

**O2 Telefónica Deutschland
Finanzierungs GmbH
Munich**

**Interim Financial Statements and
Interim Management Report**

30 June 2020

Management Report

O2 Telefónica Deutschland Finanzierungs GmbH, Munich

Management Report for the Interim Reporting Period from 1 January 2020 to 30 June 2020

1. Overall Economic and Industry Conditions

Overall economic development in Germany: severely affected by the COVID-19 pandemic, but recovery in sight¹

The corona pandemic and the steps taken to contain it have resulted in a deep recession for the German and global economy in the first half of 2020. According to the Federal Statistical Office, German gross domestic product (GDP) contracted by an estimated 11.7% in the second quarter of 2020 compared with the same quarter in the previous year, following a 1.8% fall in the first quarter.

The impact of the COVID-19 pandemic is also apparent in the German labour market. A number of firms have announced short-time working. Figures from the Federal Employment Agency indicate that the number of unemployed rose from 2.2 million (unemployment rate 4.9%) at the end of 2019 to 2.9 million (unemployment rate 6.2%) in June 2020. However, the rise in unemployment in June 2020 has slowed down compared to April and May, while the widespread use of short-time working has also had a stabilising effect.

These developments are also having an impact on consumer sentiment. GfK reports that the consumer climate index reached a historic low in April 2020, but then recovered slightly.

As the number of new infections fell in Germany, the lockdown measures have now been eased and, in some areas, they have even been lifted completely. According to the German federal government, economic activity has been rising again since May and the downwards slide in the economy has been stopped so far.

Technology trends bring growth potential for the telecommunications market²

The consumption of films, series and video clips via the Internet is gaining in importance in Germany across all age groups and has further increased due to the COVID-19 pandemic. A survey conducted by Statista indicates that new contracts for streaming services increased significantly during the corona lockdown.

Rise in demand on the German fixed line broadband market due to COVID-19 pandemic³

¹ Sources: DESTATIS – FEDERAL STATISTICAL OFFICE: PRESS RELEASE 287 (30 JULY 2020); Federal Ministry of Economics (BMWi): Economic situation in Germany, June 2020; Federal Employment Agency: Unemployment statistics (July 2020); GfK consumer climate index (April-June 2020)

² Sources: Statista: Covid survey on streaming contracts (31 May 2020); PwC: German Entertainment & Media Outlook (GEMO) 2019-2023 (24 October 2019)

³ Sources: Federal Network Agency (BNetzA): Annual Report 2019 (April 2020); Wuppertal Institute: Interim Report on Covid-19 (11 June 2020)

overall result of the Company is kept at zero. In this respect, the result of TDF depends exclusively on the companies of the Telefónica Deutschland Group.

3. Net assets, results of operations and financial position

Net assets

The assets are presented in the following table:

Balance sheet item	30 June 2020 EUR thousand	31 Dec. 2019 EUR thousand	Change EUR thousand
Financial assets	1,100,000	1,100,000	0
Receivables and other assets	15,072	15,860	-788
Prepaid expenses	1,904	2,296	-392
Total Assets	1,116,976	1,118,156	-1,180

The financial assets as of 30 June 2020 consist of two loans in the amount of EUR 500,000 thousand and EUR 600,000 thousand respectively, granted by TDF to its shareholder Telefónica Germany GmbH & Co. OHG, Munich. The terms of both loans correspond to the terms of the underlying seven-year bonds which TDF issued on 10 February 2014 and 5 July 2018 respectively. The loans have fixed terms until the date of maturity of the underlying bonds on 10 February 2021 and 5 July 2025, respectively. The loans are repayable in one amount on the due date, including all interest and costs which have not yet been paid.

The receivables and other assets of EUR 15,072 thousand (31.12.2019 EUR 15,860 thousand) consist mainly of interest receivables from the loans granted to Telefónica Germany GmbH & Co. OHG, Munich, in the amount of EUR 15,007 thousand (31.12.2019: EUR 15,724 thousand). The decrease compared to the previous year corresponds to the lower interest income in the current reporting period. The underlying interest rates are 2.375 % and 1.750 % respectively and are payable annually from Telefónica Germany GmbH & Co. OHG to TDF on 10 February and 5 July respectively.

As of 30 June 2020, prepaid expenses included mainly the amortised disgios from the issuance of the seven-year bonds issued in February 2014 and in July 2018 respectively. The change in prepaid expenses results from their release over the terms of the underlying bonds on a straight-line basis until 10 February 2021 and until 5 July 2025 respectively.

