

Telefonica

Deutschland

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Content



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The figures in the following have been rounded in accordance with established commercial practice. Figures or additions within a table may therefore lead to results other than the totals presented in the respective tables.

Combined Management Report



The Management Report of Telefónica Deutschland Holding AG and the Group Management Report are combined pursuant to section 315 (5) HGB in conjunction with section 298 (2) HGB and published in the 2017 Annual Report of the Telefónica Group. The Annual Financial Statements and the Combined Management Report of Telefónica Deutschland Holding AG for financial year 2017 has been submitted to the operator of the German Federal Gazette and published in the German Federal Gazette. The Annual Financial Statements for Telefónica Deutschland Holding AG and the Management Report of the Group for financial year 2017 are also available on the Internet at **www.telefonica.de/annualreport**

Annual Financial Statements



for Financial Year 2017

Balance Sheet

Assets (in EUR)	As of 31 December 2017	As of 31 December 2016
A) Fixed assets		
Financial assets		
Investments in affiliated companies	10,123,755,568.74	10,757,394,316.99
	10,123,755,568.74	10,757,394,316.99
B) Current assets		
I. Receivables and other assets		
1. Receivables from affiliated companies	12,122,917.98	120,749,400.66
2. Other assets	335,022.88	206,873.95
	12,457,940.86	120,956,274.61
II. Cash on hand and bank balances	38,615.83	38,765.83
	12,496,556.69	120,995,040.44
C) Prepaid expenses and deferred charges	167,976.13	191,061.37
Total assets	10,136,420,101.56	10,878,580,418.80

Equity and Liabilities (in EUR)	As of 31 December 2017	As of 31 December 2016
A) Equity		
I. Subscribed capital	2,974,554,993.00	2,974,554,993.00
II. Additional paid-in capital	4,832,539,244.82	4,832,539,244.82
III. Retained earnings	14,083.91	14,083.91
Legal reserve	14,083.91	14,083.91
IV. Balance sheet profit	2,317,553,560.51	3,063,121,751.43
	10,124,661,882.24	10,870,230,073.16
B) Provisions		
1. Provisions for pensions and similar obligations	2,751,089.00	1,711,974.00
2. Other provisions	6,503,371.65	5,519,231.39
	9,254,460.65	7,231,205.39
C) Liabilities		
1. Trade payables	770,579.31	643,113.79
2. Liabilities to affiliated companies	616,952.57	1,243.07
3. Other liabilities	1,116,226.79	474,783.39
– thereof from taxes EUR 1,115,102.23 (prior year: EUR 433,567.06)–		
	2,503,758.67	1,119,140.25
Total equity and liabilities	10,136,420,101.56	10,878,580,418.80

Income Statement

1 January to 31 December

(in EUR)	2017	2016
1. Revenues	14,991,202.41	11,728,092.22
2. Other operating income	773,711.60	9,153.52
3. Personnel expenses	(6,328,958.60)	(3,936,563.60)
a) Salaries and wages	(5,966,197.50)	(3,856,639.76)
b) Social security and expenses for retirement benefits and support	(362,761.10)	(79,923.84)
– thereof for pension scheme EUR 323,479.32 (prior year EUR 72,006.00) –		
4. Other operating expenses	(11,302,279.08)	(9,552,025.20)
5. Other interest and similar income	0.00	1,856.00
– thereof relating to affiliated companies EUR 0.00 (previous year: EUR 0.00) –		
6. Interest and similar expenses	(63,119.00)	(22,480.00)
	(63,119.00)	(20,624.00)
7. Income tax	0.00	13,564.83
8. Profit/(loss) after tax	(1,929,442.67)	(1,758,402.23)
9. Other taxes	0.00	0.00
10. Profit/(loss) for the period	(1,929,442.67)	(1,758,402.23)
Previous year's balance sheet profit	3,063,121,751.43	3,778,773,351.98
Dividend payments	(743,638,748.25)	(713,893,198.32)
11. Profit carried forward from the previous year	2,319,483,003.18	3,064,880,153.66
12. Balance sheet profit	2,317,553,560.51	3,063,121,751.43

Notes

for Financial Year 2017

1. General Information on the Annual Financial Statements

The annual financial statements of Telefónica Deutschland Holding AG, Munich (hereinafter also referred to as Telefónica Deutschland) for financial year 2017 have been prepared in accordance with the regulations of the German Stock Corporation Act (Aktiengesetz – AktG) and the German Commercial Code (Handelsgesetzbuch – HGB) in the version of the German Accounting Directive Implementation Act (Bilanzrichtlinie-Umsetzungsgesetz – BilRUG).

The company's financial year is the same as the calendar year (1 January to 31 December).

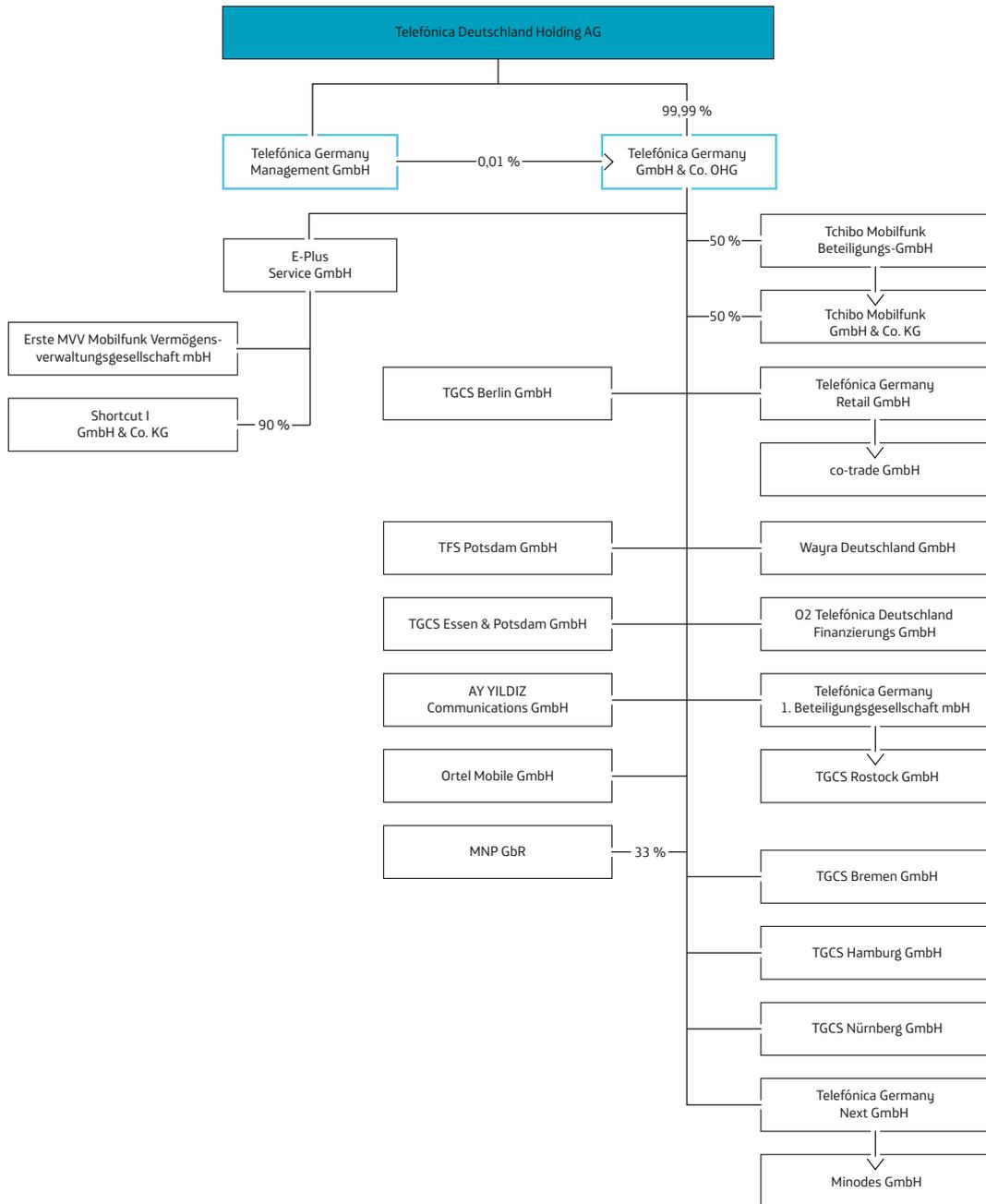
The company is registered at the Munich Local Court under registration number HRB 201055 and is listed on the regulated market of the Frankfurt Stock Exchange. The German Securities Identification Number (WKN) is A1J5RX, the International Securities Identification Number (ISIN) is DE000A1J5RX9. The registered share capital of Telefónica Deutschland Holding AG as of 31 December 2017 remains unchanged to the prior year at EUR 2,974,554,993. The share capital is divided into 2,974,554,993 no-par-value registered shares each with a proportionate interest in the share capital of EUR 1.00. In

