Measures were additionally identified, some of which have already been implemented, in order to optimise collaboration with the relevant projects and internal contacts. As another measure within the initiative, the chatbot Dascha was put into operation. This quickly and straightforwardly gives employees on the intranet answers to their questions concerning data processing and data protection.

In accordance with the GDPR, the effective protection of personal data must already be adequately implemented when a process or application is conceived ("privacy by design") and configured ("privacy by default"). We assist our employees in observing and documenting all the measures required for data protection with our own tools and checklists. The GDPR additionally obliges all division heads to structure and manage their data protection measures in a risk-oriented way. In the course of a project concluded in 2021 regarding the permanent implementation of data protection legislation, we overhauled and standardised the data protection advice process. The purpose of this process is to ensure that all the relevant data protection issues are resolved already at the stage when new products or new technical systems are under development.

We further optimised our information security management system in the year under review and improved our risk management process. We also ramped up our control activities regarding our distribution partners.

Data protection and security standards further increased
The Telefónica Deutschland Group is increasingly transferring data to the cloud, not only to increase failure safety and reduce operating costs, but also in particular to be able to promptly offer our customers tailored solutions. We engaged in intensive consultation with the regulatory authorities in the run-up to this and a comprehensive security concept was submitted.

To increase the company's IT security, the Telefónica Deutschland Group developed a shared process model in close cooperation with Deutsche Telekom and Vodafone called Zero Impact to strengthen the telecommunications industry's resilience where cyberattacks are concerned. The focus of this joint initiative is on the network providers' operational security and on establishing a comparable and improved company security level. This involved the companies jointly identifying security capabilities and developing possible attack scenarios. With this change in perspective, the project initiated within the Telefónica Deutschland Group identified an array of measures to be implemented by 2022 in order to further enhance security throughout the Group.

Anti-corruption and conflicts of interest

BASIC PRINCIPLE AND CHALLENGES
Legal compliance as the bedrock of our actions

Social and economic life are founded on integrity and legal conformity. Violations of rules and laws have negative economic, environmental and social impacts and can be detrimental to the upholding of human rights and equal opportunity. Compliance is not only an indispensable basic prerequisite for our conduct. It also allows risks to be reduced and our business foundations to be preserved – something which we seriously jeopardise if we fail to observe regulations and rules. These factors contribute to anti-corruption and conflicts of interest being identified as material non-financial topics for our company.

Our aim is to maintain and increase the trustworthiness of the Telefónica Deutschland Group. Here, the integrity of the company and the sense of responsibility of all our employees play a decisive role. They form the basis for trusting cooperation with our customers and business partners, thereby guaranteeing the good reputation of our company.

Observing statutory requirements, international standards and internal guidelines is a matter of course for us. The Business Principles of the Telefónica Deutschland Group additionally guide our conduct. Our principles in turn are based among other things on the UN Universal Declaration of Human Rights, the core labour standards of the International Labour Organization (ILO) and the principles of the UN Global Compact, which we declare our dedicated support for. Our Business Principles are directed at the employees, business partners, shareholders and the company as a whole. As a binding code of conduct, they set standards for our participation in the business world.

Conducting our business in accordance with the principles of efficient, sustainable and transparent corporate governance is a comprehensive requirement for the Telefónica Deutschland Group. We follow the guidelines of the German Corporate Governance Code (GCGC) for this purpose. The declaration of compliance with the GCGC specifications and our Management Declaration are published in the Annual Report and separately on our website.

For us, it is about more than merely meeting statutory requirements. We aspire to continuing to develop and ensuring that we act with integrity in the digital age. Digital transformation brings with it a number of legal challenges, but also offers us creative scope, for example regarding the development of e-learning programmes that are the right fit for employees. The efficient embedding of the compliance management system (CMS) within the company and targeted compliance measures are contributing to risks in the area of corporate crime being proactively identified and effectively combated.

PROCESSES AND MANAGEMENT

Zero tolerance of corruption

Compliance management is of high importance to the Telefónica Deutschland Group. There is a particular focus on the subject of anti-corruption – this is because incidents of corruption can lead not only to severe financial damages, but also considerable damage to reputation. The Telefónica Deutschland Group condemns all forms of corruption and this is reinforced with its zero-tolerance commitment. We annually oblige our senior management employees to respect this commitment and comply with our anti-corruption guidelines. All the employees are given regular instruction in anti-corruption and conflicts of interest as part of mandatory training on the Business Principles.

Digitalisation is also causing companies' business processes to change. Compliance management systems (CMS) therefore have to be adapted to new circumstances in order to be able to proactively identify risks and effectively manage them. We seek to prevent unfair practices such as corruption, corporate crime and fraud as best we can with preventive measures and, should we not manage this in isolated cases, to systematically uncover these practices and modify the measures if necessary.

We initiated a risk assessment on the topic of money laundering in 2021 with the aim of identifying all the divisions that could potentially come into contact with money laundering. Based on an analysis of the risk areas, we will develop awareness-raising measures in 2022 for those employed in these areas.

Certification of our compliance management system

Our success is founded on our customers' trust. A key objective is therefore to maintain and continuously strengthen this. We absolutely want to avoid financial disadvantages or damage to our reputation resulting from compliance violations. We have therefore had an integrated CMS since 2004 that guarantees our guidelines are kept to. The main emphases of our CMS include combating corruption and preventing unfair competition and conflicts of interest. Overall responsibility for this lies with the Director of Integrity Services, who reports to the Chief Officer for Legal and Corporate Affairs. The Management Board and Supervisory Board of the Telefónica Deutschland Group are regularly notified about compliance activities and the ongoing development of the CMS. BDO AG Wirtschaftsprüfungsgesellschaft audited and certified the anti-corruption subsection of our CMS in accordance with the IDW AsS 980 standard in the reporting year.

All suspected cases of unfair practices such as corruption and the taking and giving of bribes that come to our attention are carefully examined. Substantiated accusations are rigorously pursued and penalties are imposed accordingly. The integrated CMS helps detect cases of corruption throughout the company and prevent them to the fullest extent possible using suitable measures. Here, we define cases of corruption as any form of misuse of a professional position to obtain unauthorised tangible or intangible advantages. We received no reports of suspected cases of corrupt conduct in the reporting year 2021. As such, no labour law sanctions were imposed on any employees.

We have defined clear guidelines and specifications for the most important compliance aspects that affect daily business. In addition to the Business Principles, they include corruption prevention and competition law guidelines, guidelines on how to handle conflicts of interest, invitations, gifts and incentives, and the Telefónica Deutschland Group's Human Rights Policy. Regulations relating to the procurement of services also apply, such as how to conduct business with service providers. To guarantee the legally watertight and responsible handling of tip-offs, complaints and anonymous reports from stakeholders who are potentially affected, we defined a whistle-blower policy that formalised the process which had been practised for many years. Our whistle-blower reporting channel (confidential helpline) is there for all the employees, external staff, customers, suppliers, shareholders, partners and other stakeholders to use as an anonymous and secure channel via which to report violations of laws and regulations. As such, whistle-blowers are guaranteed protection from being disadvantaged. There is additionally a channel via which violations of human rights can be reported.

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Anti-corruption

	Unit	2021	2020	2019
Total number of cases of corruption[1]	Number	0	0	0

[1] Confirmed suspected cases that led to measures related to labour law or sanctions.

STRATEGIC PRIORITIES

Involving stakeholders in prevention

Keeping our employees closely involved is essential to implementing our compliance measures. We achieve this through targeted communication as well as surveys and training. Our business partners and suppliers are also subject to binding specifications, such as the Supply Chain Sustainability Policy and an anti-corruption declaration to which they have to consent in order to be commissioned with work.

To permanently sensitise our employees to these important issues, we conduct, among other things, compliance training online and at set intervals of between one and three years. There is mandatory participation in training on, for example, the Business Principles every three years, data protection annually, information security every two years and Germany's General Act on Equal Treatment (AGG) every three years. The AGG promotes diversity and combats workplace discrimination. Our executives on the top management level are also explicitly required to commit to complying with our Business Principles and anti-corruption guidelines and are given training on this.

Participation in training is monitored by the human resources system Success Factors. All employees receive automatic reminder emails as soon as they are due for mandatory training. Upon completion of the training, an electronic certificate attesting to the employee's successful participation is added to the system. The current level of training is reported to the Audit Committee, a Supervisory Board body, once per quarter. The Management Board likewise receives a quarterly report on the status of the conducting of mandatory compliance training, broken down by Management Board areas of responsibility. We continually review our training concept and adapt it to current developments and the actual needs.

