Telefónica Deutschland

Telefónica Deutschland Holding AG

Reporting year 2021

Magazine

Investor Relations

Financial calendar and contact

2022

23 February
Q4 2021 – Preliminary results

02 March
Annual Report 2021

11 May
Q1 2022 – Quarterly statement

19 May
Annual General Meeting

27 July
Q2 2022 – Preliminary results

11 August
Half-Year Report 2022

03 November
Q3 2022 – Quarterly statement

(Subject to change)

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Investor Relations

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Foreword by the Management Board

Dear Shareholders, Dear Sir or Madam,

in mobile communications, fixed network, and our partnerships, we again achieved important milestones in the second year of our "Investment for Growth" program and consistently and successfully implemented our strategy. Financially, we can look back on one of the most successful financial years. The accelerated expansion of our network, our continued excellent service, and the expansion of our offerings are paying off. This is impressively demonstrated by business development in the 2021 financial year 2021. Our network continues to improve and our price/performance ratio has again received numerous independent awards in 2021. Our customers trust us and we are gaining market share.

Compared with the previous year, revenues increased by 3.1% to Euro 7,765 billion. OIBDA adjusted for special effects climbed by 3.9% to Euro 2.411 billion. We thus met our outlook for the financial year in the second pandemic year. This includes the outlook for OIBDA adjusted for special effects, which was raised twice in the course of the year. The basis for this is our mobile network, which we continued to expand at full speed in 2021. We now cover more than 99% of the German population with our fast 4G network. We are driving forward the roll-out of 5G technology at record speed. Here, following the launch in October 2020, we achieved our ambitious target in the first full year of the roll-out and covered around 30% of the German population with our 5G network by the end of 2021. This strengthens the basis for our future business development. The renewed "very good" rating for our mobile network by the "connect"[1] magazine is confirmation of our network strategy. At the same time, investments in the digitization of our service have also been recognized. With mobile apps and the use of state-of-the-art technologies such as artificial intelligence, we have been able to significantly improve the customer experience. Numerous tests have confirmed this.

In particular our core brand O_2 has performed very well in the past year. The brand achieved top scores in customer satisfaction. The recommendation rate (also known as the net promoter score) improved further. At the same time, the churn rate was lower than ever before in our history. As a result, we reported exceptionally good customer growth in 2021 compared with the competition. In mobile alone, more than 1.5 million additional postpaid customers were added in 2021. More and more customers are using more than one of our products, such as mobile and high-speed Internet at home. We will continue to build on these strengths in the future. O_2 can do! This remains our promise to the customers of our core brand.

The partner business continued to develop well in the financial year 2021. We further optimized our portfolio. Partner business again made significant contributions to revenue and profit in 2021. No other network operator in Germany has as many successful wholesale cooperations and partnerships as Telefónica Deutschland, with partners such as ALDI TALK (Medion Mobile), Tchibo MOBIL, AY YILDIZ, and Ortel Mobile. With Lebara, we have a prominent new addition to our wholesale partnerships. In order to leverage its growth potential, Lebara will implement its mobile business via Telefónica Deutschland's network infrastructure from 2022.

We have put our cooperation with 1&1 on a new basis by settling a national roaming agreement. This gives us long-term planning security and, in addition to more efficient network use in rural areas, ensures that we will continue to generate revenue in the triple-digit millions. In the business customer segment, we recorded significant growth last year and won some major customers or significantly expanded our relationship with them. With our excellent network and outstanding price/performance ratio, we offer an attractive overall package for consumers and business customers. We are also entering new markets with innovations and new technologies. For example, we are equipping the Helios clinics and Dataport in Hamburg with private 5G networks. With our partner Lanthan Safe Sky, we are providing smart signal lighting for wind turbines with an innovative IoT solution. With a new IT platform for our B2B segment and the expanded partnership with the international Telefónica Tech, we have also created the basis for gaining further market share with business customers and successfully entering new markets.

At Telefónica Deutschland, we use digital innovations to improve our processes and offer our employees the best possible working

The Executive Board: (from left above): Markus Rolle (Chief Financial Officer), Wolfgang Metze (Chief Consumer Officer), Nicole Gerhardt (Chief Human Resources Officer), Alfons Lösing (Chief Partner and Wholesale Officer); (from left below): Valentina Daiber (Chief Officer for Legal and Corporate Affairs), Markus Haas (Chief Executive Officer, Chairman of the Management Board Telefónica Deutschland Holding AG),), Mallik Rao (Chief Technology and Information Officer)

environment. To shape our "New Normal", we defined the guidelines for our working practices of the future with the "5 Bold Moves" already in the summer of 2020, just a few months after the outbreak of the pandemic. We successfully deepened this approach in 2021. The working world has already undergone a far-reaching transformation in the wake of the pandemic and will continue to change. Digitalization and demographics are two major drivers of this development. As a company, we will deal with these far-reaching changes responsibly. For example, we have launched basic digital training for our approximately 7,400 employees. We use technologies such as artificial intelligence for development, staffing, job rotation and skills management, for example. Through our Analytical Insights Center (AIC), we give all employees access to data treasure of the company in compliance with data protection regulations.

We are building our IT architecture of the future with a company-wide transformation program. This will support our goal to become an even more data-driven company, and thus will enable us to promote our business models, offer our customers the best service experience, and act quickly and flexibly in the market. In the implementation, we rely on new technologies, agile processes and state-of-the-art IT applications. The focus is primarily on three topics: the streamlining of our IT platforms into two central platforms for our consumer and partner business and for our business customer segment, the migration and development of IT applications in the cloud, and the use of new IT systems. As a result of this new structure, we can reduce our time-to-market, improve the customer experience with more robust systems, and optimize costs.

For the business success of the future, we strongly rely on the right regulatory and legal framework. A lack of long-term planning certainty leads directly to a reduced willingness to invest on the part of all market players. For this reason, the future allocation of the available frequency spectrum should take advantage of the opportunities offered by the modernized Telecommunications Act and use alternative procedures instead of investment-inhibiting auctions. The previous legal pre-determination of auctions was rightly abolished.

Because one thing is clear: Mobile networks are the foundation for the successful digitization of the economy and society in Germany. As Telefónica Deutschland, we will make our contribution to digitization and continue to expand our network in 2022 and invest both in our service and in the expansion of our offerings. In doing so, we will continue to pursue a conservative financial policy and rely on a strong balance sheet with low debt and comfortable liquidity. Overall, our liquidity reserves amounted to around Euro 1.020 billion as of 31 December 2021. This includes a positive effect of around Euro 519 million from the second tranche of the sale of the passive infrastructure of our mobile sites to Telxius due in 2021. Our strong balance sheet and low level of debt are also receiving external recognition. For example, the rating agency Fitch has confirmed our investment grade rating of BBB with a stable outlook.