general, each no-par-value share has one vote at the Annual General Meeting.

As of 31 December 2017, 22.2% of the shares were in free float, according to voting right notifications. 69.2% were held by Telefónica Germany Holdings Limited, Slough, United Kingdom (Telefónica Germany Holdings Limited), an indirect wholly-owned subsidiary of Telefónica, S.A., Madrid, Spain (Telefónica, S.A.). The remaining 8.6% were held by Koninklijke KPN N.V., The Hague, Netherlands (KPN).

Telefónica Deutschland Holding AG is the parent company of the Telefónica Deutschland Group. The Telefónica Deutschland Group comprises Telefónica Deutschland and its subsidiaries as well as joint operations (hereinafter jointly also referred to as the Telefónica Deutschland Group). It is included in the IFRS consolidated financial statements of the ultimate parent company, Telefónica, S.A., Madrid, Spain (hereinafter also referred to as Telefónica, S.A.) as of 31 December 2017. The parent company of the Telefónica Deutschland Group is Telefónica Germany Holdings Limited, a wholly owned subsidiary of O2 (Europe) Limited, Slough, United Kingdom (hereinafter also referred to as O2 (Europe) Limited), and an indirect subsidiary of Telefónica, S.A. Since the acquisition of the E-Plus Group, the Telefónica Deutschland Group is one of the three leading integrated network operators in Germany.

As of 31 December 2017, the companies included in the consolidated financial statements of the Telefónica Deutschland Group were organised as shown in the following organisational chart:



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

As of the reporting date, Telefónica Deutschland is deemed a large corporation in accordance with section 267 (3) sentence 2 HGB.

The income statement was prepared using the nature of the expense method in accordance with section 275 (2) HGB.

The figures in the following have been rounded in accordance with established commercial practice. Additions of figures within a table may therefore result in sums different from those shown in the same table.

Annual General Meeting and dividend distribution

The Annual General Meeting for the financial year 2016 was held on 9 May 2017. In addition to presenting the annual financial statements and consolidated financial statements of Telefónica Deutschland and re-electing all the shareholder representatives on the Supervisory Board as of the start of the Annual General Meeting, the resolutions adopted by the Annual General Meeting included a dividend payment of EUR 0.25 per entitled share or 743,638,748.25 EUR in total. The dividend for financial year 2016 was paid to the shareholders on 12 May 2017.

Agreement on the compensation for management services

Telefónica Deutschland Holding AG has signed agreements with Telefónica Germany GmbH & Co. OHG, Munich, (hereinafter also referred to as OHG) and Telefónica Germany Management GmbH, Munich. The agreements include the obligation to provide management services for Telefónica Germany GmbH & Co. OHG and for Telefónica Germany Management GmbH. Telefónica Germany GmbH & Co. OHG reimburses the costs of the remuneration of the members of the Management Board as well as other administrative costs. In addition, Telefónica Germany GmbH & Co. OHG and Telefónica Germany Management GmbH reimburse Telefónica Deutschland Holding AG a flat fee of EUR 30 thousand per quarter. The total amount of the reimbursements is included in the revenues of the company.

2. Accounting Policies

The accounting policies applied in the preparation of the annual financial statements for the year ended 31 December 2017 are in accordance with the regulations of sections 242 to 256a and 264 to 288 HGB as well as the relevant provisions of the German Stock Corporation Act (AktG). The accounting policies remain unchanged compared to the previous year.

Financial assets are measured at the historical cost less the required impairment losses in order to be recognised at the lower fair value as of the balance sheet date. If the reasons for the impairment losses no longer exist, relevant reversals of impairment losses are reversed in accordance with section 253 (5) sentence 1 HGB.

Receivables and other assets are recognised at their nominal value. Appropriate impairments were recognised for all risk positions.

Provisions for pensions are measured on the basis of actuarial calculations using the projected unit credit method taking into account the 2005 G mortality tables of Prof. Dr Heubeck, "Richttafeln 2005 G". The provisions for pensions and similar obligations are discounted at a flat rate using the average market interest rate of the past ten years published by Deutsche Bundesbank using an assumed term to maturity of 15 years (section 253 (2) sentence 2 HGB). This interest rate is 3.68% (2016: 4.00%). Pension increases of 1.75% per annum are taken into account when determining the provisions for pensions and similar obligations (2016: 1.75%) as well as a staff turnover rate of 20.00% (2016: 20.00%).

The assets serving solely to meet the retirement obligations, which are not accessible to all other creditors, (plan assets within the meaning of section 246 (2) sentence 2 H2B) are offset against the provisions at their fair value. As there is no active market which can be used to determine the market price, the costs are amortised taking into account the strict lower of cost or market principle pursuant to section 253 (4) HGB (section 255 (4) sentence 3 HGB). The amortised cost from reinsurance claims and thus the fair value within the meaning of section 255 (4) sentence 4 HGB correspond to the so-called cover capital as per the business plan of the insurance policy plus any available credit from contribution refunds (so-called irrevocably granted profit participation).

Changes in profit or loss due to a change in the discount interest rate are recognised in the financial result.

In order to satisfy the indirect pension obligations, funds are invested and managed in the provident fund, ProFund Unabhängige Gruppen-Unterstützungskasse e.V. This plan asset is measured at fair value. Telefónica Deutschland Holding AG exercises the option of not accounting for indirect pension obligations granted it in Art. 28 (1) sentence 2 of the Introductory Act to the German Commercial Code (EGHGB).