Based on the risk assessment performed in 2020 on the topic of anti-corruption and conflicts of interest, we developed a new e-learning programme in 2021 in order to do even better at raising awareness of the topic among the relevant employee groups. The assessment showed that while the general mandatory training given every three years on the Business Principles did address the topic of anti-corruption and conflicts of interest, certain divisions within the company required more targeted and more regular training. This is now possible with the new training. In addition to the legal basics, the training covers the types of corruption and conflicts of interest that the employees could encounter in their day-to-day work as well as how to identify and adequately respond to attempted bribery. Additionally, the learning content goes into greater detail with the help of practical cases.

Furthermore, there is regular communication on topics relevant to corruption, for example emails and information on the intranet. If required, the Compliance department can offer employees and bodies such as the works council advice on all matters concerning ethical conduct and acting with integrity. We carry out occasion-related and process-accompanying examinations and consultations with regard to potential compliance risks. The Internal Audit department and external auditors regularly audit the CMS as well as our measures for preventing corruption.

Employee matters

Qualified and motivated employees are a key part of our company's success. We want to offer them a work environment in which they can fully develop their potential and invest continuously in professional development and talent development. At the same time, we strengthen diversity and equal opportunity and pay attention to health and safety.

Labour management relations

BASIC PRINCIPLE AND CHALLENGES
Moving towards a digital working world

We wish to establish an appreciative work environment within the Telefónica Deutschland Group in which all the employees can enhance their long-term employability, maintain their well-being and take advantage of the opportunities offered by digitalisation. We are expediting digital transformation in our company by focusing more than ever on hybrid collaboration, flexibility and productivity – all while considering the individual employees' needs as well as our contribution to society.

Since the onset of the pandemic, the Telefónica Deutschland Group employees have managed to productively collaborate almost exclusively virtually. Personal meetings nevertheless remain important. We therefore intend to combine both of these options in a hybrid working world in the future. For this "new normal", we need to strike a good balance between business interests, our employees' needs and clear agreements. Another aspect which is crucial, however, is a change in perspective from solely working from home to a hybrid working model which combines the best of digital collaboration with meeting in person. In this way, we want to preserve the positive changes seen during the pandemic.

Our 5 Bold Moves, which we adopted in 2020, serve as guidelines on our way to the digital working world of the future. One important objective of these five key initiatives is to boost employee engagement and loyalty by means of flexible work options. We want to make the most of our employees' potential across all the generations, genders and professional and personal backgrounds and enable our staff to reconcile their various lifestyles with professional needs.

Employee engagement is a key factor in the success of the Telefónica Deutschland Group – and the potential of our more than 7,400 employees to pull together in society to promote the responsible handling of digital transformation is just as big. With the involvement of the executives, we therefore create a work environment to which our employees can actively contribute with their achievements, their ideas and their social engagement, for example through voluntary activities with the ReDI School of Digital Integration.

We set great store by interactions founded on fairness, working together as partners and an inspiring motivating work climate. We wish to remain an attractive employer for our employees as well as for external applicants in the future on the basis of appropriate measures and in ongoing dialogue with our staff.

PROCESSES AND MANAGEMENT
Regular feedback from the employees

The Chief Human Resources Officer (CHRO) has overarching responsibility for the area of staff matters. Several works council bodies also represent the employees' interests. We conduct regular employee surveys in order to assess the attractiveness of our work environment and the progress we are making with the core issues regarding our transformation. These include short surveys conducted throughout the year known as Pulse Surveys and an annual global Employee Experience Survey. Both types of survey are conducted online, anonymously and voluntarily among all employees of the Telefónica Deutschland Group. The values measured include the employee Net Promoter Score (eNPS), which is a sign of the likelihood of employees recommending Telefónica as an employer. It is therefore a key indicator of our attractiveness as an employer. Scores are also calculated for agility, leadership skills and mobility.

We achieved an eNPS score of 60.4 points in 2021, thus surpassing the previous year's score (53.8) once again. Anything above zero means the majority of the employees are happy and would recommend their employer. The key drivers were the high degree of flexibility regarding working time and place of work and also the support offered during the pandemic. Other issues that contribute to the eNPS in particular are the employees' communal spirit, joint social engagement, and development and career opportunities.

Other results show that 93 % of our employees still feel they are part of a team in spite of working virtually while the pandemic situation continues and that the core transformation topics such as management development, mobility within the company and the development of material future skills were successfully advanced even during the COVID-19 pandemic. 92 % of those surveyed identify with the Telefónica Deutschland Group's business purpose – they agree with the statement that what we do at Telefónica in Germany has a specific purpose and that society benefits from this.

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Attractiveness as an employer: annual employee survey

	Unit	2021	2020	2019
Response rate	%	77	77	79
Employee Net Promoter Score (eNPS)	Score	60.4	53.8	21.5

The response rate for the global survey was 77 % in 2021; this meant it remained stable at a high level year-on-year (2020: 77 %). Together with the Pulse Surveys conducted during the year, the global Employee Experience Survey plays a part in us regularly reviewing the progress we have made regarding our key HR strategy topics on the basis of data and then implementing targeted measures. We additionally make the results available to executives in a digital dashboard, where they can see the figures for their division and can work on the improvement potential identified, with the assistance of the HR division and external coaches.

Our HR strategy helps us manage our measures and processes and determine the main emphases. Our Business Principles apply to all the employees.

STRATEGIC PRIORITIES
High degree of flexibility in day-to-day work

We defined our future ways of working with our 5 Bold Moves in 2020. The focus in 2021 was first and foremost on gradually embedding the five key initiatives, for example by means of specific information events, supplementary material and coaching for executives and employees.

The five key initiatives help to accelerate our company's transformation into an organisation which is adaptable and which will continue to be efficient in the future and are therefore an important part of our HR strategy. The key initiatives encompass:

- "Working anywhere – working wherever it is most productive"
- "Working anytime – maximum work time flexibility"
- "Outcome-based leadership – systematic focus on results"
- "Digital by default – virtual meetings as the new standard"
- "70 % less travel – significantly fewer internal business trips"

With the increasingly digital way of working that comes with these initiatives, we are improving the reconcilability of different lifestyles with professional needs, are promoting inclusion and are offering, among other things, new opportunities in terms of women in management positions (see chapter "Diversity, equal opportunity and non-discrimination").

In view of the ongoing pandemic, we are endeavouring to offer our employees as much flexibility as possible regarding their day-to-day work. Health protection remains the top priority (see chapter "Employee health and safety" for more details). We had already provided close to a third of all the employees with IT equipment at the beginning of the pandemic so that they could work from home. To make working from home easier for all the other employees too, we have been offering them free IT equipment and discounted office furniture since April 2021.

To promote open communication within the company, various formats involving the Management Board and employees are in place. These include regular digital dialogue meetings with executives and a digital format newly created in 2021 which gives employees the opportunity to engage directly with the Chief Human Resources Officer (CHRO) and obtain information on changes which are relevant to them, ask questions and give feedback. The Telefónica Deutschland Group management made a commitment to the cornerstones of the hybrid working model in a Leaders Commitment in 2021, pledging to offer the employees the greatest possible flexibility in terms of when and where they work. The Commitment states that trust, freedom and responsibility are at the heart of future collaboration.

Diversity, equal opportunity and non-discrimination

BASIC PRINCIPLE AND CHALLENGES
Boosting diversity at all levels

As a company and an employer with over 7,400 employees, we have an important social responsibility with regard to equal opportunity. This applies not only to access to digitalisation, which we as a telecommunications company wish to afford all people, but also to career opportunities that cater to individual lifestyles. Diversity makes us a more efficient company because in times of accelerated change in particular, the interplay of different skills, viewpoints, experiences and backgrounds is a key factor contributing to success and our ability to compete.

We want to tap the full potential of all our employees across all genders and generations. This is becoming increasingly important, in particular in view of ongoing demographic change. We therefore need to encourage the employees to continue to pursue internal mobility and further development at all stages of life and all career levels.

Our endeavours to make women in management positions successful and to increase the proportion of women in top management are enshrined in our corporate goals. One challenge in this context is recruiting enough female future managers to be able to increase the proportion of women in managerial positions as planned.

In the 2021 pandemic year as in the previous year, working time flexibilisation was of vital importance to those employees who had to offset a lack of nursery- or school-based childcare. As part of the 5 Bold Moves, we want to place the focus on flexibility once the pandemic is over too, thereby making it easier for the employees to reconcile various lifestyles with their work roles.

PROCESSES AND MANAGEMENT
Preventing discrimination

With our Human Rights Policy, we have made a commitment to fair, respectful and non-discriminatory treatment as the foundations of successful collaboration. We have also underpinned this commitment by signing the Charta der Vielfalt (Diversity Charter). The Telefónica Deutschland Group additionally adopted a non-discrimination policy in 2021 which reaffirms the fact that our work environment should be free of harassment and discrimination and that there should be equal opportunity regarding employment, job classification and career development. The management team promotes diversity regarding knowledge, experience, gender, nationality and other aspects in managerial positions too.