We are committed to an attractive shareholder remuneration. In view of the good operational, financial and strategic development, we intend to propose to the Annual General Meeting a dividend of Euro 0,18 for financial year 2021. Through it all, we have our overarching goal firmly in mind: We democratize access to a sustainable digital future to create a better everyday life for everyone. That is the purpose of our company. It's what we stand for as a board. This is what our employees stand for. This is what Telefónica Deutschland stands for. We were one of the first German telecommunications companies to define sustainability as a core component of our strategy. We have been massively driving forward the implementation of environmental & climate, social and good corporate governance – i.e., ESG – targets since as early as 2005. Sustainability has always been part of our DNA and will remain so. In spring 2021, we adopted the Responsible Business Plan 2025, our ambitious action plan for a more sustainable Telefónica Deutschland.

We have a clear strategy and are successfully implementing it. The investments in our business are paying off and translating into operational and financial success. We would like to thank our customers, employees, business partners and you, our shareholders, for the trust you have placed in us.

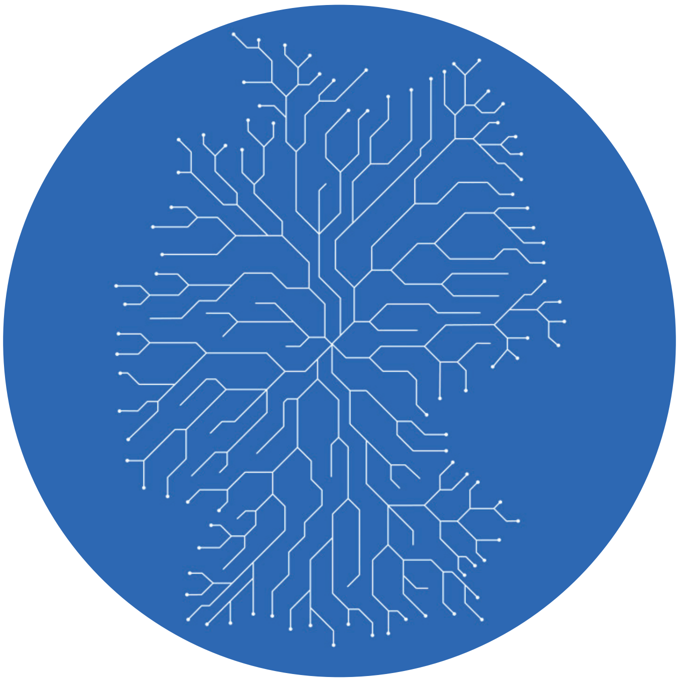
Sincerely yours,
The Management Board

[1] https://www.connect.de/vergleich/mobilfunknetztest-2022-bestes-handy-netz-connect-fazit-interview-3202011-9273.html – Mobile Network Test, issue 1/2022: "very good" (874 points); overall awarded: "very good" three times (944, 913, and 874 points).

Vision and Strategy

We democratize access to a sustainable digital future to create a better everyday life for us all

"We democratize access to a sustainable digital future to create a better everyday life for all of us." This is the corporate purpose of Telefónica Deutschland. It is the core of our actions. The purpose reflects Telefónica Deutschland's democratization performance. Regardless of location, age, financial means or education, everyone can participate in communication and digital achievements. The "digital future" stands for Telefónica Deutschland's contribution to the digitalization of life and business in Germany. This digitalization is the basis for future prosperity. The "sustainable" in the purpose stands for the increasing importance that networking and high-speed networks will have for a sustainable design of life and work. Network performance is a basic prerequisite for overcoming the climate crisis. It enables smart cities, smart mobility solutions, "smart grids" in energy supply, the share economy, and production processes that are more environmentally friendly because they are more efficient.



"Very good network, sustainability and attractive investment."

Telefónica Deutschland makes the latest technology suitable for the mass market and thus democratizes high-tech. People in Germany are connected via 48 million accesses through the company's networks. In mobile, the company serves more people than any other provider in Germany. Every second German citizen uses the O_2 network. The Corona pandemic has finally shown that digitization has arrived in the middle of society. The infrastructure and services of telecommunication providers are relevant to the system and have gained increasing recognition and importance in politics and among citizens since the beginning of the pandemic at the latest. Telefónica Deutschland connected people in Germany when distance was the order of the day and keeps the economy running with its networking from the home office, among other things.

The basis for digitization is high-performance telecommunication networks. The O_2 network is the trampoline for digitization. On this network, every customer – whether a company or a private individual – can jump digitally higher and further. As an integrated telecommunication provider, Telefónica Deutschland offers both mobile and fixed-network solutions. The company uses its own mobile network throughout Germany. Around 46 million SIM cards are active in Telefónica Deutschland's very good mobile network[1]. Fixed-network access is available to customers as part of cooperative partnerships. This means that the company can offer the most diverse and modern access to fast broadband lines in Germany and has the broadest and geographically most extensive offering of all providers in Germany. Hardly any other company in Germany has a broader customer base with direct end-customer access and is therefore as socially relevant as Telefónica Deutschland.

The quality of Telefónica Deutschland's mobile network is now finally on par with competition. In 2021, for example, the "connect" magazine confirmed its "very good" rating[2], which it had awarded to O_2 the year before for the first time in the company's more than 25 years history. Other network tests also placed the O_2 network on a comparable level with competition. Investments in network and customer satisfaction are paying off. In the financial year 2021, the company's investments totaled around EUR 1.3 billion, up 17% year-on-year. The year thus marks the highest network investments in the company's history. The share of investments in the 5G network increased continuously.

Consumer and business customers will benefit from the technical possibilities of the 5G network thanks to even higher speeds, more capacity, and a significantly better overall network experience. This can already be experienced today at particularly busy locations such as soccer stadiums or other major events. With 5G, digital applications such as mobile gaming or virtual reality will unfold the full spectrum of their possibilities. 5G offers particular potential for Industry 4.0. As the basis for networked factories, intelligent energy networks, connected driving and smart cities, 5G will transform many industries.

Launched in October 2020, Telefónica Deutschland is expanding its 5G network at a record pace. As planned, the company covered around 30% of the German population by the end of 2021. By the end of 2022, half of the German population shall be covered by 5G, and by the end of 2025, the entire population. In the process, the roll-out of the 5G network will also help reduce the company's and Germany's greenhouse gas emissions, as 5G is significantly more efficient than its predecessor standards and consumes less power per byte transported.