Other provisions take into account all the identifiable risks and contingent obligations and are recognised in the amount necessary according to prudent business judgement. Discounting pursuant to section 253 (2) HGB is not required.

Liabilities are recognised at their settlement amounts. Liability items denominated in currencies from countries outside of the European Monetary Union are translated at the mean spot rate as of the balance sheet date in compliance with section 256a HGB.

For the determination of deferred taxes based on temporary or quasi-permanent differences between the commercial law recognition of assets, liabilities and deferred items and their tax recognition, or due to tax loss carry forwards, the amounts of the

resulting tax burden and relief are measured at the company's individual tax rates at the time the differences are cleared and are not discounted. Deferred tax assets and liabilities are offset. Deferred taxes are not capitalised due to the exercise of the recognition option available in accordance with section 274 (1) sentence 2 HGB.

3. Notes to the Balance Sheet

Financial assets

Investments in affiliated companies in the amount of EUR 10,113,325 thousand (2016: EUR 10,746,964 thousand)

relate to the shares in Telefónica Germany GmbH & Co. OHG, Munich, whose personally liable shareholder is the company. The decrease in the carrying amount of the investment in Telefónica Germany GmbH & Co. OHG from the previous year is a result of the withdrawal from Telefónica Deutschland totalling of EUR 633,639 thousand based on the shareholder resolution dated 25 April 2017 pursuant to section 4 paragraph 3 of the shareholder agreement.

As in the previous period, a carrying amount of EUR 10,430 thousand is attributable to the shares in Telefónica Germany Management GmbH, Munich.

Please refer to the enclosed presentation on the development of fixed assets for further information.

(Euros in thousands)	As of 1 January 2017	Additions	Disposals	Historical Cost As of 31 December 2017
Financial assets				
Investments in affiliated companies	10,757,394	–	633,639	10,123,756
	10,757,394	–	633,639	10,123,756

(Euros in thousands)	As of 1 January 2017	Additions	Disposals	Accumulated depreciation As of 31 December 2017
Financial assets				
Investments in affiliated companies	–	–	–	–
	–	–	–	–

(Euros in thousands)	As of 1 January 2017	Net book value As of 31 December 2017
Financial assets		
Investments in affiliated companies	10,757,394	10,123,756
	10,757,394	10,123,756

List of shareholdings in accordance with section 285 no. 11 and no. 11a HGB

Name, legal form	Registered office	Share of Capital in %	Equity as of 31/12/2016 (Euros in thousands) ⁽⁴⁾	Results of the financial year 2016 (Euros in thousands) ⁽⁴⁾
AY YILDIZ Communications GmbH, Düsseldorf ⁽³⁾	Germany	100	5,025	0 *
co-trade GmbH, Munich	Germany	100	5,098	1,411 –
E-Plus Service GmbH, Düsseldorf ⁽³⁾	Germany	100	1,944,187	0 *
Erste MVV Mobilfunk Vermögensverwaltungsgesellschaft mbH, Düsseldorf ⁽³⁾	Germany	100	283,670	0 *
Minodes GmbH, Berlin	Germany	100	1,335	-1,678 –
MNP GbR, Düsseldorf	Germany	33	102	-33 –
O2 Telefónica Deutschland Finanzierungs GmbH, Munich	Germany	100	25	0 *
Ortel Mobile GmbH, Düsseldorf ⁽³⁾	Germany	100	5,050	0 *
Shortcut I GmbH & Co. KG, Hamburg	Germany	90	19,238	-840 –
TCHIBO Mobilfunk Beteiligungs-GmbH, Hamburg	Germany	50	41	1 –
TCHIBO Mobilfunk GmbH & Co. KG, Hamburg	Germany	50	8,832	928 –
Telefónica Germany 1. Beteiligungsgesellschaft mbH, Munich ⁽³⁾	Germany	100	85,778	0 *
Telefónica Germany GmbH & Co. OHG, Munich ⁽¹⁾⁽²⁾	Germany	100	8,072,938	422,507 –
Telefónica Germany Management GmbH, Munich ⁽³⁾	Germany	100	10,714	53 –
Telefónica Germany Next GmbH, Munich ⁽³⁾	Germany	100	1,025	0 *
Telefónica Germany Retail GmbH, Düsseldorf ⁽³⁾	Germany	100	78,202	0 *
TFS Potsdam GmbH, Potsdam ⁽³⁾	Germany	100	25	0 *
TGCS Berlin GmbH, Düsseldorf ⁽³⁾	Germany	100	1,100	0 *
TGCS Bremen GmbH, Munich ⁽³⁾	Germany	100	1,525	0 *
TGCS Essen & Potsdam GmbH, Potsdam ⁽³⁾	Germany	100	3,025	0 *
TGCS Hamburg GmbH, Munich ⁽³⁾	Germany	100	1,775	0 *
TGCS Nürnberg GmbH, Munich ⁽³⁾	Germany	100	3,775	0 *
TGCS Rostock GmbH, Munich ⁽³⁾	Germany	100	15,342	0 *
Wayra Deutschland GmbH, Munich ⁽³⁾	Germany	100	2,393	0 *

¹⁾ 99.99% Telefónica Deutschland Holding AG, as the personally liable shareholder; 0.01% Telefonica Germany Management GmbH

²⁾ Utilisation of the exemption pursuant to section 264 b HGB

³⁾ Utilisation of the exemption pursuant to section 264 (3) HGB

⁴⁾ Equity and result of the last financial year for which annual financial statements are available

* After transfer of profit/loss

For further information on the type of interests, see the organigram in the section "General information on the Annual Financial Statements".

Receivables

Receivables from affiliated companies amount to EUR 12,123 thousand (2016: EUR 120,749 thousand). The EUR 110 million loan granted in the previous year to Telefónica Germany GmbH & Co. OHG for financing its general business activities was fully repaid in 2017. In financial year 2017, receivables from affiliated companies amounted to EUR 4,155 thousand (2016: EUR 7,408 thousand), cash pool receivables from Telfisa Global B.V., Amsterdam, Netherlands and management services receivables from Telefónica Germany GmbH & Co. OHG amounted to EUR 6,778 thousand (2016: EUR 3,270 thousand). The remaining receivables relate to receivables from other companies of the Telefónica, S.A. Group.

Other assets in the amount of EUR 335 thousand (2016: EUR 207 thousand) relate primarily to tax receivables.

All receivables and other assets have a remaining term of less than one year.

Deferred taxes

As the recognition option was exercised, deferred tax assets are not recognised as of 31 December 2017. Circumstances leading to deferred tax assets are primarily the result of existing corporate and trade tax loss carry forwards and temporary differences at the Telefónica Germany GmbH & Co. OHG level. Telefónica Deutschland Holding AG, as shareholder of Telefónica Germany GmbH & Co. OHG, is the taxable entity for the purposes of corporate income tax. The tax rate for deferred tax assets for corporate income tax and the solidarity surcharge is 15.825% and for trade tax it is 17.15%.

Equity

Subscribed capital

The registered share capital of Telefónica Deutschland Holding AG amounts to EUR 2,974,555 thousand (2016: EUR 2,974,555 thousand). The share capital is divided into no-par-value registered shares each with a proportionate interest in the share capital of EUR 1.00 (shares). The registered share capital is fully paid in.