If our Business Principles are violated, for example in the form of bullying or harassment, employees can contact a confidential whistle-blower system with an independent ombudsman or the human rights reporting channel. More on the whistle-blowing channel, our employee training on treating each other ethically and our Business Principles can be found in the chapter "Anti-corruption and conflicts of interest". The online training we provide regarding Germany's General Act on Equal Treatment (AGG) and focusing on diversity and inclusion is mandatory for all employees every three years. At the end of the reporting year, 94.9 % of employees had received training on AGG in the last three years, with a total of 5,003 training hours.[1]

We are endeavouring to further reduce the gender pay gap within the Telefónica Deutschland Group. Our uniform remuneration system at Telefónica Germany GmbH & Co. OHG will also serve this purpose, ensuring that positions and salaries are assessed objectively and treated equally.

STRATEGIC PRIORITIES
Recognition of our equal opportunity

The Telefónica Deutschland Group is actively involved in the Telefónica Group's Global Diversity Council and promotes diversity in a variety of ways: our workforce includes people from 67 different countries, talented young individuals, older members of staff and, for a number of years now, two women on the Management Board. We have been recognised numerous times for our commitment to equality and inclusion. We were included in the highly regarded Bloomberg Gender-Equality Index (GEI) for the second consecutive year in 2021.

The employees themselves appear to be very happy, too – 94 % of them (previous year: 93 %) stated in the company-wide survey conducted in May 2021 that they experienced pronounced equal opportunity at the Telefónica Deutschland Group. For us, this also includes equal access to digital skills – this is an important element of participation in the working world of the future. We therefore introduced the Digital Basics Learning Journey in 2021 featuring learning content that can be incorporated into any kind of day-to-day work (see chapter "Training and education" for more details).

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[1] Proportion based on the number of employees of Telefónica Germany GmbH & Co. OHG including the subsidiaries, excluding employees on sabbatical and external consultants (employee base 7,030, previous year 7,717). The calculation includes the completed training units of the last three years. For 2021 this means 5,003 completed training units from 1 January 2019 to 31 December 2021.

Better career prospects for women

We want to further increase the proportion of women in management positions at the Telefónica Deutschland Group – we have set ourselves a target of having 30 % women in top management positions by 2022 (and over 33 % by 2024), which would put us comfortably above the targets that generally apply in the German information and telecommunications industry. We have made significant progress here, with the proportion having increased from 27.8 % in 2020 to 28.8 % in 2021, but nevertheless narrowly missed our target.

The Women in Data grant seeks to offer new career prospects in digitalisation. The initiative of Telefónica Deutschland/O_2 and the Wayra start-up StackFuel offered a total of 50 grants for women in May 2021, enabling women to train to become data analysts. As the proportion of women working in the area of data is still too small, we want to use the grant to encourage them to pursue a new career path with future relevance and actively play a part in shaping digital transformation.

The vibrant internal community Telefónica Connects serves women as a networking platform. As well as providing inspiration through regular specialist presentations by engaging personalities and role models, this initiative increases the overall visibility of women at the company. Around 330 employees were already active in the network in 2021, playing their part in promoting gender diversity at our company.

Training and education

BASIC PRINCIPLE AND CHALLENGES
Digital skills for everyone

We want to offer our employees high-quality training and education opportunities across all generations, career levels, work realities and stages of life. In this way, we are pursuing the goal of jointly adapting to digital transformation and enabling everyone to make use of the opportunities offered by digitalisation. Our focus here is on developing and enhancing digital and data-centred skills and embedding internal mobility and agility in the company.

With its different ways of working and hybrid work models, the digital working world presents not only the employees, but also the executives, with new challenges. For us to be able to jointly actively shape transformation, the Telefónica Deutschland Group is making targeted investments in the ongoing self-managed further development of employees and executives, for example with regard to individual responsibility, a focus on results and team development.

Our aim is also to acquire highly qualified new employees. Using various initiatives, we seek to enthuse young talent in particular and promote their development. In this way, we secure qualified junior staff for the company and strike a good generational balance. Both of these together – our employees' professional development and our acquiring new talent – will strengthen the workforce's employability and the organisation's future viability in the long term.

Different work realities, for example in the corporate functions, in customer service and at the shops, call for carefully designed learning and further-training options in order to make the offerings accessible for all the employees equally. Once again in the pandemic year 2021 a challenge we faced was that meeting in person was not possible for extended periods and that many further-training offerings could only be realised virtually. Digital formats such as interactive virtual live sessions proved their worth as a means of communicating material learning content. In this way, employees were able to develop, for example, basic skills regarding key digitalisation topics.

PROCESSES AND MANAGEMENT
Focus on the employees' needs

We conducted an employee survey on the topic of further development at various stages in life for the first time in the reporting year in order to be able to make our offerings an even better fit in the future. More than 1,100 employees participated. There is a high degree of general willingness within the workforce to develop further across all the generations and stages of life. Approximately 50 % of the employees can envisage job rotation within the company to familiarise themselves with other divisions. But the survey also showed that many employees want more development opportunities that take their specific needs into account. The survey results serve as the basis for developing new further-training offerings. New programmes are set to be launched in 2022.

We achieved a retention rate of 71 % among our trainees in 2021. We want to increase this and have set our sights on a rate of 90 % by 2022.

The significance of training and education for the employees is enshrined in the Business Principles ("Professional development") and expanded on in the HR strategy. 89 % of the employees have an appraisal of their skill and knowledge development with their executive at least once a year, while 68 % have such an appraisal at least once every six months. Our objective is to establish a growth- and solution-oriented feedback culture as a culture of learning which promotes further development and is motivational.

STRATEGIC PRIORITIES
Developing skills and changing perspectives

We launched the Digital Basics Learning Journey in mid-2021 as a way of equipping all the employees with basic digital skills. This comprises seven interactive modules on topics which are becoming more and more relevant with regard to digital transformation, from data-driven work and the basics of the Internet of Things to ethical issues that go hand in hand with digitalisation. The learning programme's summaries and recordings allow the content to be used at any time and according to how it suits people's day-to-day work. The aim is for the entire workforce to be afforded access to learning content in this way. Each of the live sessions had around 1,000 participants, further employees watched the recordings and short summaries. By the end of 2021, the programme had reached 3,072 employees.

Since 2020 the Telefónica Deutschland Group has been using the BEYOND initiative as a platform based on artificial intelligence which brings suitable development options within the company to the attention of the employees on the basis of their skill profiles. These may be, for example, vacancies, job rotations or project assignments. This is our way of encouraging our employees to be open to adopting different perspectives again and again and to grow with the new responsibilities that come about due to permanent role changes. The initiative promotes the employees' willingness to be internally mobile – we were able to fill over 50 % (previous year: over 43 %) of vacancies internally in the reporting year and there were 79 job rotations, in spite of the platform only being available at Telefónica Germany GmbH & Co. OHG up to now. BEYOND also features "learning journeys" regarding selected, strategically relevant and future-oriented skills. We added new training to the Data Analytics & Science learning journey in 2021.

We also offered the Women in Data grant in the reporting year to promote further training in digital future-oriented skills across the divisions too (see chapter "Diversity, equal opportunity and non-discrimination" for more details).

Strengthening executives and promoting up-and-coming talent
The leadership journeys are a way of making a targeted investment in our executives in order to strengthen them in their role as the drivers of change, efficiency and engagement and to make ongoing further development available to them too. Other supportive measures for executives in 2021 included individual coaching and team workshops together with professional trainers.

We performed development audits for all the Management Board members and members of the senior leadership team together with an external consultancy in 2021. The aim of the development audits was to make objective feedback available, including with regard to the market, and develop tailored development plans. Audits for members of the extended leadership team were additionally initiated in September 2021. These will continue in 2022.

Our new Telefónica Digital Transformation Programme for young experienced talent was launched in early 2021. This focuses on skills in the data, technology and commercial areas. These qualification profiles are of major strategic and interdivisional importance to our company. The young professionals' stations will include project assignments and job rotations within various divisions as well as at our Wayra innovation laboratory. They are mentored by someone at the Management Board or directorship level.

We further expanded what we offer our trainees and dual-studies students. We were able to record 49 new recruits in 2021. We also offer interns and working students the opportunity to make a success of their subsequent career starts by giving them initial insights into the business environment.

Employee health and safety

BASIC PRINCIPLE AND CHALLENGES
Health and safety as top priorities

The Telefónica Deutschland Group is especially concerned with providing a safe work environment and maintaining and promoting the health of our employees. We see this as a responsibility we have as an employer towards our employees, in particular in view of the ever-changing demands of the digital world. We therefore engage in comprehensive health management to preserve the health of our employees and prevent work-related illness and occupational accidents.