Results of operations

In the reporting period ending 30 June 2020, TDF reported a profit/(loss) after tax of EUR 0 (30.06.2019: EUR 0).

The main items from income statement are as follows:

Income statement item	1 Jan. 2020 - 30 June 2020	1 Jan 2019 - 30 June 2019	Change
	EUR thousand	EUR thousand	EUR thousand
Other operating income	42	47	-5
Other operating expenses	-42	-47	5
Income from financial assets - loans	11,159	11,144	15
Other interest and similar income	392	392	0
Interest and similar expenses	-11,551	-11,536	15
Profit/(loss) after tax	0	0	0
Expenses from profit transfer agreement (previous year: income from loss transfer agreement)	0	0	0
Profit/(loss) for the period	0	0	0

The other operating income amounting to EUR 42 thousand (30.06.2019: EUR 47 thousand) mainly results from recharging of costs to Telefónica Germany GmbH & Co. OHG, Munich. Other operating expenses amounting to EUR 42 thousand (30.06.2019: EUR 47 thousand) and mainly consist of audit and consultancy fees. The operating income and expenses are in line with the previous reporting period.

Income from financial assets – loans of EUR 11,159 thousand (30.06.2019: EUR 11,144 thousand) results from interest income from the loans granted to Telefónica Germany GmbH & Co. OHG, Munich.

Other interest and similar income amounting to EUR 392 thousand (30.06.2019: EUR 392 thousand) results from the differences between the nominal values of the underlying loans and the amounts paid out to Telefónica Germany GmbH & Co. OHG, Munich.

Interest and similar expenses in the amount of EUR 11,551 thousand (30.06.2019: EUR 11,536 thousand) include interest expense from the bonds of EUR 11,159 thousand (30.06.2019: EUR 11,144 thousand) as well as the part of prepaid expenses in relation to the two disagios of EUR 392 thousand (30.06.2019: EUR 392 thousand) which are released over the terms of the underlying bonds

guarantor, Telefónica Deutschland Holding AG, Munich. This guarantee is enforceable under the laws of the Federal Republic of Germany.

The risks and opportunities of O2 Telefónica Deutschland Finanzierungs GmbH, Munich, as well as the measures and processes for handling risks and opportunities are essentially the same as those applicable for the Telefónica Deutschland Group. These are presented below with regard to the changes that occurred compared to the last balance sheet date.

Risk Management

Telefónica Deutschland Group is confronted with various business, operational, financial and other (global) risks in the course of its business activities. The company provides services on the basis of the organizational, strategic and financial decisions and precautions taken. In the management report for the 2019 financial year, certain risks were presented that could have a material impact effect on the Company's business, financial position, results of operations and reputation. In addition, the Company describes our most significant opportunities and the structure of our risk management system.

During the reporting period potential negative influences arising from the COVID- 19 pandemic as a new risk were identified, which is presented below.

COVID-19 pandemic

COVID-19, a lung disease caused by the novel coronavirus, has been classified as a pandemic by the WHO and has already had an appreciable impact on the business operations of the Telefónica Deutschland Group. Restrictions are also expected to continue, which may affect business activities, especially as another wave of infection.

Deliveries, for example from regions that are particularly hard hit, could be delayed or even cancelled. It is also possible that it is not possible to use the distribution channels to the usual extent, due to fresh restrictions. Employees could also be absent due to illness, which could affect operations.

In general, an economic downturn can be expected for 2020 as a whole. This may result in companies being unable to make up for the consequences of the pandemic. Any resulting payment difficulties or changes in demand on the part of the customers could impair the business activities. The future business activities of Telefónica Deutschland Group are also dependent on overall economic recovery and normalisation of public life. As a result, any prolonged or re-imposed travel restrictions could have a negative impact on roaming revenues.

Telefónica Deutschland Group is countering this risk with a number of measures. In particular, it was drawn up a comprehensive, top-level pandemic plan as part of an emergency and crisis management. It is constantly being adapted to possible changes in the situation. The plan also defines the steps for a gradual return to normal business operations.