As of 31 December 2017, Telefónica Deutschland Holding AG did not hold any of its own shares.

In accordance with section 6 para. 2 of the Articles of Association, the shareholders do not have the right to securitise shares. In general, each no-par-value share grants one vote at the Annual General Meeting. The shares are freely transferable.

Authorised capital

As of 31 December 2017, Telefónica Deutschland Holding AG had authorised capital 2016/I of EUR 1,487,277,496.

Contingent capital

The share capital of Telefónica Deutschland Holding AG is contingently increased by up to EUR 558,473 thousand by issuing up to 558,472,700 no-par-value registered shares (Contingent Capital 2014/I) as of 31 December 2017.

Additional paid-in capital

As of 31 December 2017 the additional paid-in capital remains at EUR 4,832,539 thousand.

Retained earnings

Retained earnings contain a legal reserve in accordance with section 150 (2) of the German Stock Corporation Act (Aktiengesetz – AktG) of EUR 14 thousand (previous year: EUR 14 thousand).

Distribution of profits

The Annual General Meeting of Telefónica Deutschland Holding AG was held on 9 May 2017 and decided to distribute a dividend from the 2016 balance sheet profit of EUR 0.25 per no-par-value share eligible for dividends, in total EUR 743,638,748,25. The dividend was distributed on 12 May 2017.

Pension provisions

Pension provisions relate to commitments for retirement benefits in the amount of EUR 2,751 thousand (2016: EUR 1,712 thousand).

As a result of the acquisition of E-Plus and the related transfer of the acquired pension obligations at cost, in financial year 2014, this results in surplus coverage compared to a measurement on the basis of section 253 (1) sentence 2 and (2) sentence 2 HGB (see the section "I. General information on the annual financial statements" – "Accounting policies" in this regard). The transfer value will be retained up to an amount that corresponds to a measurement pursuant to section 253 (1) sentence 2 and (2) sentence 2 HGB. As of 31 December 2017, the surplus coverage is EUR 539 thousand (previous year: EUR 393 thousand).

(Euros in thousands)	As of 31 December 2017	As of 31 December 2016
Cost of acquired pension obligations	2,625	2,625
Settlement amount of offset liabilities in accordance with commercial law	2,086	2,232
Surplus coverage of cost over the settlement amount	539	393
Fair value of offset plan assets	936	913
Amortised cost of plan assets pursuant to section 255 (4) sentence 4 HGB	936	913

In financial year 2017, further pension obligations with related plan assets were taken over from an affiliated company due to the expansion of the Management Board. The transfer amount corresponds to the present value for offset pension obligations as of 31 December 2017; there is consequently no surplus.

Based on a valuation as of 31 December 2017 pursuant to section 253 (1) sentence 2 and (2) sentence 2 HGB and after offsetting against plan assets in the amount of EUR 1,403 thousand (2016: EUR 913 thousand) pursuant to section 246 (2)

sentence 2 HGB the offset pension obligation has a present value of EUR 2,211 thousand. The difference pursuant to section 253 (6) sentence 1 HGB amounts to EUR 720 thousand and is blocked from distribution.

The plan assets consist of earmarked, pledged reinsurance policies protected from insolvency. The fair value of the netted reinsurance claims corresponds to the amortised cost (cover capital reserves plus profit participation) in accordance with actuarial opinions or information received from the insurer.

Telefónica Deutschland Holding AG exercises the option of not accounting for indirect pension obligations granted it in Art. 28 (1) and (2) of the Introductory Act to the German Commercial Code (EGHGB) in the amount of EUR 366 thousand (2016: EUR 280 thousand) that are secured by the provident fund, ProFund Unabhängige Gruppen- und Unterstützungskasse e.V. To cover this obligation, as of 31 December 2017 EUR 468 thousand (2016: EUR 333 thousand) was held in trust for Telefónica Deutschland Holding AG.

As there were no interest expenses from a change of discounting of the pension provision, no offsetting against interest income from the plan assets occurred.

During the financial year, impairments of the plan assets resulted in an interest expense of EUR 63 thousand.

Other provisions

Other provisions in the amount of EUR 6,503 thousand (2016: EUR 5,519 thousand) relate primarily to obligations from the remuneration of the Management Board (2017: EUR 3,334 thousand; 2016: EUR 2,610 thousand). In addition, this item includes provisions for outstanding invoices for consultancy services in the amount of EUR 2,815 thousand (2016: EUR 2,905 thousand).

Liabilities

Trade payables amount to EUR 771 thousand (2016: EUR 643 thousand) and relate primarily to liabilities from consultancy services.

Liabilities to affiliated companies amount to EUR 617 thousand (2016: EUR 1 thousand).

Other liabilities in the amount of EUR 1.116 (2016: EUR 475 thousand) essentially relate to tax liabilities.

All liabilities have a remaining term of less than one year and are unsecured.

4. Notes to the Income Statement

Revenues

Revenues amount to EUR 14,991 thousand (2016: EUR 11,728 thousand) and primarily comprise the reimbursement of costs for the remuneration of Management Board members and other administrative costs (2017: EUR 14,751 thousand; 2016:

EUR 11,488 thousand) which were assumed by Telefónica Germany GmbH & Co. OHG in accordance with the agreements on the reimbursement of management services (as detailed under "I. General information on the annual financial statements – Agreement on the compensation for management services").

In addition, this item includes billed management services in the amount of EUR 240 thousand (2016: EUR 240 thousand) for services performed by Telefónica Deutschland Holding AG for Telefónica Germany GmbH & Co. OHG and Telefónica Germany Management GmbH.

Other operating income

Other operating income in the amount of EUR 774 thousand (2016: EUR 9 thousand) is, among other things, a result of the reversal of provisions.

Personnel expenses

Personnel expenses in the amount of EUR 6,329 thousand (2016: EUR 3,937 thousand) include the expense from the remuneration of the Management Board, including social security contributions.

Other operating expenses

Other operating expenses for the financial year in the amount of EUR 11,302 thousand (2016: EUR 9,552 thousand) primarily consist of legal and consulting costs for external service providers.

Other interest and similar income

Other interest and similar income amounts to EUR 0 thousand (2016: EUR 2 thousand).

Other interest and similar expenses

Other interest and similar expenses in the amount of EUR 63 thousand (2016: EUR 22 thousand) include the expenses from the loss in value of the plan assets.

Out-of-period income and expenses

Total out-of-period income in the amount of EUR 361 thousand from the reversal of provisions and out-of-period expenses in the amount of EUR 596 thousand from consultancy services for the previous year are included in financial year 2017.

Proposed dividend for financial year 2017 to be paid in 2018

On 24 October 2017, the Management Board of Telefónica Deutschland resolved to propose a cash dividend totalling EUR 773,384 thousand or EUR 0.26 per share at the next Annual General Meeting, which is scheduled for 17 May 2018.

5. Supplementary Information on the Notes

Additional information regarding the Supervisory Board and the Management Board

Management Board remuneration

The presentation of the Management Board remuneration system as well as the mandatory disclosures pursuant to section 285 no. 9 a) sentences 5-8 HGB are part of the combined Management Report.