The coronavirus pandemic presents us with some particular challenges as it brings with it a variety of health risks for the employees related to, for example, uncertainty and stress or the fact that striking a balance between work and private life is more difficult when working from home. We have given the health and safety of our employees top priority when dealing with the pandemic. A large proportion of the workforce worked together virtually from their respective homes again in the reporting year. We endeavour to promote the health of all the employees of the Telefónica Deutschland Group with comprehensive digital programmes, no matter whether they are working from home or in the workplace.

PROCESSES AND MANAGEMENT
Holistic health policy as the bedrock

We are building on our integrated occupational health and safety management system as derived from a holistic health policy with the following objectives:

• Preventing work accidents and work-related illness
• Promoting the health of our employees through targeted measures
• Increasing work satisfaction and dedication
• Promoting constructive and respectful cooperation

Our "Integrated occupational safety and health management manual", which is based on the DIN EN ISO 45001:2016 standard, forms the foundation of our policy. The manual defines concrete targets with corresponding KPIs which we use to control and improve the management system and sustainably minimise health and safety risks.

We further developed our occupational health and safety KPI system in the reporting year and translated it to a digital dashboard. This allows us to better track the requirements for the employees' working world that result from the pandemic, the new HR strategy and the 5 Bold Moves. Health management can therefore now be implemented more efficiently and improved in terms of quality.

The Telefónica Deutschland Group is bound by the provisions of Germany's occupational health and safety legislation as well as other statutory prerequisites and the country's occupational insurance scheme requirements. Overall responsibility for implementation is borne by the Management Board or the management of the company in question together with the xecutives. The Integrity Services division regularly reports to the Management Board on the latest developments in the area of occupational health and safety.

To create and maintain safe and healthy workplaces, we perform physical and mental risk assessments as health and safety law requires and act on the basis of nationally standardised guidelines. These assessments cover all accident and health risks related to the workplace. This above all serves to minimise the risk of accidents and preserve the health of those working in offices, in the shops and at the technical sites. Accident evaluation is the responsibility of each company's occupational health and safety committee.

We also perform regular occupational health and safety audits such as reviewing the management systems in the course of recertification in accordance with the ISO 9001, 14001 and 50001 standards. In the external audit for our participation in the Corporate Health Award, we were placed in the "Excellence" category for the fourth consecutive time since 2018 and came first in the ICT sector in the reporting year. To further improve our employees' safety awareness, we conduct regular training and instruction. This includes web-based training on the topics of general occupational safety in the offices and shops, fire safety and work conducted at height.

A quarterly company-wide health forum whose attendance is made up of employer and employee representatives as well as other internal stakeholders is additionally held by Corporate Health Management. As a strategic body, it deals with the planning and management of health issues as well as implementation of the health policy throughout the Group. The health forum also serves as a platform for sharing information, for inspiration and for advice.

STRATEGIC PRIORITIES
Health under pandemic conditions

In view of the ongoing coronavirus pandemic, we attached particular importance to our duty of care regarding our employees' health in 2021 too and once again effected a variety of measures as part of our health management to deal with this challenge appropriately. The infection protection plans we developed remained in place. We also performed assessments to determine whether these protective measures were being observed. To protect our employees from the negative consequences of a COVID-19 infection and contain the spread of the virus, we offered vaccinations at our sites in summer 2021.

As part of a risk assessment, we surveyed our employees from spring to early summer 2021 on the topic of psychological stress caused by COVID-19. In a survey conducted in May 2021 we asked executives to give an estimation of the additional health promotion measures they thought were needed in their teams and say which offerings they wanted to see expanded. The topics most frequently cited were work-life balance and stress & resilience – both as identified needs and as the offerings they wanted to see expanded.

With the digital programmes StayFit4you and StayFit@home, we provided the employees with a variety of offerings in 2021 to get them moving, encourage them to eat healthily, break down stress and overloading, and increase their resilience. There was a focus in particular on the preservation of health when working from home. The online offerings in the form of motivational speeches, Deep Dive Workshops, interviews with affected individuals and fitness specials were mostly recorded, meaning the employees could retrieve the content from anywhere and at any time via an online media library.

As part of a health campaign launched in the reporting year, we offered Telefónica Deutschland Group executives innovative mental training in order to enhance their mental health. In a second step, the executives will be able to present the programme to their teams in an adapted form in 2022.

We were able to massively increase the reach of our health promotion offerings thanks to digital solutions relating to, for example, instruction, training and occupational medicine. In terms of work-life balance, the assistance we provided included virtual advice in the areas of life situation coaching, childcare and care for the elderly.

Energy and CO_2

BASIC PRINCIPLE AND CHALLENGES
Digitalisation as a climate protection opportunity

According to a Bitkom study[1], digital technologies can reduce carbon emissions in Germany by a fifth as digitalisation accelerates, thereby helping to achieve the national climate targets. This is potential that needs to be exploited in particular in the areas of energy infrastructure, mobility, industry and agriculture. The telecommunications industry can play a key part in combating climate change and in the decarbonisation of the economy. For example, the energy sector cannot successfully manage the energy transition without digitalisation. Electricity grid operators and energy utilities are having to increasingly oversee decentralised renewable energy sources and manage current flows. Only when the electricity grids are connected to telecommunication services do they become smart grids that allow electricity generation and consumption to be managed efficiently.

However, the increase in the volume of data transmitted via the networks as part of this ongoing digitalisation requires additional electricity, which in turn influences the environment and climate. At around 97 %, network technology accounted for the largest share of electricity consumption at the Telefónica Deutschland Group in the reporting year. Telecommunications companies therefore need to make their networks and data centres more compatible with climate protection by boosting their energy efficiency.

Back in 2016 the mobile communications industry was the first sector in the world to commit to supporting the United Nations' Sustainable Development Goals (SDGs). In the UN's 2030 Agenda, goal number 13 focuses on climate change. Since 2016 the industry has taken a variety of measures to combat climate change and its impacts. The Telefónica Deutschland Group's Spanish parent company has committed itself to joining the United Nations in combating climate change. The company is part of the Business Ambition for 1.5 °C action alliance. The alliance members intend to use targeted measures and far-reaching changes to limit global warming to 1.5 °C above the pre-industrial average.

[1] Bitkom study "Climate Impacts of Digitalization", March 2021.

Already, 79.4 % of the electricity used by the Telefónica Group globally comes from renewable sources, while for Germany it is already at 100 %. The Telefónica S.A., Group has set its sights on achieving net zero CO_2 emissions[1] in the four main markets Spain, the UK, Germany and Brazil by 2025. The Group discloses its environmental and climate data annually in the CDP report and was awarded the top mark of A by the organisation for the eighth consecutive year in the year under review for its achievements here.

In view of our impacts on the environment and climate and the business relevance of climate protection, we consider this to be a key component of our sustainability strategy. We rely on different elements to save energy and reduce greenhouse gas emissions: we invest in energy-efficient technology, use renewable energies and promote low-pollutant mobility, and we are increasingly offering our customers sustainable products and services. With the help of our infrastructure and services, businesses and people can realise their sustainable digital business models and thus conserve the environment.

Target of net zero CO_2 emissions[1] by 2025
The assumption of responsibility for the environment is a basic principle of the Telefónica Deutschland Group. It is at the very heart of our climate strategy, with which we align ourselves closely with the Group-wide commitment – we have set ourselves the target of net zero CO_2 emissions[1] by 2025. What this means in concrete terms is that we will no longer be causing any greenhouse gas (GHG) emissions as a company by 2025 at the latest. In addition to carbon dioxide (CO_2), this will also cover the greenhouse gases methane (CH_4) and nitrous oxide (N_2O) as well as the refrigerant gases which are relevant to the climate (F-gases). We will additionally neutralise the emissions that cannot be avoided and invest in certified climate protection projects with high environmental and social standards ("nature-based solutions").

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Our target of net zero CO_2 emissions[1]

	Unit	2025 target	2021
CO_2 reduction[1]	%	95	97
Energy efficiency[2]	%	87[3]	78

[1] Scope 1 and 2, base year 2015 (market-based method)
[2] Energy data, base year 2015
[3] The target was raised from 82 % to 87 % in 2021.

Our target of net zero CO_2 emissions[1] by 2025 relates to Scope 1 and 2 emissions as well as emissions caused by our travel activities. The Telefónica Deutschland Group intends to reduce its GHG emissions throughout the value chain (Scope 3) to net zero by 2040. We will evaluate the Scope 3 emissions caused throughout the Telefónica, S.A. Group, for example in the supply chain, in a coordinated manner and will implement measures and reduce these emissions. The Group's target here is to reduce its carbon emissions by 39 % by 2025 (base year: 2015). As such, we are following the findings and recommendations of recognised international institutions such as the Intergovernmental Panel on Climate Change (IPCC) and the Science Based Targets initiative (SBTi) whose criteria we drew on to develop our climate strategy.