Private customers

In mathematical terms, one in two people in Germany already uses the O_2 infrastructure. With its O_2 and blau.de brands and its sales channels in stores and on the Internet, the company covers a wide range of customer interests. At the same time, the churn rate of the company's own customers with fixed-term contracts is lower than ever before. The reason lies in customer satisfaction: Over the past three years, the Net Promoter Score has risen continuously. This means that significantly more customers than before are willing to recommend O_2 to others in view of its performance.

Business customers

The excellent O_2 network and outstanding value for money form the basis for the targeted market share gains in the B2B area. Digital innovations such as SD-WAN or 5G campus networks are being incorporated into the offerings to business customers. The new IT platform for the B2B area went into technical live operation at the end of 2021. This created a modern basis for the company's B2B applications and services. In the future, Telefónica Deutschland will be able to offer its business customers all mobile and fixed-network solutions as well as additional digital services with a significantly improved customer experience. The expanded partnership with the Telefónica Group's international technology division "T-Tech" also enables the company to offer a growing portfolio of future technologies in the areas of cyber security, cloud, Internet of Things (IoT) and for 5G campus networks.

[1] https://www.connect.de/vergleich/mobilfunk-netzbetreiber-2022-o2-telekom-vodafone-vergleich-tarife-technik-service-3202144.html
[2] https://www.connect.de/vergleich/mobilfunknetztest-2022-bestes-handy-netz-connect-fazit-interview-3202011-9273.html – Mobile Network Test, issue 1/2022: "very good" (874 points); overall awarded: "very good" three times (944, 913, and 874 points).

Partnering

Telefónica Deutschland offers its partners many attractive cooperation formats and makes its infrastructure and experience available for this purpose. Partners such as ALDI TALK (Medion Mobile), Tchibo MOBIL, AY YILDIZ and Ortel Mobile, for example, contribute their brands or sales channels to the partnership. Lebara was acquired as an important new partner in 2021, thus expanding the Company's wholesale partnerships from 2022 onwards. Major mobile service providers such as 1&1 and Freenet also rely on our network for their customers. We were able to retain our long-standing partner 1&1 through a long-term national roaming agreement. In addition, Telefónica Deutschland gains access to important wholesale products, especially in the fixed network, as well as to roaming services and digital value-added services via partner management.

Sustainability is a key success factor for the business model and has been an integral part of Telefónica Germany's DNA since 2005. The company wants to make its contribution so that Germany and Europe can play a leading role in the digitalization of the economy and society. This also includes taking responsibility and keeping an eye on the impact on the individual, society and the environment in all business activities. Against this backdrop, Telefónica Deutschland is actively managing its sustainability commitment with the Responsible Business Plan 2025. As part of the 5-year plan, the company is taking concrete measures to achieve net zero CO_2 emissions by 2025 at the latest with the greenest network, to strengthen customer and employee satisfaction, and to enable all generations to participate safely in digital life.

All in all, Telefónica Deutschland offers investors a reliable and attractive investment that is robust even in macroeconomic crises and shows disproportionate growth. The company operates profitably in Europe's most attractive telecommunication market and has a clear focus on sustainable business. It benefits from the innovative spirit and global network of the Telefónica S.A. Group, one of the world's largest telecommunications companies with almost 360 million customers. Based on a large customer base and strong partnerships, Telefónica Deutschland achieves reliable revenue and earnings growth. Telefónica Deutschland guarantees an annual minimum dividend of EUR 0.18 per share until the financial year 2023, thus providing a constant and attractive shareholder remuneration.

Consistent growth strategy pays off

Telefónica Deutschland is consistently pursuing a profitable growth strategy and has set itself the goal of achieving cumulative revenue growth of at least 5% between 2020 and 2022. The momentum is expected to outperform the rest of the market. OIBDA adjusted for special items is expected to benefit from the above-mentioned revenue streams and continued efficiency improvements. The company is thus aiming for continuous margin improvement. In the first two fiscal years of the "Investment for Growth" program, the company has consistently implemented its strategy and is in the growth phase. The investments in network and customer satisfaction are paying off and translating into operational and financial improvements. In the first two years of the program, cumulative revenue growth was 5.0% and the OIBDA margin adjusted for special effects was around 31.0%. The company therefore considers itself fully on track to achieve its 2022 targets.

To implement its growth strategy, the company has defined a large number of measures. The efforts are focused on three areas.

Firstly, the mobile communications business in particular is to continue growing. The company sees particular potential here in rural areas. The basis for success is the quality of the mobile network. Here the company achieved further important milestones in 2021. The 3G network was shut down in order to use the resources required for 3G for the more powerful 4G network. As a result of the successful expansion of the 4G network, Telefónica Deutschland now reaches more than 99% of households in Germany. Due to the "very good" network quality, the company is now also a real alternative in mobile communications for people in rural areas and is aiming for a fair share of the market there. In major cities, Telefónica Deutschland already achieves market shares of up to 50% in mobile communications.

The roll-out of 5G technology will initially take place in cities in order to consolidate market leadership in metropolitan areas. By the end of 2021, the company covered around 30% of the population in Germany. By 2025, 5G will also be offered nationwide – and thus rolled out faster than any network technology before. In addition to the expansion targets it has set itself, the company will also meet the network expansion coverage requirements imposed by the Federal Network Agency and agreed with policymakers.

Secondly, on the basis of the significantly improved infrastructure, the provider is increasingly focusing on attracting business customers. The aim here is to achieve a fair market share in the SME segment. The company already offers a first-class price/performance ratio on the market and service that has won many awards. The company sees growth potential in networking options and 5G campus networks, as well as in the SME segment in particular. As part of the Telefónica Group, Telefónica Deutschland can offer its industrial customers a diverse range of cloud services, IoT and cyber security. The company expects significant growth rates in these areas in the future. To drive this forward, the

Responsible Business Plan

Sustainability is part of Telefónica Deutschland's DNA. To operationalize this, the company adopted its Responsible Business Plan 2025 in 2021. The plan contains a total of 76 sustainability measures, some of which are backed by bonus-relevant quantitative targets and some by qualitative targets. This represents more than a doubling of the measures from the past five years, during which the company pursued and in some cases exceeded 35 measures. The new sustainability initiative is more deeply rooted in the company than ever before and covers four focus areas: "Environment & Climate," "Products & Services," "Employees" and "Society". The focus areas of the Responsible Business Plan 2025 are based on the principles for responsible corporate governance that Telefónica Deutschland implements in all business processes. For example, the company is addressing the focus on "Environment & Climate" with 27 measures. The company has reduced its CO_2 emissions directly and indirectly through electricity purchases (Scope 1 + 2) by 97% since 2015. Energy consumption per byte fell by 78% in the same period. The company has been sourcing 100% of its electricity from renewable sources since 2016.