The total remuneration of the Management Board members for the financial year ended 31 December 2017 amounts to EUR 3,884 thousand (2016: EUR 4,105 thousand).

The Telefónica Deutschland Holding AG has not currently granted the members of its Management Board any security or loans and has not assumed any guarantees for them.

The total remuneration includes share-based payments with a fair value at the time of granting in the amount of EUR 0 thousand (2016: EUR 0 thousand) for 0 (2016: 0) share options for 0 rights to free transfer of shares.

Supervisory Board remuneration

The basic principles of the remuneration system and the disclosure regarding individual remuneration for members of the Supervisory Board are part of the combined Management Report.

The members of the Supervisory Board received remuneration for their activities of EUR 382 thousand in 2017 and EUR 372 thousand in 2016.

The Telefónica Deutschland Holding AG has not currently granted the members of its Supervisory Board any security or loans and has not assumed any guarantees for them.

Management Board

The Supervisory Board of Telefónica Deutschland resolved to appoint Markus Rolle as Chief Financial Officer (CFO), effective as of 1 August 2017 in the meeting on 20 July 2017.

Markus Rolle replaces Rachel Empey, who left the company upon her own request and as mutually agreed with the Supervisory Board as of 31 July 2017.

The Supervisory Board of Telefónica Deutschland also decided in the meeting on 20 July 2017 to eliminate the Internal Corporate Board and elevate selected members to extend the Management Board, effective as of 1 August 2017, as follows:

Wolfgang Metze was appointed as Chief Consumer Officer responsible for the retail business. Alfons Lösing was appointed as Chief Partner and Business Officer, responsible for the business with partners and business customers as well as the activities of Telefónica NEXT. Cayetano Carbajo Martin was appointed as Chief Technology Officer, Guido Eidmann was appointed as Chief Information Officer, Valentina Daiber was appointed as Chief Officer for Legal and Corporate Affairs and Nicole Gerhardt was appointed as Chief Human Resources Officer.

The Management Board members of Telefónica Deutschland Holding AG as of 31 December 2017 are listed below:

Name	Role	Membership of Supervisory Boards
Markus Haas	Chief Executive Officer (CEO) Chairman of the Management Board	TGCS Essen & Potsdam GmbH, Potsdam (until 9 March 2017) Telefónica Germany Retail GmbH, Düsseldorf (until 9 March 2017)
Rachel Empey Until 31 July 2017	Chief Financial and Strategy Officer (CFO) Management Board member	TGCS Essen & Potsdam GmbH, Potsdam (until 21 July 2017) Telefónica Germany Retail GmbH, Düsseldorf (until 21 July 2017)
Markus Rolle From 1 August 2017	Chief Financial Officer (CFO) Management Board member	Telefónica Germany Retail GmbH, Düsseldorf (since 9 March 2017) TGCS Rostock GmbH, Munich (since 12 October 2017)
Wolfgang Metze From 1 August 2017	Chief Consumer Officer (CCO) Management Board member	TGCS Essen & Potsdam GmbH, Potsdam (since 9 March 2017) Telefónica Germany Retail GmbH, Düsseldorf (since 9 March 2017) TGCS Rostock GmbH, Munich (since 12 October 2017)
Alfons Lösing From 1 August 2017	Chief Partner and Business Officer Management Board member	TGCS Essen & Potsdam GmbH, Potsdam TGCS Rostock GmbH, Munich (since 12 October 2017)
Cayetano Carbajo Martín From 1 August 2017	Chief Technology Officer (CTO) Management Board member	
Guido Eidmann From 1 August 2017	Chief Information Officer (CIO) Management Board member	
Valentina Daiber From 1 August 2017	Chief Officer for Legal and Corporate Affairs Management Board member	
Nicole Gerhardt From 1 August 2017	Chief Human Resources Officer (CHRO) Management Board member	TGCS Essen & Potsdam GmbH, Potsdam (since 1 August 2017) Telefónica Germany Retail GmbH, Düsseldorf (since 1 August 2017) TGCS Rostock GmbH, Munich (since 12 October 2017)

Supervisory Board

With effect from 4 October 2017, Ángel Vilá Boix resigned his office as Supervisory Board member of Telefónica Deutschland. Julio Linares López was legally appointed as successor to Ángel

Vilá Boix by means of the resolution dated 16 October 2017. This appointment is valid until the next Annual General Meeting.

The Supervisory Board members of Telefónica Deutschland Holding AG as of 31 December 2017 are listed below:

Name	Role
Eva Castillo Sanz	Chairperson of the Supervisory Board Occupation/current mandates: Telefónica S.A., Member of the Board of Directors Bankia S.A., Member of the Board of Directors Telefónica Foundation, Member of the Board of Directors Comillas -ICAI Foundation, Member of the Board of Directors Entreculturas Foundation, Member of the Board of Directors
Christoph Braun*	Deputy Chairman of the Supervisory Board Occupation/current mandates: Full-time member of the Works Council of Telefónica Germany GmbH & Co. OHG Chairman of the European Works Council of Telefónica Europe Chairman of the General Works Council of Telefónica Germany GmbH & Co. OHG Deputy Chairman of the Works Council Region Northeast of Telefónica Germany GmbH & Co. OHG Deputy Chairman of the Group Works Council of Telefónica Deutschland Holding AG (until the beginning of November 2017)

Laura Abasolo García de Baquedano	Member of the Supervisory Board Occupation/current mandate: Chief Finance and Control Officer, Telefonica, S.A. Telefónica Chile S.A., Member of the Board of Directors (until 12 May 2017) Acerinox, S.A. Member of the Board of Directors and Chairperson of the Audit Committee
Sally Anne Ashford	Member of the Supervisory Board; Occupation: HR Director Parcels at Royal Mail Group Ltd.
Angel Vilá Boix (until 4 October 2017)	Member of the Supervisory Board Occupation/current mandates: Telefónica, S.A., Chief Strategy and Finance Officer (CSFO) Telefónica Brazil S.A., Member of the Board of Directors (until 4 September 2017) Member of the Board of Directors (Trustee), Telefónica Foundation
Patricia Cobián González	Member of the Supervisory Board Occupation/current mandates: Telefónica UK Ltd., Chief Financial Officer Telefónica Europe, plc, Member of the Board of Directors Lumia Capital - Advisory Board Member
Peter Erskine	Member of the Supervisory Board Occupation/current mandates: Non-Executive Director of Telefónica, S.A. Chairman of the Strategy and Innovation Committee of Telefónica, S.A.
Christoph Heil*	Member of the Supervisory Board Occupation/current mandates: Vereinte Dienstleistungsgewerkschaft ver.di, Representative Capgemini Deutschland GmbH, Member of the Supervisory Board
Michael Hoffmann	Member of the Supervisory Board Chairman of the Audit Committee of Telefónica Deutschland Holding AG Occupation/current mandate: Master's degree in Business Administration, self-employed
Julio Linares López** (since 16 October 2017)	Member of the Supervisory Board Occupation/current mandates: Telefónica Brasil S.A, Member of the Board of Directors and Chairman of the Strategy Committee (since 4 September 2017) Non-Executive Director of Telefónica de España, S.A.U. Non-Executive Director of Telefónica Móviles España, S.A.U. Member of the Board of Directors (Trustee), Telefónica Foundation
Enrique Medina Malo	Member of the Supervisory Board; Occupation/current mandate: Chief Policy Officer Telefónica, S.A. O2 International Holdings Limited, Member of the Board of Directors Telefónica Germany Holdings Limited, Member of the Board of Directors
Thomas Pfeil*	Member of the Supervisory Board Occupation/current mandate: Full-time member of the Works Council of Telefónica Germany GmbH & Co. OHG
Joachim Rieger*	Member of the Supervisory Board Occupation/current mandates: Chairman of the General Works Council of TGCS Essen & Potsdam GmbH Deputy Chairman of the Supervisory Board of TGCS Essen & Potsdam GmbH