These positive signals are also resulting in an improvement in consumer sentiment – it picked up again in June, for the second time in a row. The indicator has gained a total of more than 13 points since its low in April of this year, although the figure remains at a low level.⁵ Nevertheless, the Federal Ministry of Economics (BMWi) believes that the stimulus from foreign trade will remain low for some time to come. In addition, the economic recovery phase will take time. This is because epidemiological risks persist, so citizens and business need to adapt their behaviour accordingly. According to the Ifo Institute's Summer Report 2020, quarter-on-quarter economic growth of 6.9% and 3.8% is expected in the third and fourth quarters of 2020, respectively. Nonetheless, average economic output in Germany is expected to be 6.7% lower in 2020 than in the previous year. The experts at the Ifo Institute expect growth of 6.4% in 2021. The institute forecasts that the number of unemployed will be 2.7 million (unemployment rate: 5.9%) as an average for 2020, compared to 2.3 million in 2019 (unemployment rate: 5.0%).⁶

T 07 / GDP Growth 2018 – 2020⁷

In % compared to previous year	2018	2019	2020
Germany	1.5	0.6	(6.7)

Market Expectations

The COVID-19 pandemic has changed everyday life and the world of work. The acceptance of digital solutions and their use for work, leisure and shopping have increased further. The importance of digitalisation for consumers and businesses has received a boost as a result, with this trend likely to accelerate. Experts continue to expect that data usage and demand for new technologies and powerful broadband infrastructure will increase.⁸

Management summary

Currently, TDF in its capacity as a financing company restricts its activities exclusively to financing the Telefónica Deutschland Group. In 2014 and 2018 and in line with its business purpose, TDF successfully issued two bonds with a nominal value of EUR 500,000 thousand and EUR 600,000 thousand and a maturity on 10 February 2021 and 5 July 2025 respectively. TDF has made the proceeds of the bond issue available to Telefónica Germany GmbH & Co. OHG, Munich in the form of a loan and based on the same conditions. The bonds are guaranteed by Telefónica Deutschland Holding AG, Munich. TDF

⁵ Source: GfK consumer climate index (April-June 2020)

⁶ Source: Ifo Institute: IFO Economic Forecast for Summer 2020 (July 2020)

⁷ Sources: German Federal Office for Statistics: National Accounts 2019; IFO Economic Forecast 2020

⁸ Sources: Bitkom: Press release on digitalisation (15 June 2020); Wuppertal Institute: Interim Report on COVID-19 (11 June 2020)

O2 Telefónica Deutschland Finanzierungs GmbH**Munich****Income Statement
for the Reporting Period from 1 January 2020 to 30 June 2020**

	01.01.2020 - 30.06.2020	01.01.2019 - 30.06.2019
	EUR	EUR
1. Other operating income	41.676,18	46.828,19
2. Other operating expenses	-41.676,18	-46.786,14
3. Income from financial assets - loans --thereof from affiliated companies EUR 11,158,811.48 (previous year: EUR 11,144,349.31)--	11.158.811,48	11.144.349,31
4. Other interest and similar income --thereof from affiliated companies EUR 391,928.57 (previous year: EUR 391,928.57)--	391.928,57	391.928,57
5. Interest and similar expenses	-11.550.740,05	-11.536.319,93
6. Profit/(loss) after tax	0,00	0,00
7. Profit/(loss) for the period	0,00	0,00

O2 Telefónica Deutschland Finanzierungs GmbH**Munich****Statement of Changes in Equity
for the Financial Year from 1 January 2020 to 30 June 2020**

	Share capital	Other retained earnings	Net income for the period	Equity
	EUR	EUR	EUR	EUR
As of 1 January 2020	25.000,00	0,00	0,00	25.000,00
As of 30 June 2020	25.000,00	0,00	0,00	25.000,00
As of 1 January 2019	25.000,00	0,00	0,00	25.000,00
As of 30 June 2019	25.000,00	0,00	0,00	25.000,00

Munich

**Statement of Cash Flows
for the Financial Year from 1 January 2020 to 30 June 2020**

	01.01.2020- 30.06.2020 EUR	01.01.2019- 30.06.2019 EUR
1. Cash flow from operating activities		
Increase (+)/decrease (-) in provisions	-19.806,00	-87.861,82
Increase (+)/decrease (-) in receivables from affiliated companies and other assets	1.130.981,55	1.622.819,71
Increase (+)/decrease (-) in trade payables and other liabilities	-1.160.343,12	-1.254.147,91
Cash flow from operating activities	-49.167,57	280.809,98
2. Cash flow from investing activities		
Interest received (+)	11.875.000,00	11.875.000,00
Cash flow from investing activities	11.875.000,00	11.875.000,00
3. Cash flow from financing activities		
Interest paid (-)	-11.875.000,00	-11.875.000,00
Cash flow from financing activities	-11.875.000,00	-11.875.000,00
4. Cash and cash equivalents at the end of the period		
Net change in cash and cash equivalents	-49.167,57	280.809,98
Cash and cash equivalents at the beginning of the period	60.053,17	15.601,09
Cash and cash equivalents at the end of the period	10.885,60	296.411,07
5. Composition of cash and cash equivalents		
Cash equivalents	10.885,60	296.411,07
Cash and cash equivalents at the end of the period	10.885,60	296.411,07