New Work

Telefónica Deutschland assumes responsibility for its employees in an increasingly digital working world. This includes "digital basic training" in which all employees of the company are offered concrete further training measures for the formation of digital skills, as well as the promotion of diversity and mobility. The "5 Bold Moves" program launched in response to the challenges of the pandemic was successively further implemented as a central component in 2021. With five decisive steps, the company is aligning the collaboration of its employees with the digital working world of tomorrow and the start of a hybrid working model.

Das Programm

- **Working Anywhere:** In the future, employees will be able to flexibly choose their place of work in Germany in consultation with their managers, depending on where they are most productive.
- **Working Anytime:** As part of COVID-19, Telefónica Deutschland has extended regular working hours to the maximum legal limit of Monday to Saturday between 6 a.m. and 11 p.m. in order to offer parents in particular the greatest possible flexibility in organizing their working day.
- **Outcome-based leadership:** The desired new way of working requires a different type of leadership. The focus is on the result, not primarily on where and when it is achieved.
- **Digital by Default:** Here we reverse the principle and make digital meetings the new standard.
- **70% Less Travel:** Thanks to the Digital by Default approach, we want to reduce travel for internal meetings to a minimum. In addition to the positive effects such as time savings due to shortened work routes or cost reductions for the company, this can save significantly tons of CO_2 per year.

company has extended its partnership with Telefónica Tech, a telecommunications service provider specializing in digital products and services, in 2021.

Thirdly, Telefónica Deutschland also sees great potential in the intelligent bundling of mobile communications products, mobile communications with Internet at home, and with other services such as O_2 TV or O_2 Cloud. The DSL offering, access to a Germany-wide cable network, to fiber optics, and via the high-performance mobile network, creates the right offer for Internet at home for every customer. This enables Telefónica Deutschland to increase revenue per household by selling additional products and at the same time improve customer loyalty. Customer loyalty again reached an all-time high for the 2021 core brand O_2 in the year.

After the second year of the “Investment for Growth” program, Telefónica Deutschland continues to pursue the consistent implementation of its strategy and reaffirms its medium-term growth targets.

Data-driven corporate management

Telefónica Deutschland has set itself the goal of becoming an even more data-driven company. The driving factor behind this goal is a sustainable transformation of the Finance division, which entails the use of the latest applications and self-service data analyses. In this context, data analytics, i.e., the ability to analyze data digitally and make it usable, is one of the key factors for the future success of the company and for generating added value from digitization for society. With its digital capabilities, the company made a significant contribution to health protection in Germany during the pandemic. Anonymized and aggregated data, for example, form the basis for analyses by the Robert Koch Institute. One example of the successful use of data analysis is the company’s so-called Churn Lab. Here, it uses data analysis and machine learning to identify customers who are willing to switch at an early stage and to target them via the appropriate channel. Since 2019, the company has recorded constantly falling churn rates in the O_2 contract customer segment and was at an all-time high in fiscal year 2021. Telefónica Deutschland plays a pioneering role in the market when it comes to data analysis. Since 2016, the company has provided all employees with access to data and analysis tools via the Analytical Insights Center (AIC).

Digital innovations

Telefónica Deutschland is driving digital innovations forward and successfully integrating them into its offerings to customers and partner companies as well as into its own business processes. For example, the company offers SD-WAN solutions, i.e. software-based corporate networks that enable customers to network their locations much more cost-effectively than with previous solutions. Here, the company has been able to win a number of well-known companies. The retail company ALDI relies on an SD-WAN solution from Telefónica Deutschland to network its stores throughout Europe.

Telefónica Deutschland was also the first German mobile network operator to conduct a voice call over its 5G Standalone Live network. Using “Voice over New Radio” (VoNR) technology, voice telephony between two 5G devices was conducted entirely over the 5G Standalone mobile network. To foster external innovation, Telefónica Deutschland works closely with its startup accelerator Wayra. In March 2021, Wayra opened its 5G Tech Lab in Munich. It is the first Telefónica location to make 5G technology freely available to customers and partners on both a public network (non standalone) and a private standalone network. The Tech Lab enables startups to develop and test their pioneering applications in 5G, IoT and edge computing. This gives Telefónica valuable insights into the latest developments in the startup world and how these developments can be commercialized.

Highlights of the financial year 2021

G 01

Mobile Accesses (Postpaid/Prepaid)
(in Million)

G 02

Revenues
(in Million EUR)

G 03

OIBDA
(in Million EUR)

Adjusted for exeptional effects

G 04

OIBDA-Margin
(in Percent)

Adjusted for exeptional effects

Telefónica Deutschland generated sustained positive operating and financial momentum in the financial year 2021 and achieved a record result in a rational yet dynamic market environment. With the scaling back of measures in the wake of the COVID-19 pandemic from the second quarter of last year, O_2 shops were also able to gradually reopen. This strengthened the operational performance of the company with the O_2 Free portfolio as a key driver, historically low churn rates and high customer satisfaction as a sign of the continuous quality improvements of the O_2 network and Telefónica Deutschland's products and services.

The focused and scheduled implementation of Telefónica Deutschland's network-oriented investment programme "Investment for Growth" supported this good development. The focus is on boosting rural coverage and enhancing network capacity accordingly. Telefónica Deutschland now supplies more than 99% of the German population with 4G. The company continuously drove forward the expansion of 5G technology in 2021. The modern and energy-efficient 5G network covered around 30% of the German population at the end of 2021. The renewed "very good" rating for the O_2 network by the "connect[1]" magazine is a confirmation of Telefónica Deutschland's successful network strategy. Furthermore, the O_2 network was also rated "very good" in the SMARTPHONE[2] magazine test, which is due to the strong performance in cities and the massive network expansion offensive in rural areas last year.

[1] https://www.connect.de/vergleich/mobilfunk-netzbetreiber-2022-o2-telekom-vodafone-vergleich-tarife-technik-service-3202144.html
[2] https://smartphonemag.de/featured/das-beste-netz-deutschlands/

Telefónica Deutschland further optimized its partner business portfolio in the past year and gained a prominent wholesale partner in Lebara. The future cooperation with 1&1 AG was placed on a new contractual basis on 21 May last year with the conclusion of a national roaming agreement. This gives Telefónica Deutschland planning security and secures long-term, valuable revenue streams for the company.