Jürgen Thierfelder*	Member of the Supervisory Board
	Occupation/current mandates: Full-time member of the Works Council of Telefónica Germany Retail GmbH Deputy Chairman of the Supervisory Board of Telefónica Germany Retail GmbH Chairman of the General Works Council of Telefónica Germany Retail GmbH
Marcus Thurand*	Member of the Supervisory Board
	Occupation/current mandate: Director of Network Operations at Telefónica Germany GmbH & Co. OHG
Dr. Jan-Erik Walter*	Member of the Supervisory Board
	Occupation/current mandate: Full-time member of the Works Council of Telefónica Germany GmbH & Co. OHG Deputy Chairman of the Works Council Munich of Telefónica Germany GmbH & Co. OHG Chairman of the Group Works Council of Telefónica Deutschland Holding AG
Claudia Weber*	Member of the Supervisory Board
	Occupation/current mandate: Deputy Managing Director, ver.di Munich district Member of the Supervisory Board, SWM Services GmbH

* Employee representative

**New member of the Supervisory Board in accordance with court order by resolution of 16 October 2017.

Audit fees

The disclosure relating to the total audit fees of Telefónica Deutschland Holding AG is omitted pursuant to section 285 no. 17 HGB as the company prepares the consolidated financial statements of Telefónica Deutschland Holding AG ("Telefónica Deutschland Group") and the relevant information is included in these consolidated financial statements.

Number of employees

In financial year 2017 the company had no employees – as in 2016.

Contingent liabilities and other financial obligations

Contingent liabilities

In its capacity as the parent company of the Telefónica Deutschland Group, Telefónica Deutschland Holding AG assumes guarantee obligations for its subsidiaries. In the context of the two bonds issued by O2 Telefónica Deutschland Finanzierungs GmbH, Munich in February 2014 and November 2013, Telefónica Deutschland gives each bearer an amount of the two bonds issued in the amount of EUR 500 million and EUR 600 million, respectively, an unconditional and irrevocable guarantee for the correct and punctual payment of all the amounts payable by the issuer in relation to the bond in accordance with the terms and conditions of the bonds.

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

In financial year 2016, Telefónica Deutschland Holding AG issued letters of comfort to Telefónica Germany GmbH & Co. OHG and Telefónica Germany Management GmbH. The letters of comfort continue to be valid and can be terminated by giving six months' notice to the end of a financial year of the companies.

The economic substance of the opportunities and risks are not significantly changed due to the letters of comfort. The risk of any claims arising from these contingent liabilities is regarded as unlikely.

Parent company / Consolidated financial statements

Telefónica Deutschland Holding AG, Munich prepares IFRS consolidated financial statements for the smallest group of companies. These are published in the German Federal Gazette. The consolidated financial statements of Telefónica Deutschland

Holding AG are included in the consolidated financial statements of the Spanish parent company Telefónica S.A. (Madrid, Spain). The latter is the company that prepares the consolidated financial statements for the largest group of companies and publishes them on the Internet under www.telefonica.com.

Voting rights notifications pursuant to section 26 (1) WpHG:

On 15 March 2017, Koninklijke KPN N.V, The Hague, Netherlands, informed us in accordance with section 21 (1) of the German Securities Trading Act (WpHG) that its share of the voting rights of Telefónica Deutschland Holding AG, Munich, Germany, had fallen below the threshold of 10% on 13 March 2017 and amounted to 9.46% on this date.

On 18 October 2016, T. Rowe Price Group, Inc., Baltimore, Maryland, United States of America, informed us in accordance with section 21 (1) of the German Securities Trading Act (WpHG) that its share of the voting rights of Telefónica Deutschland Holding AG, Munich, Germany, had exceeded the threshold of 3% on 13 October 2016 and amounted to 3.02% on this date.

On 8 October 2014, Telefónica, S.A., Madrid, Spain, informed us in accordance with section 21 (1) of the German Securities Trading Act (WpHG) that its share of the voting rights of Telefónica Deutschland Holding AG, Munich, Germany, had fallen below the threshold of 75% on 7 October 2014 and amounted to 62.10% on this date (corresponding to 1,847,271,219 voting rights). 57.70% of the voting rights (corresponding to 1,716,390,800 voting rights) are attributable to the company pursuant to section 22 (1) sentence 1 no. 1 WpHG. Attributed voting rights are held via the following companies it controls whose share of the voting rights in Telefónica Deutschland Holding AG is 3% or more respectively: O2 (Europe) Limited, Telefónica Germany Holdings Limited. 4.40% of the voting rights (corresponding to 130,880,419 voting rights) are attributable to the company pursuant to section 22 (1) sentence 1 no. 2 WpHG in conjunction with sentence 2 WpHG. Attributed voting rights are held via the following shareholders whose share of the voting rights in Telefónica Deutschland Holding AG is 3% or more respectively: KPN Mobile Germany GmbH & Co. KG.

On 7 October 2014, Telefónica Germany Holdings Limited, Slough, United Kingdom, informed us in accordance with section 21 (1) of the German Securities Trading Act (WpHG) that its share of the voting rights of Telefónica Deutschland Holding AG, Munich, Germany, had fallen below the threshold of 75% on 7 October 2014 and amounted to 62.10% on this date (corresponding to 1,847,271,219 voting rights). 4.40% of the voting rights (corresponding to 130,880,419 voting rights) are

attributable to the company pursuant to section 22 (1) sentence 1 no. 2 WpHG. Attributed voting rights are held via the following shareholders whose share of the voting rights in Telefónica Deutschland Holding AG is 3% or more respectively: KPN Mobile Germany GmbH & Co. KG.

On 7 October 2014, O2 (Europe) Limited, Slough, United Kingdom informed us in accordance with section 21 (1) of the German Securities Trading Act (WpHG) that its share of the voting rights of Telefónica Deutschland Holding AG, Munich, Germany, had fallen below the threshold of 75% on 7 October 2014 and amounted to 62.10% on this date (corresponding to 1,847,271,219 voting rights). 57.70% of the voting rights (corresponding to 1,716,390,800 voting rights) are attributable to the company pursuant to section 22 (1) sentence 1 no. 1 WpHG. Attributed voting rights are held via the following companies it controls whose share of the voting rights in Telefónica Deutschland Holding AG is 3% or more respectively: Telefónica Germany Holdings Limited. 4.40% of the voting rights (corresponding to 130,880,419 voting rights) are attributable to the company pursuant to section 22 (1) sentence 1 no. 2 WpHG in conjunction with sentence 2 WpHG. Attributed voting rights are held via the following shareholders whose share of the voting rights in Telefónica Deutschland Holding AG is 3% or more respectively: KPN Mobile Germany GmbH & Co. KG.