O2 Telefónica Deutschland Finanzierungs GmbH, Munich

Notes to the Interim Financial Statements for the reporting period from 1 January 2020 to 30 June 2020

I. GENERAL INFORMATION ON THE INTERIM FINANCIAL STATEMENTS

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

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

Furthermore TDF issued on 5 July 2018 a seven-year unsecured bond (Senior Unsecured Bond) with a nominal value of EUR 600,000 thousand and a maturity on 5 July 2025 in the regulated market of the Luxembourg Stock Exchange.

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

The interim financial statements of O2 Telefónica Deutschland Finanzierungs GmbH, Munich, for the reporting period from 1 January 2020 to 30 June 2020 have been prepared in accordance with the accounting principles of the German Commercial Code (HGB) as well as the GmbH Act.

As of 30 June 2020, the Company is classified as a large corporation in accordance with section 264d in conjunction with section 267 (3) HGB.

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

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

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

II. ACCOUNTING POLICIES

1. Principles and comparability

The accounting policies used in the preparation of the interim financial statements for the period ending 30 June 2020 are in accordance with the provisions of sections 242 to 256a and sections 264 to 288 of the HGB as well as the relevant provisions of the GmbH. The accounting policies and valuation methods have not changed compared to the previous year.

2. Fixed assets

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

3. Current assets

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

4. Prepaid expenses

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

5. Equity

Subscribed capital is carried at its nominal value.

6. Provisions

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

7. Liabilities

Liabilities are recognised at their settlement amount.

8. Deferred income

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

9. Other operating income

Under other operating income, the company shows the income from the cost transfer to Telefónica Germany GmbH & Co. OHG, Munich, in accordance with the agreement between the parties.

Appendix VI

10. Income from financial assets – loans

This item includes interest income from the loans granted by Telefónica Germany GmbH & Co. OHG, Munich.

11. Other interest and similar income

Interest and similar expenses mainly comprise interest expenses from bonds.

III. NOTES TO THE BALANCE SHEET

1. Financial assets

The financial assets as of 30 June 2020 consist of two loans in the amount of EUR 500,000 thousand and EUR 600,000 thousand respectively, granted by TDF to its shareholder Telefónica Germany GmbH & Co. OHG, Munich. The terms of both loans correspond to the terms of the underlying seven-year bonds which TDF issued on 10 February 2014 and 5 July 2018 respectively. The loans have fixed terms until the date of maturity of the underlying bonds on 10 February 2021 and 5 July 2025 respectively and are repayable in one amount on the due date, including all interest and costs which have not yet been paid. The underlying interest rates are 2.375 % and 1.750 % respectively and are payable annually on 10 February and 5 July respectively.

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

Statements of Changes in Financial Assets for the Reporting Period from 1 January to 30 June 2020

	Acquisition costs				Accumulated depreciations				Carrying amounts	
	01.01.2020	Additions	Disposals	30.06.2020	01.01.2020	Additions	Disposals	30.06.2020	30.06.2020	31.12.2019
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Financial Assets										
Loans to affiliated companies	1.100.000.000,00	0,00	0,00	1.100.000.000,00	0,00	0,00	0,00	0,00	1.100.000.000,00	1.100.000.000,00

2. Receivables and other assets

The receivables from affiliated companies amount to EUR 15,072 thousand (31.12.2019: EUR 15,860 thousand), of which EUR 15,060 thousand (31.12.2019: EUR 15,795 thousand) relates to receivables from the shareholder Telefónica Germany GmbH & Co. OHG, Munich. These comprise interest from loans issued to the shareholder in the amount of EUR 15,007 thousand (31.12.2019: EUR 15,724 thousand). EUR 11 thousand (31.12.2019: EUR 60 thousand) represent receivables from Telfisa Global B.V., Amsterdam, Netherlands from the cash pooling. The remaining EUR 5 thousand mainly comprise receivables from other affiliated companies.