On 8 June 2020, Telefónica Deutschland announced a comprehensive agreement with Telxius for the spin-off and sale of the passive infrastructure business operations of approximately 10,100 mobile sites in two tranches for a total purchase price of EUR 1.5 billion. The first tranche of approximately 6,000 passive infrastructure sites was already transferred to Telxius in September 2020. In August last year, the remaining approximately 4,100 sites with passive infrastructure were transferred to Telxius and EUR 519 million of the total purchase price of EUR 632 million for the sites in the second tranche was received as agreed. Payment of the remaining EUR 113 million of the purchase price for the second tranche is agreed for 2022 (EUR 16 million) and 2025 (EUR 97 million).

One year after Telefónica Deutschland announced its intention to achieve net zero CO_2 emissions by 2025, the company continued to drive forward its ESG strategy as part of the Responsible Business Plan 2025. This supports the United Nations Sustainable Development Goals 2025 and includes specific targets for all business areas, enabling management to steer the progress of its sustainability strategy. Telefónica Deutschland is building a greener future by reducing its own carbon footprint and that of its customers through digital innovation.

Operating performance

The total number of mobile accesses of Telefónica Deutschland grew by +3.2% in 2021 and amounted to 45.7 million at the end of the year. The strongest driver was mobile postpaid[1], which recorded around 25.1 million accesses as of 31 December 2021, an increase of +6.5% year-on-year. At the end of the year, postpaid mobile accesses accounted for 54.9% of the total mobile sub-scriber base, a year-on-year growth of +1.7 percentage points. The number of M2M accesses grew by +14.4% year-on-year to 1.6 million.

Churn rates remained at historic lows, with the implied annualized churn rate for the O_2 brand improving to 11.1% compared to 13.1% in 2020. The monthly postpaid churn rate improved by +0.2 percentage points to 1.2%. Churn on the O_2 brand was at an even lower level, improving +0.2 percentage points year-on-year to 0.9%. This is evidence of sustainable quality improvements and a multiple award-winning customer experience in the O_2 network.

The customer base in mobile prepaid was 19.0 million at the end of the year. This represents a decrease of –1.6% year-on-year, reflecting the ongoing prepaid to postpaid migration trend in the market.

Total ARPU in mobile increased by +1.1% year-on-year to EUR 10.0 in 2021. Own-brand postpaid ARPU increased by +0.2% year-on-year in 2021 despite the impact of travel restrictions on roaming revenues and the reduction in mobile termination rates (MTR) brought forward to 1 July 2021.

Fixed business returned to growth with the reopening of the O_2 shops. The fixed broadband customer base increased by +0.1% year-on-year to a total of 2.3 million accesses. The VDSL customer base increased by +2.0% year-on-year to 1.8 million accesses, representing 81% of the fixed broadband customer base. In addition, Telefónica Deutschland saw continued strong demand for fixed mobile substitution (FMS) products in its O_2 my Home offerings.

Fixed churn remained flat in 2021 at previous year's low level of 0.9%.

Fixed broadband ARPU amounted to EUR 24.2 in 2021, an increase of +1.7% year-on-year, reflecting the steadily growing share of VDSL customers.

Financial performance

Revenues were up +3.1% year-on-year to EUR 7,765 million. This was driven in particular by continued growth in mobile services revenues (MSR). Despite some remaining restrictions in roaming and some pressure from the MTR cut brought forward to 1 July 2021, mobile service revenues[2] (MSR) increased by +3.5% year-on-year to EUR 5,492 million.

High-value handsets remained popular. Handset revenues increased by +1.9% year-on-year to EUR 1,450 million.

Fixed revenues continued their upward trend in the financial year 2021, growing +3.6% year-on-year to EUR 814 million. This development was driven by the continued strong demand for VDSL.

Other income amounted to EUR 402 million, mainly due to a capital gain of EUR 262 million related to the spin-off and sale of the final tranche of around 4,100 mobile sites passive infrastructure to Telxius in August last year.

OIBDA[3] amounted to EUR 2,411 million in the reporting year, an increase of +3.9% year-on-year. The adjusted OIBDA margin increased by +0.3 percentage points to 31.0% year-on-year. This is the result of operating momentum combined with the revenue mix and continued efficiency improvements in operations. Offsetting factors included the EU/non-EU roaming mix and some inflationary cost pressures.

Capital expenditure (CapEx)[4] amounted to EUR 1,284 million in 2021. This corresponds to a Capex/Sales (C/S) ratio of 16.5%. Telefónica Deutschland is implementing its three-year (2020–2022) network-oriented "Investment for Growth" programme according to plan. As expected, the investment peak was passed in 2021, while Telefónica Deutschland focused on efficient CapEx execution. The O_2 5G network already achieved around 30% population coverage in Germany by the end of 2021, as planned. The company continues to rapidly roll out 5G with the goal of nationwide coverage by 2025.

[1] As of 1 January 2020, M2M is seperately reported from postpaid.
[2] Mobile service revenue includes base fees and fees paid by the company's customers for the usage of voice, SMS and mobile data services; it also includes access and interconnection fees as well as other charges levied on partners for the use of the company's network.
[3] Adjusted for exceptional effects. Exceptional effects amounted to EUR +243 million including a capital gain of EUR +262 million related to the spin-off and sale of the operations of the final tranche of around 4,100 mobile sites passive infrastructure to Telxius as well as EUR –19 million of restructuring costs and other exceptional items.
[4] CapEx includes additions to property, plant and equipment and other intangible assets while investments for spectrum licenses and additions from capitalised right-of-use assets are not included.

Our share

The Investor Relations department of Telefónica Deutschland is the link between the company and the capital market. Especially in times of high volatility on the stock exchange, the market participants' need for information is particularly high. Our goal is therefore to provide the public with relevant information regularly, quickly and effectively, as well as to provide comprehensible and transparent information about the strategic orientation and operational development of the company. Thus, investors have the opportunity to make realistic assumptions about the valuation of the company and to make an investment decision based on this.

Economic situation and capital market environment

After the short but severe recession in the first half of 2020, the global economy recovered steadily. However, the development of the global economy in 2021 was also significantly influenced by the COVID-19 pandemic, which repeatedly caused social and economic restrictions in various parts of the world.