To achieve net zero CO_2 emissions[1] by 2025 we are implementing the following concrete measures, which are determined annually and underpinned by interim goals:

- Network efficiency increase based on a reduction in energy consumption per data volume (GWh/PB) of 87 % by 2025 in comparison to 2015.
- We are seeking to improve our green electricity sourcing on the basis of power purchase agreements and electricity we generate ourselves in order to promote the expansion of renewable energies.
- Total electricity consumption is already covered entirely by green electricity.
- We are using IoT-based building services in our data centres for consumption forecasts and energy footprint optimisations.
- Optimisation of our antenna sites' energy consumption is being facilitated with the installation of digital smart meters.
- Promoting virtual work in the company reduces carbon emissions because the employees then commute to work less and have less business travel.
- Emissions which are unavoidable have been neutralised by high-quality carbon reduction projects from 2021 onwards, preferably projects that remove carbon from the atmosphere.

We are expecting to see a significant increase in total energy consumption due to our network being expanded to include 5G, thus resulting in greater network coverage, data volumes and speed. This presents us with some major challenges. However, energy efficiency is being boosted by the fact that the 5G network operates more efficiently than the preceding technologies. The "energy consumption per data volume (GWh/PB)" performance indicator selected by us allows us to optimally measure and document our progress in the area of energy efficiency. Our company has set itself the goal of significantly increasing its network power efficiency with the very latest mobile

[1] We use the term "net zero CO_2 emissions" as we are focusing our reduction on carbon. We do nevertheless include in addition to carbon dioxide (CO_2) the other greenhouse gases (methane (CH_4), nitrous oxide (N_2O) and climate-relevant refrigerant gases (F-gases)) in our calculation, using CO_2 equivalents for this. A detailed description of our definition of net zero CO_2 emissions can be found here.

communications standard and technical modernisations: in other words, of continuously reducing the electricity consumed per byte. In this way, we are striving to be a sustainability trailblazer in Germany's telecommunications industry. We want to then be able to offer our customers the "greenest" network in the future.

Climate protection is relevant to business success

With our target of net zero CO_2 emissions[1] by 2025 at the latest, we want not only to improve our environmental footprint, but also to do business sustainably and safeguard our ability to compete. By doing this, we hope to achieve effective risk prevention, a strong reputation, profound brand perception, and high scores for the company in financial market ratings. The Telefónica Deutschland Group caused 6,266 (2020: 26,720) tonnes of carbon emissions according to the market-based method in 2021. Applying the same method, for CO_2 emissions (Scope 1 and Scope 2) this means a reduction to 5,950 tonnes, or of 97 % compared with reference year 2015 (175,300 tonnes).This decrease is due first and foremost to 100 % of the electricity we source indirectly now coming from renewable energy sources too.

Climate change and its effects, such as the possibility of more frequent extreme weather events, also entail concrete risks with regard to our mobile communications infrastructure – the floods in western Germany in 2021 resulted in power outages and a number of our systems were affected too. We were able to get them back up and running quickly using emergency generators. Preventive and reactive emergency management is in place for all of Germany's mobile communications networks in the event of power outages and other disaster scenarios in order to maintain the basic supply of mobile communications.

PROCESSES AND MANAGEMENT
Management systems anchored in the company

In addition to our 2025 climate strategy, our binding company-wide Environmental Policy serves as the basis for all activities and is further supported by the Sustainable Energy Management Policy. Both of these are aimed at our business processes in the areas of the network, office spaces, mobility, responsible procurement and our product and services portfolio with the main emphasis on sustainable innovations. Our Environmental Policy is established in the environmental guidelines in accordance with ISO 14001. This particularly seeks to promote the identification of and compliance with all relevant laws, norms, standards and other binding obligations. Our environmental management system serves to prevent and minimise any negative effects that our activities and infrastructures may have on the environment and to keep on

improving our environmental performance in general. We have enshrined other requirements in the area of the climate and the environment in internal guidelines such as our sustainability-oriented purchasing guidelines, our waste guidelines and our travel guidelines. We additionally offer our employees online energy and environmental training.

We have also established our own energy guidelines in the company in accordance with ISO 50001. The first certification in accordance with this standard was performed by an external certification body in 2016. The guidelines are based on our environmental management system and specify its principles in the area of energy. The Telefónica Deutschland Group's office sites have now been certified in accordance with the environmental management standard ISO 14001 and the quality management standard ISO 9001 since 2004. Our shops' environmental management is likewise based on the ISO 14001 standard. In order to manage these processes, we have appointed internal energy and environmental management officers, and we have set up both an environmental committee and an energy committee. Environmental issues and targets as well as all measures are subject to an annual management review. In cooperation with the Quality Management Officer, the officers report on the management systems directly to the Chief Executive Officer. Climate and environmental strategies are developed in the relevant Management Board divisions Technology, Finance, and Legal and Corporate Affairs and are adopted collectively by the Management Board.

We aim to achieve our goal of improving our company's performance, products and services from an environmental point of view primarily by using a systematic performance evaluation on the basis of the defined targets in the Responsible Business Plan 2025.

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Energy and CO_2: climate targets

	Unit	**2021**	2020	2019
Energy intensity: total energy consumption per data volume	GWh/PB	**0.09**	0.12	0.17
Proportion of total electricity consumption from renewable energy sources[1]	%	**100**	96	84
Proportion of green electricity in own procured and controlled energy	%	**100**	100	100

[1] Energy from renewable energy sources consists of direct purchases and electricity purchases certified with guarantees of origin. Since 2020 the calculation of the energy from renewable energy sources has included green power from grid and IT infrastructure used jointly with other companies in addition to the amount of green power purchased by the Telefónica Deutschland Group.

[1] We use the term "net zero CO_2 emissions" as we are focusing our reduction on carbon. We do nevertheless include in addition to carbon dioxide (CO_2) the other greenhouse gases (methane (CH_4), nitrous oxide (N_2O) and climate-relevant refrigerant gases (F-gases)) in our calculation, using CO_2 equivalents for this. A detailed description of our definition of net zero CO_2 emissions can be found here.

Energy and CO_2: energy consumption

In GWh	2021	2020	2019
Total energy consumption	755	736	727
Total electricity consumption[1]	732	710	696
of which by the network and data centres[2]	711	686	668
of which by offices, shops, call centres	21	24	28
Total fuel consumption[3]	23	26	31
Energy from renewable energy sources[4]	732	679	584

[1] The figure for electricity consumption equals the volumes actually billed per electricity consumption point and, in some cases, forecasts of the volumes consumed.
[2] Network electricity consumption equals the number of mobile telephony and fixed line sites multiplied by an average electricity consumption figure per site. This was determined on the basis of historical consumption data. In the future, the values actually measured by smart meters will replace the statistically collected values.
[3] Fuel consumption (in the form of diesel, natural gas and district heating) comprises the units provided via a direct contract between a supplier and the Telefónica Deutschland Group.
[4] Energy from renewable energy sources consists of direct purchases and electricity purchases certified with guarantees of origin. Since 2020 the calculation of the energy from renewable energy sources has included green power from grid and IT infrastructure used jointly with other companies in addition to the amount of green power purchased by the Telefónica Deutschland Group.

STRATEGIC PRIORITIES
Targeted improvement in energy efficiency

The Telefónica Deutschland Group is committed to the promotion of a low-carbon economy. We are continually improving our energy efficiency by switching to energy-saving components throughout the company. This enables us to make an active contribution to the reduction of greenhouse gas emissions. We are also focusing on natural resources being used efficiently and we apply environmental criteria to our procurement processes in order to reduce our ecological footprint further.

Energy consumption per data volume totalled 0.09 GWh/PB in 2021. We were therefore able to reduce consumption by 78 % in comparison to the reference year 2015. In the previous year, the reduction relative to 2015 was 71 %.

Since 2021 total electricity consumption has been covered entirely by green electricity where we source electricity indirectly too. We established the foundations for improved power procurement as planned in the reporting year. In a pilot project, we are currently testing the use of photovoltaic systems at selected antenna sites in order to make our own contribution to renewable energy generation. The first systems are now being trialled.

The key factors contributing to boosting power efficiency are above all this year's deactivation of the 3G network, the expansion of 5G and 4G, and data centre modernisations, as power efficiency increases with every new generation of mobile communications. 5G consumes up to 90 % less electricity[1] per data volume than the previous generations.