The maturity of these receivables is less than one year.

3. Prepaid expenses

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

4. Subscribed capital

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

5. Provisions

The other provisions in the amount of EUR 37 thousand (31.12.2019: EUR 57 thousand) mainly result from audit and consultancy fees.

6. Bonds

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

7. Liabilities to affiliated companies

Liabilities to affiliated companies amount to EUR 0 thousand (31.12.2019: EUR 54 thousand).

8. Other liabilities

The other liabilities include short-term interest payables in relation to the bonds in the amount of EUR 15,007 thousand (31.12.2019: EUR 15,724 thousand).

9. Deferred income

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

IV. NOTES TO THE INCOME STATEMENT

Other operating income and expenses

Other operating income amounting to EUR 42 thousand (30.06.2019: EUR 47 thousand) mainly results from recharging of costs to Telefónica Germany GmbH & Co. OHG, Munich. Other operating expenses amounting to EUR 42 thousand (30.06.2019: EUR 47 thousand) mainly result from audit and consultancy fees.

Financial result

Income from financial assets – loans in the amount of EUR 11,551 thousand (30.06.2019: EUR 11,144 thousand) result from interest income from the loans granted to Telefónica Germany GmbH & Co. OHG, Munich.

Appendix VI

Other interest and similar income result from the release of deferred income amounting to EUR 392 thousand (30.06.2019: EUR 392 thousand).

Interest and similar expenses in the amount of EUR 11,551 thousand (30.06.2019: EUR 11,536 thousand) include interest expense from the bonds of EUR 11,159 thousand (30.06.2019: EUR 11,144 thousand) as well as the part of prepaid expenses in relation to the two disgios of EUR 392 thousand (30.06.2019: EUR 392 thousand) which are released over the terms of the underlying bonds.

V. ADDITIONAL DISCLOSURES TO THE NOTES

Additional disclosures to the cash flow statement

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

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

Employees

In the reporting period ended 30 June 2020 TDF had no employees.

Management

The Managing Directors in the financial year were:

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

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

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

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

Audit committee

By resolution of the shareholder as of 28 April 2014 and as of 14 September 2018 an audit committee for TDF was set up in accordance with section 324 HGB. The audit committee consists of the following members:

Dieter, Gauglitz

Chairman

German public auditor

Resident in Munich

Eckart, Kurze

Board member

Appendix VI

Director Organisational Efficiency; Telefónica Germany GmbH & Co. OHG, Munich
Resident in Munich

Marcel, Ritter
Board member
General Counsel, Telefónica Germany GmbH & Co. OHG, Munich
Resident in Duisburg

Remuneration of governing bodies

The members of the Audit Committee received a total remuneration of EUR 8 thousand for their work in six month period 2020.

Total fee of the auditor

The information regarding the total fee of the auditor of the TDF in accordance with Section 285 No. 17 HGB is not stated as the company is included in the consolidated financial statements of Telefónica Deutschland Holding AG, Munich (Telefónica Deutschland Group) and the information is contained in the consolidated financial statements.

Subsequent events

There were no significant events after the end of the reporting period 30 June 2020 which would need to be disclosed.

Cost reimbursement agreement

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

Profit and loss transfer agreement

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

Munich, 12 August 2020

O2 Telefónica Deutschland Finanzierungs GmbH

- Management -

Markus Rolle

Markus Haas

Albert Graf

Declaration of the Statutory Representatives

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

Munich, 12 August 2020

O2 Telefónica Deutschland Finanzierungs GmbH

- Management -

Managing Director

Markus Haas

Managing Director

Markus Rolle

Managing Director

Albert Graf



PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft
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Review Report

To O2 Telefónica Deutschland Finanzierungs GmbH, Munich

We have reviewed the Interim Financial Statements - comprising the balance sheet, income statement, statement of cash flows, statement of changes in equity and notes - and the Interim Management Report of O2 Telefónica Deutschland Finanzierungs GmbH, Munich, for the period from 1 January 2020 to 30 June 2020 which are part of the half-year financial report pursuant to § 115 WpHG ("Wertpapierhandelsgesetz": German Securities Trading Act). The preparation of the Interim Financial Statements in accordance with German commercial law and of the Interim Management Report in accordance with the provisions of the German Securities Trading Act applicable to interim management reports is the responsibility of the Company's Managing Directors. Our responsibility is to issue a review report on the Interim Financial Statements and on the Interim Management Report based on our review.