Extensive fiscal policy measures in many industrialized countries and the expansive monetary policy of the central banks promoted the global economic upswing. The gross domestic product (GDP) of the industrialized countries reached the pre-crisis level again for the first time in the third quarter of 2021. Growth was driven primarily by the USA, while economic momentum slowed in China. After the pandemic-related stagnation in the previous winter, the economic framework conditions in the Eurozone improved significantly, especially in countries with a strong service sector. However, supply bottlenecks and raw material shortages prevented the economic catch-up process in countries with a strong industrial base from being even more dynamic.

In Germany, the first quarter was still characterized by pandemic-related economic restrictions, which mainly affected consumption and private spending on services. As the number of infections decreased and the availability of vaccines increased, the measures to contain the pandemic were eased and the German economy continued its recovery in the summer half-year. The main contributors to the recovery were the service sectors, which benefited from the openings and were able to noticeably increase their revenues again. Manufacturing, on the other hand, remained in a "bottleneck" recession. Although new orders rose and order books were fuller than ever before, supply chain problems for important industrial inputs inhibited value creation. Supply bottlenecks also occurred in the retail and construction sectors. These supply shortages were also a major driver of the strong increase in consumer prices. At the end of the year, the inflation rate reached over 5%, the highest level in almost 30 years, +3.1% for 2021 as a whole. In addition to noticeable price increases in almost all components of the consumer price index and especially in the energy component, base effects also played a significant role. These include in particular the VAT cut in the second half of 2020, which depressed consumer prices in this period and thus the basis for calculating the inflation rate by around 1%. Finally, the economic development in the last quarter of the year was influenced by the resurgence of COVID-19 infections and the uncertainty regarding the Omikron variant.

According to the calculation of the Federal Statistical Office, Germany's economic output in 2021 was 2.8% higher than in 2020, adjusted for price and calendar effects. The recovery on the labour market is also progressing in the second Corona year. The number of unemployed in Germany fell from 2.7 million at the end of 2020 to around 2.3 million in December 2021. This corresponds to an unemployment rate of 5.1%.

Global stock markets faced a number of negative drivers in 2021. These included pandemic-related constraints on the economy, high inflation rates and the resulting anticipated reactions of central banks, supply chain problems for industrial inputs and ongoing uncertainties related to the US-China trade war. On the other hand, comprehensive fiscal policy measures and the central banks' expansive monetary policy had a positive effect. Full order books in industry and already approved economic stimulus packages should provide further growth impulses and the high savings rate of private households should further fuel consumer demand for goods and services.

Overall, 2021 was a very positive year for the international stock markets. European and North American stock indices performed similarly well and recorded numerous new all-time highs.

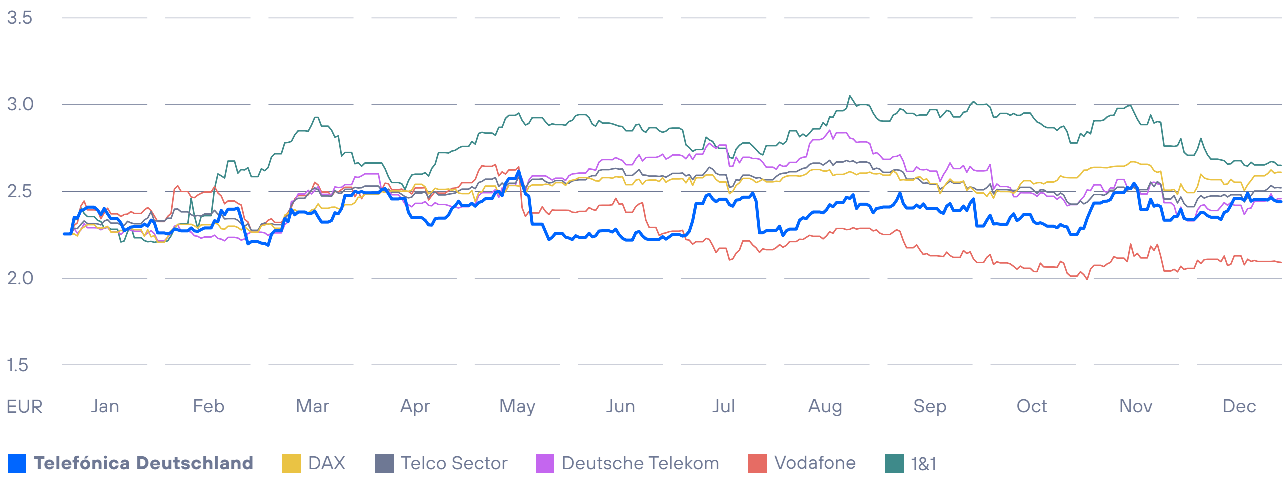
Until the end of September last year, the leading German index DAX and the European STOXX 600 developed almost analogously. In the further course of the year, the STOXX Europe 600 outperformed the DAX and recorded a plus of +22.2% for the year. The DAX ended the year with a plus of +15.8%. Both indices reached their respective annual lows at the end of January last year. This was followed by a steady upward trend.

The European telecommunications sector performed broadly in line with the DAX and Euro STOXX 600 benchmark indices in the first nine months of the year. In the last three months of the year, the European telecommunications sector moved sideways, ending the year up +11.8%, while the broader indices continued to gain during this period.

For large parts of the year, the Telefónica Deutschland share moved in a channel between price levels of EUR 2.25 and EUR 2.50. In the wake of the good operating and financial results of the first quarter of 2021 and the confirmation of the outlook for the financial year 2021, the share recorded its high for the year of EUR 2.63 in the course of the day on 17 May 2021. In the following summer months, however, the share fell behind the market development and fluctuated after dividend payment around a price level of EUR 2.40. While the market development became overcast during the last four months of the year, the Telefónica Deutschland share remained stable and recorded a slight upward trend at the end of the year. It ended the year with a plus of +8.2% and a closing price of EUR 2.44. Taking into account the dividend of EUR 0.18 per share distributed in May 2021, the annual return of the Telefónica Deutschland share was +16.2%.

G 05

Share price performance 2021
(1 January to 31 December, rebased)



Shareholder remuneration at Telefónica Deutschland

With sustained operational and financial momentum, Telefónica Deutschland impressively continued the company's growth path in the financial year 2021. Following the rapid LTE roll-out in 2020, Telefónica Deutschland pushed ahead with the rapid expansion of a high-performance 5G infrastructure in 2021. The temporary, network-oriented investment programme "Investment for Growth" is the basis for further profitable revenue and margin growth and an attractive free cash flow profile.