The Telefónica Deutschland Group decommissioned its 3G technology in 2021 and will henceforth ensure customers have a secure broadband supply with 4G or 5G. Over 17,000 3G sites had been definitively decommissioned by the beginning of December of this year. As well as 4G, the company is rapidly expanding 5G and managed to provide around 30 % of the german population with 5G in this way by the end of the year under review. There are targets set of more than 50 % by the end of 2022 and the whole of Germany in 2025. Power efficiency is also being improved by means of ongoing modernisation, software updates, the use of smart meters in the O_2 network and the new "all-in-one" mobile communications antenna that supports all frequency bands and mobile communications standards (see chapter "Network quality and coverage").

The Management Board of the Telefónica Deutschland Group approved the budget for a new carbon fund in 2021. From January 2022 employees can apply for funds with which to implement power efficiency projects within the company. Project funding will be based on the projects' degree of innovation and feasibility. Questions concerning their short-term profitability will only be given secondary consideration.

Smart metering as the key to efficient network technology
The network technology is responsible for approximately 97 % of the company's power consumption. The power consumed by the network is already measured by smart metering systems at many of the sites. The power consumption of every mobile network installation equipped with a smart meter is recorded every second and is transmitted to a cloud server by an Internet of Things radio unit via the O_2 network. The power consumption of all the sites would then be analysed on the basis of alerts when thresholds are exceeded, thus allowing for predictive maintenance and facilitating the early identification of malfunctions.

With smart metering, the company is taking another step towards greater energy efficiency as energy consumption can be managed better with real-time data. This also brings us closer to achieving our goal of reducing net CO_2 emissions[2] to zero. A target had been set of equipping 27,000 sites with smart meters by the end of the reporting year. The chip shortage

[1] Source: Study "Energy and Resource Efficiency of Digital Infrastructures. Results of the 'Green Cloud Computing' Research Project" commissioned by the German Environment Agency (UBA), September 2020.
[2] We use the term "net zero CO_2 emissions" as we are focusing our reduction on carbon. We do nevertheless include in addition to carbon dioxide (CO_2) the other greenhouse gases (methane (CH_4), nitrous oxide (N_2O) and climate-relevant refrigerant gases (F-gases)) in our calculation, using CO_2 equivalents for this. A detailed description of our definition of net zero CO_2 emissions can be found here.

triggered by the coronavirus pandemic meant this target could not be achieved. A total of 17,596 sites featured a smart meter at the end of 2021.

Lowering emissions for company mobility

The pandemic meant that travel activities were again significantly lower in the reporting year than in the years prior to the pandemic, in spite of a slight increase in travel in the second half of 2021. In comparison to 2019, the last year not impacted by the pandemic, 92.8 % fewer kilometres for flights and 90.9 % fewer for rail travel were recorded in the year under review.

However, the figure for other indirect emissions due to business travel (flights and rail travel) is only of limited meaningfulness when compared with the pre-pandemic years. The company is nevertheless still aiming to reduce the number of business trips

taken by our employees between national and international Telefónica sites by 70 % in comparison to 2019. This relates to internal meetings and workshops. With the key initiatives of our HR strategy, 5 Bold Moves, we want to help our employees to work together virtually wherever this is possible and wise. More information on 5 Bold Moves can be found in the chapter "Labour management relations".

We use our travel guidelines to promote a switch to rail travel. We want to gradually transition our company cars from hybrid to electric drives. Our fleet is to be 50 % partly electrified by the end of 2022. In addition to a fuel card, all e-vehicles come with a charging card. At the Munich and Düsseldorf locations, 20 charging points are now installed and active. The average carbon value[1] of company cars newly registered in 2021 was 51 g CO_2/km (2020: 71 g CO_2/km).

G 02

Climate protection: greenhouse gas emissions (market-based method)
In tonnes of CO_2 equivalent (tCO_2eq[1])

Legend:
- Total carbon emissions (Scope 1, 2, 3)[2,3]
- Indirect emissions (Scope 2)[2]
- Direct emissions (Scope 1)[2]
- Other indirect emissions (Scope 3)[3]

Year	Total carbon emissions	Other indirect (Scope 3)	Indirect (Scope 2)	Direct (Scope 1)
2021	6,266	316	581	5,369
2020	26,720	896	20,201	5,623
2019	93,470	4,957	81,513	7,000

[1] CO_2eq = CO_2, CH_4, N_2O and climate-relevant refrigerant gases (F-gases).
[2] Carbon emissions (including Scope 1 and Scope 2) are calculated on the basis of ISO 14064, the Greenhouse Gas Protocol and ITU-T L.1420. The data and calculations have been verified by the spanish Standardisation and Certification Company AENOR INTERNACIONAL, S.A.U. A standard Germany-wide conversion factor is used to convert electricity consumption into carbon emissions. For the market-based method, 588.83 g CO_2 per kWh is used. (Source: Association of Issuing Bodies (AIB), European Residual Mixes 2020). Information on location-based method is shown in the table of key figures.
[3] Scope 3 Emission: Other indirect emissions due to business travel (flights and rail travel). The emissions per km for flights and rail travel for the years 2018 to 2020 were calculated with emission factors applied Group-wide (source: UK government GHG conversion factors for company reporting, 2021). There are also other Scope 3 emissions not included here. The focus at Telefónica Deutschland Group is on business travel.

[1] Calculated on the basis of the Worldwide Harmonised Light Vehicle Test Procedure (WLTP).

Disclosure on EU taxonomy

Within the framework of the EU Action Plan on Sustainable Finance, the channelling of capital flows towards sustainable investments is a key objective. Against this background, Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment and amending Regulation (EU) 2019/2088 (hereinafter the Taxonomy Regulation) has entered into force as a uniform and legally binding classification system to determine which economic activities in the EU are considered "environmentally sustainable". The results of this classification are to be reported annually on a company-specific basis.

Article 9 of the Taxonomy Regulation lists the following six environmental objectives:

a) *Climate change mitigation;*
b) *Climate change adaptation;*
c) *Sustainable use and protection of water and marine resources;*
d) *Transition to a circular economy;*
e) *Pollution prevention and control;*
f) *Protection and restoration of biodiversity and ecosystems.*

Currently, the EU has published regulations on sustainable economic activities as defined by the EU taxonomy for two environmental objectives (climate change mitigation and adaptation).

Regarding the classification of an economic activity as "environmentally sustainable" in the sense of the EU taxonomy, a distinction must be made between taxonomy eligibility and taxonomy alignment. In a first step, it must be verified whether an economic activity is described in the Delegated Act and thus is taxonomy-eligible. Only taxonomy-eligible economic activities can be considered "environmentally sustainable" if certain criteria are met. Accordingly, in a second step, it must be evaluated whether the technical screening criteria as well as the minimum social safeguards are fulfilled for activities to be classified as taxonomy-aligned and therefore appropriately labelled as enabling or transitional.

For the reporting year 2021 only the proportion of taxonomy-eligible and non-taxonomy-eligible economic activities in turnover as well as capital expenditure (CapEx) and operating expenditure (OpEx) are to be disclosed.

The activities 8.1 "Data processing, hosting and related activities" and 8.2 "Data-driven solutions for GHG emissions reductions" in the area of "Information and Communication" in Annex I have in particular been identified as taxonomy-eligible economic activities.

In view of the ongoing consultations of the "Platform on Sustainable Finance" as well as the European Commission, Telefóncia Deutschland Group has decided to publish an extended set of key figures with a minimum and maximum value for each key figure in the first year of application of the EU taxonomy. The minimum value reflects the value in a narrow interpretation of the EU taxonomy. In the broader interpretation endorsed by us, the below mentioned maximum value can be achieved. This considers the existing uncertainties in the interpretation of the reporting requirements under the EU Taxonomy Regulation.

The minimum taxonomy-eligible KPIs below are based on the understanding that only the provision of data and analytics to enable the reduction of GHG emissions is to be understood as data-based services. This includes our customised data-based solutions such as the Private Network.

The maximum taxonomy-eligible KPIs are based on a broader view that the use of technologies such as 5G, 4G and fixed network as information and communication technology solutions to provide data is an inherent part of economic activity 8.2. Accordingly, all data-based services based on the mobile and fixed network can be associated with this activity. Based on this understanding, the quantitative implications of this view are presented in the course.

The following table gives an overview:

Taxonomy activities		Telefónica activities
Main activities contributing substantially to climate change mitigation	**Activity 8.1.** Data processing, hosting and related activities	Cloud services for storing, managing, controlling or processing data via the Internet
	Activity 8.2. Data-driven solutions for GHG emissions reductions	Digital services that collect, transmit and store data that enable GHG emission reductions of other activities
		Technologies included in the ICT solutions that transmit the data, i.e. 5G

The amounts used for the calculation of the turnover, CapEx and OpEx KPIs are based on the figures reported in the consolidated financial statements. Fully consolidated and proportionately consolidated Group companies are included.

The "Draft Commission notice on the interpretation of certain legal provisions of the Disclosures Delegated Act under Article 8 of EU Taxonomy Regulation on the reporting of eligible economic activities and assets" from 2 February 2022 has been applied.