An overview of all the voting rights notifications can also be found under

www.telefonica.de/voting-rights-announcement

Declaration of Compliance with the German Corporate Governance Code in accordance with section 161 AktG

The Management Board and Supervisory Board of Telefónica Deutschland feel committed to the principles of transparent corporate governance and regularly consider the principles of the German Corporate Governance Code. On 12/13/14 and 16 October 2017 they last stated a declaration of compliance in accordance with section 161 German Stock Corporation Act (AktG). The full text of the compliance declaration and its update may also be viewed on the company's website at www.telefonica.de/declaration-of-conformity-2017

Subsequent events

After the end of the financial year on 31 December 2017 there were no events of particular importance.

Combined Management Report

The Management Report of Telefónica Deutschland Holding AG and the Group Management Report are combined pursuant to section 315 (5) HGB in conjunction with section 298 (2) HGB and published in the 2017 Annual Report of the Telefónica Deutschland Group.

The annual financial statements and the Annual Report, including the combined Management Report of Telefónica Deutschland, are made available in the electronic version of the German Federal Gazette and on the website.

Munich, 12 February 2018

Telefónica Deutschland Holding AG

The Management Board



Markus Haas



Markus Rolle



Valentina Daiber



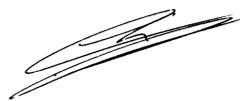
Guido Eidmann



Nicole Gerhardt



Alfons Lösing



Cayetano Carbajo Martín



Wolfgang Metze

Telefónica Deutschland Holding AG

Declaration of the Statutory Representatives



To the best of our knowledge, and in accordance with the applicable reporting principles, the Annual Financial Statements give a true and fair view of the assets, liabilities, financial position and profit or loss Company, and the Management Report for Telefónica Deutschland Holding AG, which has been combined

with the Group Management Report, includes a fair review of the development and performance of the business and the position of the Company, together with a description of the material opportunities and risks associated with the expected development of the Company.

Munich, 12 February 2018

Telefónica Deutschland Holding AG

The Management Board

Markus Haas

Markus Rolle

Valentina Daiber

Guido Eidmann

Nicole Gerhardt

Alfons Lösing

Cayetano Carbajo Martín

Wolfgang Metze

Independent Auditor's Report

To Telefónica Deutschland Holding AG, Munich

Report on the Audit of the Annual Financial Statements and of the Management Report

Audit Opinions

We have audited the annual financial statements of Telefónica Deutschland Holding AG, Munich, which comprise the balance sheet as at 31 December 2017, and the statement of profit and loss for the financial year from 1 January to 31 December 2017, and notes to the financial statements, including the recognition and measurement policies presented therein. In addition, we have audited the management report of Telefónica Deutschland Holding AG, which is combined with the group management report, for the financial year from 1 January to 31 December 2017. We have not audited the content of those parts of the management report listed in the "Other Information" section of our auditor's report.

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

- the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law and give a true and fair view of the assets, liabilities and financial position of the Company as at 31 December 2017 and of its financial performance for the financial year from 1 January to 31 December 2017 in compliance with German Legally Required Accounting Principles, and
- the accompanying management report as a whole provides an appropriate view of the Company's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the management report does not cover the content of those parts of the management report listed in the "Other Information" section of our auditor's report.

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

Basis for the Audit Opinions

We conducted our audit of the annual financial statements and of the management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Management Report" section of our auditor's report. We are independent of the Company in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the annual financial statements and on the management report.

Key Audit Matters in the Audit of the Annual Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual financial statements for the financial year from 1 January to 31 December 2017. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

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

- ① Recoverability of the shareholding in Telefónica Germany GmbH & Co. OHG

Our presentation of this key audit matter has been structured as follows:

- ① Matter and issue
- ② Audit approach and findings
- ③ Reference to further information

Hereinafter we present the key audit matter:

① Recoverability of the shareholding in Telefónica Germany GmbH & Co. OHG

- ① In the Company's annual financial statements shares in affiliated companies amounting to EUR 10.1 billion (99% of total assets) are reported under the "Financial assets" balance sheet item. The shares in affiliated companies principally comprise the shareholding in Telefónica Germany GmbH & Co. OHG, which holds further shareholdings in turn. Shares in affiliated companies are measured in accordance with German commercial law at the lower of cost and fair value. The impairment testing of the shares in Telefónica Germany GmbH & Co. OHG takes into account, in addition to the operating business of Telefónica Germany GmbH & Co. OHG, the fair values of its indirect and direct shareholdings, since these could have a material impact on the fair value of the shares in Telefónica Germany GmbH & Co. OHG.

In financial year 2017, the fair value of the significant shareholding of Telefónica Germany GmbH & Co. OHG was calculated using a discounted cash flow model as the present value of the expected future cash flows resulting from the financial projections prepared. Expectations relating to future market developments and assumptions about the development of macroeconomic factors were also taken into account. The discount rate used was the individually determined cost of capital. With respect to Telefónica Deutschland Holding AG's other indirect and direct shareholdings, testing focused on whether there were indications that could result in an impairment of the shareholding in Telefónica Germany GmbH & Co. OHG that could be expected to be permanent. Based on the value calculated and other documentation, there was no need to recognize impairment losses in the financial year. The result of the impairment test depends in particular on the estimates made by the executive directors relating to future cash flows, growth rates, the discount rate applied and the future development of the operating business of Telefónica Germany GmbH & Co. OHG and its direct and indirect investee companies. The impairment test is therefore subject to material uncertainty. Against this background and in view of its material significance for the net assets and results of operations of the Company, this matter was of particular importance for our audit.

- ② As part of our audit, we evaluated the recoverability of the shareholding of Telefónica Deutschland Holding AG in Telefónica Germany GmbH & Co. OHG also under consideration of the recoverability of the significant shareholding of Telefónica Germany GmbH & Co. OHG. In this context, we assessed the methodology employed for the purposes of the measurement exercise, among other things. We assessed whether the fair value of this shareholding had been properly determined using a discounted cash flow model in compliance with the relevant measurement standards. We based our assessment, among other things, on a comparison with general and sector-specific market expectations as well as on the executive directors' detailed explanations regarding the key planning value drivers underlying the expected cash flows. In the knowledge that even relatively small changes in the discount rate applied and the growth rate can have a material impact on the value of the entity calculated in this way, we focused our testing in particular on the parameters used to determine the discount rate applied, and evaluated the measurement model. Furthermore, on the basis of financial information and other documentation we evaluated the executive directors' conclusion that there were no indications that the shareholding in Telefónica Germany GmbH & Co. OHG was impaired, also taking into account the market capitalization of Telefónica Deutschland Holding AG for this purpose. In

this context, we assessed the expected future income from the operating business activities in the light of the business plan of Telefónica Germany GmbH & Co. OHG prepared by the executive directors. For this purpose, we assessed the appropriateness of the assumptions and expectations underlying the business plan, including with respect to the further implementation of planned measures and the anticipated growth rate, and considered whether the business plan was drawn up properly on this basis.