In a competitive market environment, Telefónica Deutschland shareholders will continue to participate in this development. At the same time, the company is adhering to its conservative financial policy. The focus is on a strong balance sheet with low debt and sufficient financial flexibility. The company's self-defined upper limit of the leverage ratio (net financial debt / OIBDA) remains unchanged with at or below ≤2.5x. Telefónica Deutschland thus continues to have a considerable scope to maintain its investment grade rating (BBB from Fitch or equivalent).

With regards to the dividend, Telefónica Deutschland maintains a high payout ratio in relation to free cash flow adjusted for leases, exceptional effects and payments for spectrum (FCF aL). The management of Telefónica Deutschland intends to propose a dividend of EUR 0.18 per share for the financial year 2021 to the Annual General Meeting in May 2022. Based on the share price at the end of 2021, this would correspond to a dividend yield of 7.4%. As announced on 19 January 2020, a dividend of EUR 0.18 per share will also be the lower limit for the financial years 2022 and 2023.

Activities of the Investor Relations department of Telefónica Deutschland

Open, timely and transparent communication is an essential part of the work of the Telefónica Deutschland Investor Relations department. The regular and active exchange with shareholders, analysts, potential investors and other national and international capital market participants is at the centre of the daily work. The objective here is to communicate the business model and strategy of Telefónica Deutschland in a transparent and comprehensible manner. This approach was consistently continued in 2021. Due to the COVID-19 pandemic and the associated measures, no face-to-face meetings could be held for large parts of the year. These were replaced by virtual conferences, roadshows and meetings. Thus, the Management Board and the Investor Relations team again held more than 300 investor meetings in the financial year 2021 (2020: 330).

The development of the Telefónica Deutschland share was monitored by 20 analysts. The brokers' share price targets were in a relatively wide range between EUR 1.70 and EUR 4.00. At the end of 2021, the median price target of all analysts' estimates was EUR 2.66, which corresponds to a premium of +9.0% on the year-end price of EUR 2.44. Around 40% of the analysts recommend buying the Telefónica Deutschland share, around a third recommend holding it and only around a quarter recommend selling it.

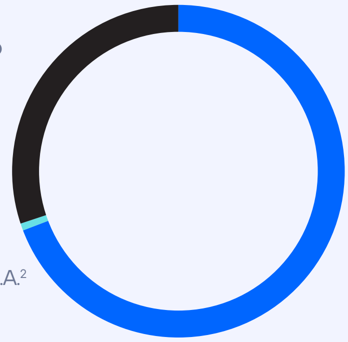
Rating	Number
Buy/Outperform/Overweight	8
Hold/Neutral/Equal weight	7
Sell/Underperform/Underweight	5

Telefónica Deutschland holds a conference call on the occasion of the publication of each of its financial year and quarterly results. Here, investors and analysts have the opportunity to address their questions directly to the management. Recordings of these conferences are subsequently available on the company's website for one year.

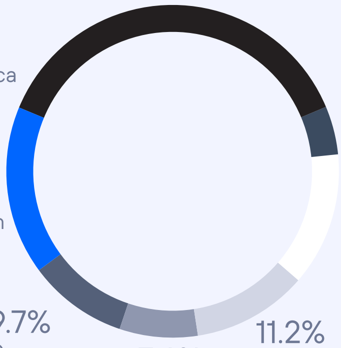
For further information on the company and the Telefónica Deutschland share, please use the contact details provided on page 5.

G 06 / G 07

Shareholder structure of Telefónica Deutschland



Geographical distribution of the free float[3]



[1] Telefónica Germany Holdings Limited is an indirect 100%-owned subsidiary of Telefónica, S.A.; Status: According to shareholder register as of 28.02.2022
[2] Source: Telefónica, S.A. Annual Report 2021
[3] Source: NASDAQ, September 2021

T 01

Telefónica Deutschland Bonds

Issue date	Currency	Volume	Tenor	Coupon	Instrument rating	Listing
05 July 2018	EUR	500,000,000	7 years	1.75%	BBB	Regulated market of the Luxembourg Stock Exchange

Issuer Rating of Fitch: BBB, Outlook: stable

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which is the binding version.

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Management photo, page 6: Telefónica Deutschland

Telefónica Deutschland

Annual Report

Reporting Year 2021

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p. 05–55

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Editorial note:

We use largely gender-neutral language in this report. We use the generic masculine in some places for reasons of readability and comprehensibility. These formulations apply without restriction to the other genders as well.

Combined Management Report

for the Financial Year 2021

Combined Management Report
p. 05–55

Editorial note:
We use largely gender-neutral language in this report. We use the generic masculine in some places for reasons of readability and comprehensibility. These formulations apply without restriction to the other genders as well.
The figures in the following have been rounded in accordance with established commercial practice. Therefore, recalculations may slightly differ from the totals shown in the tables. We also advise that absolute amounts smaller than EUR 500,000 are stated either as "0" or "(0)", depending on whether a plus or minus sign appears before it. A nil notification using "-" is indicated for items that do not have a value.

Telefónica Deutschland Group at a Glance

Financial Overview

Overview Financial Data

1 January to 31 December

(in EUR million)	2021	2020	% change
Revenues	**7,765**	**7,532**	**3.1**
Mobile service revenues	5,492	5,307	3.5
Operating income before depreciation and amortisation (OIBDA), adjusted for exceptional effects[1]	**2,411**	**2,319**	**3.9**
OIBDA margin, adjusted for exceptional effects[1]	*31.0%*	*30.8%*	*0.3%-p.*
Operating income before depreciation and amortisation (OIBDA)	**2,653**	**2,683**	**(1.1)**
OIBDA margin	*34.2%*	*35.6%*	*(1.4%-p.)*
CapEx	**(1,284)**	**(1,094)**	**17.3**
Investment ratio (CapEx/Sales-ratio)	**16.5**	**14.5**	**13.8**
Free cash flow (FCF)	**1,502**	**1,896**	**(20.8)**
Mobile accesses (in thousands)	45,694	44,275	3.2
Net adds in mobile prepaid business (in thousands)	(310)	(813)	(61.8)
Net adds in mobile postpaid business excl. M2M (in thousands)	1,526	1,043	46.4
Total ARPU (in EUR)	**10.0**	**9.9**	**1.1**
Non-SMS data revenue over total data revenues (%)	92.5%	91.8%	0.6%-p.