It should be noted that the **eligibility reporting** does not consider the technical screening criteria and, since activities 8.1 and 8.2 are activities considered by the taxonomy as transition and enabling activities respectively, this eligibility should be considered as "*eligible-to-be-transitional*" and "*eligible-to-be-enabling*" according to the FAQs of 2 February 2022 on the interpretation of certain aspects of the Delegated Disclosure Regulation. It will be in the report corresponding to the 2022 financial year in which Telefónica, in accordance with the current regulatory requirements, must report the percentage of aligned activities, analysing compliance with these technical screening criteria.

Turnover KPI

The turnover KPI is the ratio of the turnover from taxonomy-eligible economic activities in a financial year to the total turnover of that financial year.

The total turnover of the financial year 2021 of EUR 7,765 million forms the denominator of the turnover KPI and can be taken from the Consolidated Income Statement of the Consolidated Financial Statements.

The revenues of Telefónica Deutschland Group reported in the Consolidated Income Statement are analysed across all Group companies to determine whether they are associated with taxonomy-eligible economic activities in accordance with Annex I (Substantial contribution to climate change mitigation) and Annex II (Substantial contribution to climate change adaptation) of the Delegated Regulation 2021/2139 on the Taxonomy Regulation. A detailed analysis of items included in the revenues is used to allocate the respective revenue to the taxonomy-eligible economic activities. The numerator is the total revenue associated with taxonomy-eligible economic activities of EUR 30 million. The taxonomy-eligible revenues include cloud services, data-based solutions and IoT solutions. This results in a taxonomy-eligible turnover KPI of 0.4 %.

Considering the revenue that also results from the use of ICT solutions in the mobile and fixed network services of EUR 3,588 million, the taxonomy-eligible turnover KPI is 47 %.

CapEx KPI

According to Taxonomy Regulation Art. 8 Annex I 1.1.2.2, the CapEx KPI indicates the proportion of capital expenditures that is either related to a taxonomy–eligible economic activity, is associated with a credible plan to expand or achieve an environmentally sustainable economic activity, or relates to the acquisition of products and services from a taxonomy–eligible economic activity.

The basis of capital expenditure is the additions to property, plant and equipment and intangible assets as well as rights of use according to IFRS 16 before depreciation and any revaluations for the financial year in question and without changes in fair value. The total capital expenditure according to Taxonomy Regulation Art. 8 Annex I 1.1.2.1 is EUR 2,613 million (see respective disclosures in chapters "5.2. Other intangible assets", "5.3. Property, plant and –equipment", "5.4. Right-of-use assets" of the Consolidated Financial Statements).

Based on the description of the additions, an analysis has been carried out with regard to taxonomy eligibility and mapping to the requirements of Annex I (Substantial contribution to climate change mitigation) and Annex II (Substantial contribution to climate change adaptation) of the Delegated Regulation 2021/2139 on the Taxonomy Regulation. The total of the additions reflecting a taxonomy-eligible investment forms the numerator of the CapEx figure of EUR 55 million related to the purchase of taxonomy-eligible services and products in the areas of information and communication technology, buildings and fleet and energy management. This results in a taxonomy-eligible CapEx KPI of 2 %.

Considering the mobile and fixed network with an investment volume of EUR 2,023 million in 2021 the taxonomy-eligible Capex KPI is 79 %.

OpEx KPI

The OpEx KPI indicates the proportion of operating expenses as defined by the EU taxonomy that is associated with taxonomy-eligible economic activities, with a CapEx plan described above or with the acquisition of products from a taxonomy-eligible economic activity.

The basis for determining the KPI is the total of expenses for building renovation measures, short-term leasing, and maintenance and repair. The total operating expenses according to Taxonomy Regulation Art. 8 Annex I 1.1.3.1 are EUR 285 million.

The numerator of the OpEx KPI according to Taxonomy Regulation Art. 8 Annex I 1.1.3.2. results from an analysis of the expenses recorded in the above-mentioned accounts and the related assets regarding their taxonomy eligibility. Therefore, EUR 0.05 million for measures in the energy management area are classified as taxonomy-eligible. This corresponds to a taxonomy-eligible OpEx KPI of 0.02 %.

Considering maintenance expenses for the mobile and fixed network of EUR 148 million, the taxonomy-eligible OpEx KPI is 52 %.

In determining the above-mentioned KPIs, any double counting of economic activities was avoided through various verification steps, including the documentation of data generation and ensuring reconciliation with other financial information.

In the 2022 financial year, even more in-depth analyses will be necessary to fulfil the criteria in relation to the identified economic activities. This includes the assessment of whether the taxonomy-eligible economic activities make a significant contribution to an environmental objective defined by the Taxonomy Regulation and whether there are no adverse effects on any other environmental objective. In addition, further information must be provided on the fulfilment of minimum social standards in accordance with the OECD Guidelines for Multinational Enterprises, UN Guiding Principles on Business and Human Rights, ILO Core Labour Standards and the International Bill of Human Rights.

A significant part of the current regulatory requirements is still being drafted and leaves a lot of room for interpretation. As part of the telecommunications industry, Telefóncia Deutschland Group supports a clarification and more detailed reference of the current regulations for the sector. We therefore expect corresponding adjustments and further developments of the regulatory framework in the coming year.

Table of key figures

	Unit	2021	2020	2019
Governance				
Proportion of employees and directors given training in the Business Principles and human rights[1]	%	**97.7**	95.8	96.8
Customer matters				
Churn rate of the O_2 brand: (O_2 consumer postpaid)[2]	%	**0.9**	1.1	1.3
5G population coverage (3.6 GHz, DSS/1,800 MHz, 700 MHz)[3]	Rounded in %	**30**	n.a.	n.a.
Data protection and information security				
Proceedings initiated due to data protection violations (Section 169 German Telecommunications Act (TKG))[4]	Number	**0**	3	0
Penalties in the form of fines as a result of data protection violations in the reporting year	Number	**0**	0	0
Reportable security breaches or incidents relating to information and network security	Number	**16**	25	26
Penalties in the form of fines paid in relation to security breaches or other network security incidents	Number	**0**	0	0
Anti-corruption and conflicts of interest				
Total number of cases of corruption[5]	Number	**0**	0	0
Employee matters				
Employee Net Promoter Score (eNPS)	Score	**60.4**	53.8	21.5
Response rate	%	**77**	77	79
Energy and CO_2				
Total energy consumption	GWh	**755**	736	727
Total electricity consumption[6]	GWh	**732**	710	696
of which by the network and data centres[7]	GWh	**711**	686	668
of which by offices, shops, call centres	GWh	**21**	24	28
Total fuel consumption[8]	GWh	**23**	26	31
Energy intensity: total energy consumption per data volume	GWh/PB	**0.09**	0.12	0.17
Energy from renewable energy sources[9]	GWh	**732**	679	584
Proportion of total electricity consumption from renewable energy sources[9]	%	**100**	96	84

	Unit	2021	2020	2019
Proportion of green electricity in own procured and controlled energy	%	100	100	100
Total carbon emissions (Scope 1, 2, 3) (market-based method)[10, 11]	tCO$_2$eq	6,266	26,720	93,470
Total carbon emissions (Scope 1, 2, 3) (location-based method)[11, 12]	tCO$_2$eq	274,190	292,214	342,524
Direct emissions (Scope 1)	tCO$_2$eq	5,369	5,623	7,000
Indirect emissions (Scope 2) (market-based method)	tCO$_2$eq	581	20,201	81,513
Indirect emissions (Scope 2) (location-based method)	tCO$_2$eq	268,505	285,695	330,567
Other indirect emissions (Scope 3)[11]	tCO$_2$eq	316	896	4,957

The values in the table of key figures have been rounded up or down. Due to this rounding, it is possible that – in some rows of the tables – the rounded figures do not add up exactly to the indicated total figures.

[1] Proportion based on the number of employees of Telefónica Germany GmbH & Co. OHG including the subsidiaries, excluding employees on sabbatical and external consultants (employee base 7,030, previous year 7,717). The calculation includes the completed training units of the last three years. For 2021 this means 6,870 completed training units from 1 January 2019 to 31 December 2021.

[2] From this reporting year onwards, we will report the churn rate of the O$_2$ brand (O$_2$ consumer postpaid), which is more relevant for the essential topic of customer satisfaction.

[3] The selected population-based evaluation does not only include the household-based coverage calculation with fixed location reference as reported to the "Bundesnetzagentur". It also includes commuter flows of the population, so that part of the population is counted both at their place of residence and at their place of work (maximum population). In this way, the Telefónica Deutschland Group takes into account that services are not only demanded stationary at the place of residence, but also on the move.