We conducted our review of the Interim Financial Statements and the Interim Management Report in accordance with German Generally Accepted Standards for the review of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany or IDW). Those standards require that we plan and perform the review so that we can preclude through critical evaluation, with moderate assurance, that the interim financial statements have not been prepared, in all material respects, in accordance with German commercial law and that the interim management report has not been prepared, in all material respects, in accordance with the provisions of the German Securities Trading Act applicable to interim management reports. A review is limited primarily to inquiries of company personnel and analytical procedures and therefore does not provide the assurance attainable in a financial statement audit. Since, in accordance

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with our engagement, we have not performed a financial statement audit, we cannot express an audit opinion.

Based on our review, no matters have come to our attention that cause us to presume that the Interim Financial Statements have not been prepared, in all material respects, in accordance with German commercial law nor that the Interim Management Report has not been prepared, in all material respects, in accordance with the provisions of the German Securities Trading Act applicable to interim management reports.

Munich, August 12, 2020

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

sgd. Stefano Mulas
Wirtschaftsprüfer
(German Public Auditor)

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

General Engagement Terms

for
Wirtschaftsprüfer and Wirtschaftsprüfungsgesellschaften
[German Public Auditors and Public Audit Firms]
as of January 1, 2017

1. Scope of application

(1) These engagement terms apply to contracts between German Public Auditors (*Wirtschaftsprüfer*) or German Public Audit Firms (*Wirtschaftsprüfungsgesellschaften*) – hereinafter collectively referred to as “German Public Auditors” – and their engaging parties for assurance services, tax advisory services, advice on business matters and other engagements except as otherwise agreed in writing or prescribed by a mandatory rule.

(2) Third parties may derive claims from contracts between German Public Auditors and engaging parties only when this is expressly agreed or results from mandatory rules prescribed by law. In relation to such claims, these engagement terms also apply to these third parties.

2. Scope and execution of the engagement

(1) Object of the engagement is the agreed service – not a particular economic result. The engagement will be performed in accordance with the German Principles of Proper Professional Conduct (*Grundsätze ordnungsmäßiger Berufsausübung*). The German Public Auditor does not assume any management functions in connection with his services. The German Public Auditor is not responsible for the use or implementation of the results of his services. The German Public Auditor is entitled to make use of competent persons to conduct the engagement.

(2) Except for assurance engagements (*betriebswirtschaftliche Prüfungen*), the consideration of foreign law requires an express written agreement.

(3) If circumstances or the legal situation change subsequent to the release of the final professional statement, the German Public Auditor is not obligated to refer the engaging party to changes or any consequences resulting therefrom.

3. The obligations of the engaging party to cooperate

(1) The engaging party shall ensure that all documents and further information necessary for the performance of the engagement are provided to the German Public Auditor on a timely basis, and that he is informed of all events and circumstances that may be of significance to the performance of the engagement. This also applies to those documents and further information, events and circumstances that first become known during the German Public Auditor's work. The engaging party will also designate suitable persons to provide information.

(2) Upon the request of the German Public Auditor, the engaging party shall confirm the completeness of the documents and further information provided as well as the explanations and statements, in a written statement drafted by the German Public Auditor.

4. Ensuring independence

(1) The engaging party shall refrain from anything that endangers the independence of the German Public Auditor's staff. This applies throughout the term of the engagement, and in particular to offers of employment or to assume an executive or non-executive role, and to offers to accept engagements on their own behalf.

(2) Were the performance of the engagement to impair the independence of the German Public Auditor, of related firms, firms within his network, or such firms associated with him, to which the independence requirements apply in the same way as to the German Public Auditor in other engagement relationships, the German Public Auditor is entitled to terminate the engagement for good cause.

5. Reporting and oral information

To the extent that the German Public Auditor is required to present results in writing as part of the work in executing the engagement, only that written work is authoritative. Drafts are non-binding. Except as otherwise agreed, oral statements and explanations by the German Public Auditor are binding only when they are confirmed in writing. Statements and information of the German Public Auditor outside of the engagement are always non-binding.

6. Distribution of a German Public Auditor's professional statement

(1) The distribution to a third party of professional statements of the German Public Auditor (results of work or extracts of the results of work whether in draft or in a final version) or information about the German Public Auditor acting for the engaging party requires the German Public Auditor's written consent, unless the engaging party is obligated to distribute or inform due to law or a regulatory requirement.