In our view, the assumptions and expectations underlying the executive directors' impairment testing of the shareholding in Telefónica Germany GmbH & Co. OHG have been properly derived and are within reasonable ranges.

- ③ The Company's disclosures relating to the shareholdings are contained in section "3. Notes to the balance sheet / Financial assets" of the notes to the financial statements.

Other Information

The executive directors are responsible for the other information. The other information comprises the following non-audited parts of the management report:

- the statement on corporate governance pursuant to § 289f HGB and § 315d HGB included in section "Management Declaration" of the management report
- the separate non-financial report pursuant to § 289b Abs. 3 HGB and § 315b Abs. 3 HGB

Our audit opinions on the annual financial statements and on the management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the annual financial statements, with the management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of the Executive Directors and the Supervisory Board for the Annual Financial Statements and the Management Report

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the annual financial statements and of the management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal control relevant to the audit of the annual financial statements and of arrangements and measures (systems) relevant to the audit of the management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems of the Company.
- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the annual financial statements and in the management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles.
- Evaluate the consistency of the management report with the annual financial statements, its conformity with German law, and the view of the Company's position it provides.

- Perform audit procedures on the prospective information presented by the executive directors in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

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

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

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

Other Legal and Regulatory Requirements

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as auditor by the annual general meeting on 9 May 2017. We were engaged by the supervisory board on 20 July 2017. We have been the auditor of the Telefónica Deutschland Holding AG, Munich, without interruption since the financial year 2017.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

German Public Auditor Responsible for the Engagement

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

Munich, 19 February 2018

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Klaus Bernhard
Wirtschaftsprüfer
(German Public Auditor)

Stefano Mulas
Wirtschaftsprüfer
(German Public Auditor)

Glossary

The glossary also includes the abbreviations used in the Group Management Report.

Advanced Data Analytics (ADA)	Data analytics for optimising day-to-day business as well as for the development of new products and services
AktG	Aktiengesetz (German Stock Corporation Act)
ARPU	Average Revenue per User
BEREC	Body of European Regulators for Electronic Communication
Bitkom	German Federal Association for Information Technology, Telecommunications and New Media
BMWi	German Federal Ministry for Economic Affairs and Energy
BNetzA	Bundesnetzagentur
bp	Basis points
Broadband	Refers to telecommunication in which a wide band of frequencies is available to transmit information
Brexit	British Exit –act of leaving by the United Kingdom from the European Union
CapEx	Capital expenditures: additions to property, plant and equipment and intangible assets excluding investments in licences for mobile phone frequency usage rights
Carrier	Telecommunication network operator authorized by the federal network agency
CF	Cashflow
cloud services	A dynamic infrastructure, software and platform services, which are available online
DRS	German Accounting Standard
DSL	Digital Subscriber Line: technology to transmit data in the local loop to private end-customers
EIB	European Investment Bank
EU	European Union
Euribor	Euro Interbank Offered Rate
ExComm	Executive Committee
FCF	Free Cashflow
FTE	Full-time equivalent
FTR	Fixed network Termination Rates
FttB	Fiber To The Building or Fiber To The Basement. In telecommunications FttB means that the fiber-optic cable is terminated in the user's house (basement).
FtTH	Fiber to the Home. In telecommunications FtTH means that the fiber-optic cable is terminated right in the user's home or apartment.
FTTX	This includes the options for fiber-optic roll-out: FttB and FtTH.
GCGC	German Corporate Governance Code
GHz	Gigahertz
GSM	Global System for Mobile Communications
GSMA	Global System for Mobile Communications Association
GWh	Gigawatt hours
HGB	Handelsgesetzbuch (German Commercial Code)
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
ICS	Internal control system
IMEI	International Mobile Equipment Identity
IoT	Internet of Things
ISIN	International Securities Identification Number
IT	Information Technology
Joint Venture	Two or more companies founding a new enterprise for cooperation
KPI	Key Performance Indicator
KPN	Koninklijke KPN N.V., The Hague, Netherlands
Leaver Program	Severance payment program for the planned downsizing in the context of the merger of E-Plus
LTE	Long Term Evolution: further development of the UMTS/HSPA mobile communications standard
LTM	Last 12 months
M2M	Machine-to-Machine communication, automatic exchange of information between machines
MBA	Mobile Bitstream Access
Mbit	Megabit
MHz	Megahertz
MSR	Mobile service revenue

MTR	Mobile termination rates
MVNO	Mobile Virtual Network Operator
Net Adds	New customers for the period less those customers leaving are designated as net additional customers
O2 (Europe) Limited	O2 (Europe) Limited, Slough, United Kingdom
O ₂ Free	The "O ₂ Free" data plan allows customers to remain online with speeds of up to 1 Mbit/s even after they have used all of their high-speed data
O ₂ My Handy	Monthly payment model for mobile phones and other devices
OIBDA	Operating Income before Depreciation and Amortization
Opex	Operating expenses
OTT	Over The Top
OTT services	Over-the-top- services (e.g. Whats App, Facebook)
PIP	Performance and Investment Plan
Prepaid/Postpaid	In contrast to postpaid contracts, prepaid communication services are services for which credit has been purchased in advance with no fixed-term contractual obligations
pureLRIC	Pure Long Run Incremental Costs – Benchmark to regulate costs associated with interconnection fees
RCF	Revolving Credit Facility
Retail	Sale of goods and services to end users; as opposed to resale or wholesale business
Roaming	Using a communication device or subscriber identity in a different network other than one's home network
SIM	Subscriber Identity Module: a chip card to insert into a mobile phone and identifies the user within the network
Smartphone	Mobile handset that can be used as a wireless phone, a web browser, and an e-mail reader simultaneously
smart TV	A television set with integrated computer functions
smart watch	A mobile device which consists of an electronic watch with additional computer functions, attached to a bracelet
SME	Small- and Medium-sized Enterprises
SMS	Short Message Service
SoHos	Small offices/Home offices
Tablet	A wireless, portable personal computer with a touch screen interface
Telefónica Deutschland	Telefónica Deutschland Holding AG, Munich
Telefónica, S.A.	Telefónica S.A., Madrid/Spain
Telefónica Deutschland Group	The companies included in the Consolidated Financial Statements of Telefónica Deutschland
Telefónica NEXT	Telefónica Germany Next GmbH, Munich
Telxius S.A.	Telxius Telecom S.A., the infrastructure entity of Telefónica
TKG	Telekommunikationsgesetz (Telecommunications Act)
TSM-R	Telecom single market regulation
ULL	Unbundled Local Loop: bridges the distance between the local exchange and the termination point on the customer's premises or in their home, so it is also known as the "last mile"
UMTS	Universal Mobile Telecommunications Service: international mobile communications standard of the third generation which unites mobile multimedia and telematics service under the frequency spectrum of 2GHz.
VATM	Association of Telecommunications and Value-Added Service Providers
VDSL	Very High Data Rate Digital Subscriber Line (see DSL)
Vectoring	Vectoring is a noise-cancelling technology that removes the electro-magnetic interference between lines, enabling higher bit rates
VZBV	Federation of German Consumer Organisations
Wearables	Wearable computers or wearables are miniature electronic devices that are worn under, with, or on top of clothing
Wholesale	Selling services to third parties who sell them to their own end customers either directly or after further processing

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