[4] Initiated proceedings are to be understood as proceedings that are ongoing and have not been concluded. Concluded proceedings generally lead to a penalty, a fine or an abandonment of proceedings as a result of the authority's suspicion not being borne out. The three proceedings reported for the 2020 financial year were still ongoing in the current reporting year. Fines are reported in the indicator "Penalties in the form of fines as a result of data protection violations during the year".

[5] Confirmed suspected cases that led to measures related to labour law or sanctions.

[6] The figure for electricity consumption equals the volumes actually billed per electricity consumption point and, in some cases, forecasts of the volumes consumed.

[7] Network electricity consumption equals the number of mobile telephony and fixed line sites multiplied by an average electricity consumption figure per site. This was determined on the basis of historical consumption data. In the future, the values actually measured by smart meters will replace the statistically collected values.

[8] Fuel consumption (in the form of diesel, natural gas and district heating) comprises the units provided via a direct contract between a supplier and the Telefónica Deutschland Group.

[9] Energy from renewable energy sources consists of direct purchases and electricity purchases certified with guarantees of origin. Since 2020 the calculation of the energy from renewable energy sources has included green power from grid and IT infrastructure used jointly with other companies in addition to the amount of green power purchased by the Telefónica Deutschland Group.

[10] Carbon emissions (including Scope 1 and Scope 2) are calculated on the basis of ISO 14064, the Greenhouse Gas Protocol and ITU-T L.1420. The data and calculations have been verified by the spanish Standardisation and Certification Company AENOR INTERNACIONAL, S.A.U. A standard Germany-wide conversion factor is used to convert electricity consumption into carbon emissions. For the market-based method, 588.83 g CO$_2$ per kWh is used (source: Association of Issuing Bodies (AIB), European Residual Mixes, 2020).

[11] Scope 3 Emission: Other indirect emissions due to business travel (flights and rail travel). The emissions per km for flights and rail travel for the years 2018 to 2020 were calculated with emission factors applied Group-wide (source: UK government GHG conversion factors for company reporting, 2021). There are also other Scope 3 emissions not included here. The focus at Telefónica Deutschland Group is on business travel.

[12] Carbon emissions (including Scope 1 and Scope 2) are calculated in accordance with ISO 14064, Greenhouse Gas Protocol and ITU-T L.1420. The data and calculations have been verified by the spanish Standardisation and Certification Company AENOR INTERNACIONAL, S.A.U. The conversion of electricity consumption into CO$_2$ emissions is based on a uniform conversion factor for the whole of Germany, irrespective of the fact that a share of 100 % (previous year: 96 %) was obtained from renewable energy sources. The Telefónica Deutschland Group uses the electricity conversion factors of the Federal Environment Agency (development of specific carbon dioxide emissions of the German electricity mix in the years 1990-2019 and first estimates 2020) and thus 366 g CO$_2$ per kWh from the year 2020 for the calculation basis according to the location-based method in the reporting year 2021.

Independent practitioner's report

Independent Practitioner's Report on a Limited Assurance Engagement on Non-financial Reporting

To Telefónica Deutschland Holding AG, Munich
We have performed a limited assurance engagement on the combined separate non-financial report of Telefónica Deutschland Holding AG, Munich, (hereinafter the "Company") for the period from 1 January to 31 December 2021 (hereinafter the "Non-financial Report").

Not subject to our assurance engagement are the external sources of documentation or expert opinions mentioned in the Non-financial Report.

Responsibility of the Executive Directors
The executive directors of the Company are responsible for the preparation of the Non-financial Report in accordance with §§ (Articles) 315c in conjunction with 289c to 289e HGB ("Handelsgesetzbuch": "German Commercial Code") and Article 8 of REGULATION (EU) 2020/852 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 18. June 2020 on establishing a framework to facilitate sustainable investment and amending Regulation (EU) 2019/2088 (hereinafter the "EU Taxonomy Regulation") and the Delegated Acts adopted thereunder, as well as for making their own interpretation of the wording and terms contained in the EU Taxonomy Regulation and the Delegated Acts adopted thereunder, as set out in section "Disclosure on EU taxonomy" of the Non-financial Report. This responsibility includes the selection and application of appropriate non-financial reporting methods and making assumptions and estimates about individual non-financial disclosures of the Company that are reasonable in the circumstances. Furthermore, the executive directors are responsible for such internal control as the executive directors consider necessary to enable the preparation of a Non-financial Report that is free from material misstatement whether due to fraud or error.

The EU Taxonomy Regulation and the Delegated Acts issued thereunder contain wording and terms that are still subject to considerable interpretation uncertainties and for which clarifications have not yet been published in every case. Therefore, the executive directors have disclosed their interpretation of the EU Taxonomy Regulation and the Delegated Acts adopted thereunder in section "Disclosure on EU taxonomy" of the Non-financial Report. They are responsible for the defensibility of this interpretation. Due to the immanent risk that indeterminate legal terms may be interpreted differently, the legal conformity of the interpretation is subject to uncertainties.

Independence and Quality Control of the Audit Firm
We have complied with the German professional provisions regarding independence as well as other ethical requirements.

Our audit firm applies the national legal requirements and professional standards – in particular the Professional Code for German Public Auditors and German Chartered Auditors ("Berufssatzung für Wirtschaftsprüfer und vereidigte Buchprüfer": "BS WP/vBP") as well as the Standard on Quality Control 1 published by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany; IDW): Requirements to quality control for audit firms (IDW Qualitätssicherungsstandard 1: Anforderungen an die Qualitätssicherung in der Wirtschaftsprüferpraxis - IDW QS 1) – and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Responsibility of the Assurance Practitioner
Our responsibility is to express a conclusion with limited assurance on the Non-financial Report based on our assurance engagement.

We conducted our assurance engagement in accordance with International Standard on Assurance Engagements (ISAE) 3000 (Revised): Assurance Engagements other than Audits or Reviews of Historical Financial Information, issued by the IAASB. This Standard requires that we plan and perform the assurance engagement to obtain limited assurance about whether any matters have come to our attention that cause us to believe that the Company's Non-financial Report, other than the external

sources of documentation or expert opinions mentioned in the Non-financial Report, are not prepared, in all material respects, in accordance with §§ 315c in conjunction with 289c to 289e HGB and the EU Taxonomy Regulation and the Delegated Acts issued thereunder as well as the interpretation by the executive directors disclosed in section "Disclosure on EU taxonomy" of the Non-financial Report.

In a limited assurance engagement the procedures performed are less extensive than in a reasonable assurance engagement, and accordingly a substantially lower level of assurance is obtained. The selection of the assurance procedures is subject to the professional judgement of the assurance practitioner.

In the course of our assurance engagement, we have, amongst other things, performed the following assurance procedures and other activities:
- Gain an understanding of the structure of the Company's sustainability organisation and stakeholder engagement
- Inquiries of the executive directors and relevant employees involved in the preparation of the Non-financial Report about the preparation process, about the internal control system relating to this process and about disclosures in the Non-financial Report
- Identification of likely risks of material misstatement in the Non-financial Report
- Analytical procedures on selected disclosures in the Non-financial Report
- Inspection of additional documents and supportive systems
- Reconciliation of selected disclosures with the corresponding data in the financial statements and management report
- Evaluation of the presentation of the Non-financial Report
- Evaluation of the process to identify taxonomy-eligible economic activities and the corresponding disclosures in the Non-financial Report
- Use of the work of a practitioner´s verification of energy consumption and greenhouse gas emission indicators according to ISO 14064

In determining the disclosures in accordance with Article 8 of the EU Taxonomy Regulation, the executive directors are required to interpret undefined legal terms. Due to the immanent risk that undefined legal terms may be interpreted differently, the legal conformity of their interpretation and, accordingly, our assurance engagement thereon are subject to uncertainties.

Assurance Opinion

Based on the assurance procedures performed and evidence obtained, nothing has come to our attention that causes us to believe that the Non-financial Report of the Company for the period from 1 January to 31 December 2021 is not prepared, in all material respects, in accordance with §§ 315c in conjunction with 289c to 289e HGB and the EU Taxonomy Regulation and the Delegated Acts issued thereunder as well as the interpretation by the executive directors disclosed in section "Disclosure on EU taxonomy" of the Non-financial Report.

We do not express an assurance opinion on the external sources of documentation or expert opinions mentioned in the Non-financial Report.

Restriction of Use

We draw attention to the fact that the assurance engagement was conducted for the Company's purposes and that the report is intended solely to inform the Company about the result of the assurance engagement. Consequently, it may not be suitable for any other purpose than the aforementioned. Accordingly, the report is not intended to be used by third parties for making (financial) decisions based on it. Our responsibility is to the Company. We do not accept any responsibility to third parties. Our assurance opinion is not modified in this respect.

Munich, 17 February 2022

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Michael Conrad   ppa. Annette Daschner
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