(2) The use by the engaging party for promotional purposes of the German Public Auditor's professional statements and of information about the German Public Auditor acting for the engaging party is prohibited.

7. Deficiency rectification

(1) In case there are any deficiencies, the engaging party is entitled to specific subsequent performance by the German Public Auditor. The engaging party may reduce the fees or cancel the contract for failure of such subsequent performance, for subsequent non-performance or unjustified refusal to perform subsequently, or for unconscionability or impossibility of subsequent performance. If the engagement was not commissioned by a consumer, the engaging party may only cancel the contract due to a deficiency if the service rendered is not relevant to him due to failure of subsequent performance, to subsequent non-performance, to unconscionability or impossibility of subsequent performance. No. 9 applies to the extent that further claims for damages exist.

(2) The engaging party must assert a claim for the rectification of deficiencies in writing (*Textform*) [Translator's Note: *The German term "Textform" means in written form, but without requiring a signature*] without delay. Claims pursuant to paragraph 1 not arising from an intentional act expire after one year subsequent to the commencement of the time limit under the statute of limitations.

(3) Apparent deficiencies, such as clerical errors, arithmetical errors and deficiencies associated with technicalities contained in a German Public Auditor's professional statement (long-form reports, expert opinions etc.) may be corrected – also versus third parties – by the German Public Auditor at any time. Misstatements which may call into question the results contained in a German Public Auditor's professional statement entitle the German Public Auditor to withdraw such statement – also versus third parties. In such cases the German Public Auditor should first hear the engaging party, if practicable.

8. Confidentiality towards third parties, and data protection

(1) Pursuant to the law (§ [Article] 323 Abs 1 [paragraph 1] HGB [German Commercial Code: *Handelsgesetzbuch*], § 43 WPO [German Law regulating the Profession of *Wirtschaftsprüfer*: *Wirtschaftsprüferordnung*], § 203 StGB [German Criminal Code: *Strafgesetzbuch*]) the German Public Auditor is obligated to maintain confidentiality regarding facts and circumstances confided to him or of which he becomes aware in the course of his professional work, unless the engaging party releases him from this confidentiality obligation.

(2) When processing personal data, the German Public Auditor will observe national and European legal provisions on data protection.

9. Liability

(1) For legally required services by German Public Auditors, in particular audits, the respective legal limitations of liability, in particular the limitation of liability pursuant to § 323 Abs. 2 HGB, apply.

(2) Insofar neither a statutory limitation of liability is applicable, nor an individual contractual limitation of liability exists, the liability of the German Public Auditor for claims for damages of any other kind, except for damages resulting from injury to life, body or health as well as for damages that constitute a duty of replacement by a producer pursuant to § 1 ProdHaftG [German Product Liability Act: *Produkthaftungsgesetz*], for an individual case of damages caused by negligence is limited to € 4 million pursuant to § 54 a Abs. 1 Nr. 2 WPO.

(3) The German Public Auditor is entitled to invoke demurs and defenses based on the contractual relationship with the engaging party also towards third parties.

(4) When multiple claimants assert a claim for damages arising from an existing contractual relationship with the German Public Auditor due to the German Public Auditor's negligent breach of duty, the maximum amount stipulated in paragraph 2 applies to the respective claims of all claimants collectively.

(5) An individual case of damages within the meaning of paragraph 2 also exists in relation to a uniform damage arising from a number of breaches of duty. The individual case of damages encompasses all consequences from a breach of duty regardless of whether the damages occurred in one year or in a number of successive years. In this case, multiple acts or omissions based on the same source of error or on a source of error of an equivalent nature are deemed to be a single breach of duty if the matters in question are legally or economically connected to one another. In this event the claim against the German Public Auditor is limited to € 5 million. The limitation to the fivefold of the minimum amount insured does not apply to compulsory audits required by law.

(6) A claim for damages expires if a suit is not filed within six months subsequent to the written refusal of acceptance of the indemnity and the engaging party has been informed of this consequence. This does not apply to claims for damages resulting from scienter, a culpable injury to life, body or health as well as for damages that constitute a liability for replacement by a producer pursuant to § 1 ProdHaftG. The right to invoke a plea of the statute of limitations remains unaffected.

10. Supplementary provisions for audit engagements

(1) If the engaging party subsequently amends the financial statements or management report audited by a German Public Auditor and accompanied by an auditor's report, he may no longer use this auditor's report.

If the German Public Auditor has not issued an auditor's report, a reference to the audit conducted by the German Public Auditor in the management report or any other public reference is permitted only with the German Public Auditor's written consent and with a wording authorized by him.

(2) If the German Public Auditor revokes the auditor's report, it may no longer be used. If the engaging party has already made use of the auditor's report, then upon the request of the German Public Auditor he must give notification of the revocation.

(3) The engaging party has a right to five official copies of the report. Additional official copies will be charged separately.

11. Supplementary provisions for assistance in tax matters

(1) When advising on an individual tax issue as well as when providing ongoing tax advice, the German Public Auditor is entitled to use as a correct and complete basis the facts provided by the engaging party – especially numerical disclosures; this also applies to bookkeeping engagements. Nevertheless, he is obligated to indicate to the engaging party any errors he has identified.

(2) The tax advisory engagement does not encompass procedures required to observe deadlines, unless the German Public Auditor has explicitly accepted a corresponding engagement. In this case the engaging party must provide the German Public Auditor with all documents required to observe deadlines – in particular tax assessments – on such a timely basis that the German Public Auditor has an appropriate lead time.

(3) Except as agreed otherwise in writing, ongoing tax advice encompasses the following work during the contract period:

- a) preparation of annual tax returns for income tax, corporate tax and business tax, as well as wealth tax returns, namely on the basis of the annual financial statements, and on other schedules and evidence documents required for the taxation, to be provided by the engaging party
- b) examination of tax assessments in relation to the taxes referred to in (a)
- c) negotiations with tax authorities in connection with the returns and assessments mentioned in (a) and (b)
- d) support in tax audits and evaluation of the results of tax audits with respect to the taxes referred to in (a)
- e) participation in petition or protest and appeal procedures with respect to the taxes mentioned in (a).

In the aforementioned tasks the German Public Auditor takes into account material published legal decisions and administrative interpretations.

(4) If the German Public auditor receives a fixed fee for ongoing tax advice, the work mentioned under paragraph 3 (d) and (e) is to be remunerated separately, except as agreed otherwise in writing.

(5) Insofar the German Public Auditor is also a German Tax Advisor and the German Tax Advice Remuneration Regulation (*Steuerberatungsvergütungsverordnung*) is to be applied to calculate the remuneration, a greater or lesser remuneration than the legal default remuneration can be agreed in writing (*Textform*).

(6) Work relating to special individual issues for income tax, corporate tax, business tax, valuation assessments for property units, wealth tax, as well as all issues in relation to sales tax, payroll tax, other taxes and dues requires a separate engagement. This also applies to:

- a) work on non-recurring tax matters, e.g. in the field of estate tax, capital transactions tax, and real estate sales tax;
- b) support and representation in proceedings before tax and administrative courts and in criminal tax matters;
- c) advisory work and work related to expert opinions in connection with changes in legal form and other re-organizations, capital increases and reductions, insolvency related business reorganizations, admission and retirement of owners, sale of a business, liquidations and the like, and
- d) support in complying with disclosure and documentation obligations.

(7) To the extent that the preparation of the annual sales tax return is undertaken as additional work, this includes neither the review of any special accounting prerequisites nor the issue as to whether all potential sales tax allowances have been identified. No guarantee is given for the complete compilation of documents to claim the input tax credit.

12. Electronic communication

Communication between the German Public Auditor and the engaging party may be via e-mail. In the event that the engaging party does not wish to communicate via e-mail or sets special security requirements, such as the encryption of e-mails, the engaging party will inform the German Public Auditor in writing (*Textform*) accordingly.

13. Remuneration

(1) In addition to his claims for fees, the German Public Auditor is entitled to claim reimbursement of his expenses; sales tax will be billed additionally. He may claim appropriate advances on remuneration and reimbursement of expenses and may make the delivery of his services dependent upon the complete satisfaction of his claims. Multiple engaging parties are jointly and severally liable.

(2) If the engaging party is not a consumer, then a set-off against the German Public Auditor's claims for remuneration and reimbursement of expenses is admissible only for undisputed claims or claims determined to be legally binding.

14. Dispute Settlement

The German Public Auditor is not prepared to participate in dispute settlement procedures before a consumer arbitration board (*Verbraucherschlichtungsstelle*) within the meaning of § 2 of the German Act on Consumer Dispute Settlements (*Verbraucherstreitbeilegungsgesetz*).

15. Applicable law

The contract, the performance of the services and all claims resulting therefrom are exclusively governed by German law.