As of 31 December	2021	2020	% change
Net leverage ratio	**1.3x**	**1.4x**	**(7.5)**
Net financial debt	3,045	3,168	(3.9)

[1] Exceptional items in the financial year 2021 included the net gain on disposal of EUR 262 million from the second transaction step of the sale of major parts of the business operations of the rooftop sites, other income resulting from the release of provisions in connection with M&A of EUR 3 million and restructuring expenses of EUR 22 million. Exceptional items in the financial year 2020 included the net gain on disposal of EUR 407 million from the first transaction step of the sale of major parts of the business operations of the rooftop sites, restructuring expenses of EUR 38 million, gains on disposals of EUR 4 million, and losses on disposals of EUR 9 million from the sale of spectrum licences.

Basic Information on the Group

This report combines the Group Management Report of the Telefónica Deutschland Group, consisting of Telefónica Deutschland Holding AG (also referred to as Telefónica Deutschland or Company) and its consolidated subsidiaries and joint ventures (together referred to as the Telefónica Deutschland Group or the Group) and associated companies, and the Management Report of Telefónica Deutschland Holding AG.

Telefónica Deutschland Holding AG is a stock corporation (AG) under German law with its registered office in Munich, Germany.

Telefónica Deutschland Holding AG is the parent company of the Telefónica Deutschland Group. It is included in the Consolidated Financial Statements of the ultimate parent company, Telefónica, S.A., Madrid, Spain (Telefónica, S.A.; its group: the Telefónica, S.A. Group). The direct parent company of the Telefónica Deutschland Group is Telefónica Germany Holdings Limited, a wholly owned subsidiary of O2 (Europe) Limited, Slough, United Kingdom (O2 (Europe) Limited), and an indirect subsidiary of Telefónica, S.A.

The financial year is the calendar year (1 January to 31 December).

Business Activity

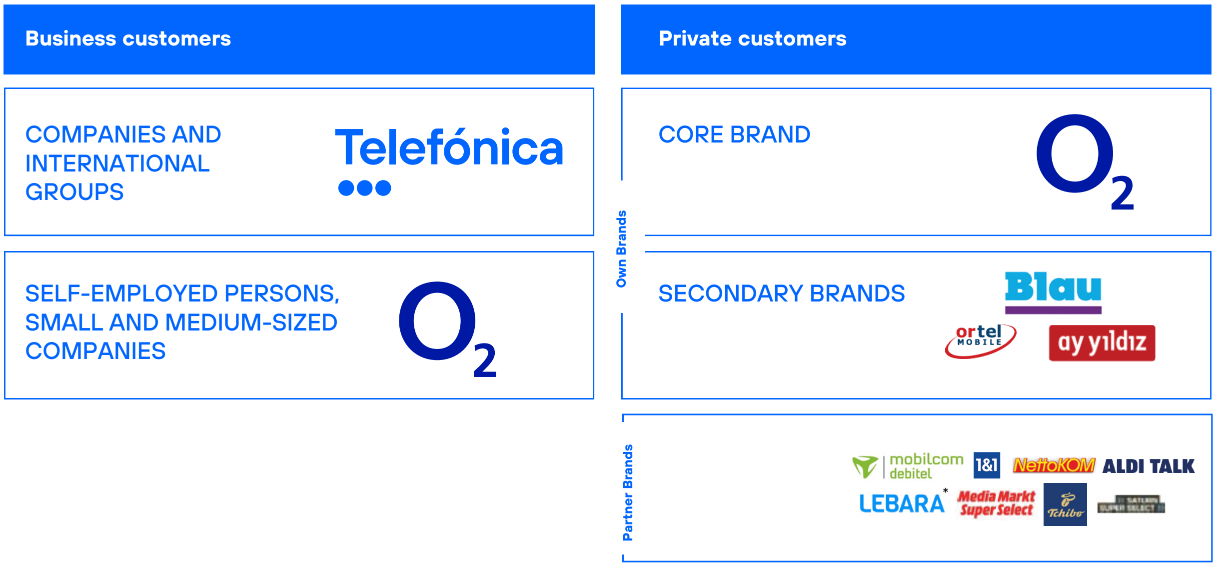
The Telefónica Deutschland Group is one of the three leading integrated network operators in Germany. We offer mobile and fixed services for private and business customers as well as innovative digital products and services. In addition, our numerous wholesale partners purchase extensive mobile communications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

Our Brands
A key success factor of our marketing and sales approach is our multi-brand strategy. We offer private and business customers a wide range of high-quality mobile services and fixed line products with our core brand O_2. We address large international businesses with Telefónica brand products and services.

We rely on complementary sales channels in order to serve the various customer needs to the best of our ability. Our sales landscape includes both direct sales channels including our own shops, a countrywide network of independently operated franchise and premium partner shops, online and telesales, as well as indirect sales channels such as partnerships and cooperations with retailers via physical and online channels.

G 01

OUR BRANDS[1]



*Lebara becomes a new wholesale partner of the Telefónica Deutschland Group. Lebara customers are expected to be migrated onto the Telefónica Deutschland Group network in the course of 2022.

With our secondary and partner brands and through our wholesale channels, we reach further customer groups, for example ethnic groups in Germany. In addition, by means of joint activities and strategic partnerships, we offer further mobile services brands. These include, for example, TCHIBO mobile or ALDI TALK, in cooperation with MEDIONmobile. Our multi-brand approach enables us to address the full range of customer needs with tailored product offerings, sales, and marketing, thereby increasing our potential revenue.

Mobile services

With a total of 45.7 million mobile accesses as of 31 December 2021, we are a leading provider in this market. In 2021, at EUR 5,492 million, mobile services were the most important revenue stream for the Telefónica Deutschland Group (70.7% of total volume). In this area, we offer private and business customers mobile and stationary voice and data services both on a contractual basis (postpaid) and in the prepaid segment.

The basis for this is our mobile communications network. In 2021, we further expanded and improved our LTE network, which is also reflected in the results of the current mobile network test by trade magazine connect.[2] The O_2 network was once again rated "very good" because of the strength of its stable data connections, very good call quality and significantly improved network coverage. We switched off our 3G network in 2021 to make additional spectrum available for LTE.[3] Our customers and the customers of our partners will benefit from the enhanced LTE network experience.

The Telefónica Deutschland Group also secured nationwide spectrum totalling 90 MHz focusing on the high-performance mobile communications standard 5G in the mobile communications auction in 2019. The auctioned spectrum has a term from 2021 to 2040 and from 2026 to 2040 and includes frequencies that provide both coverage (low frequencies) and capacity (high frequencies).

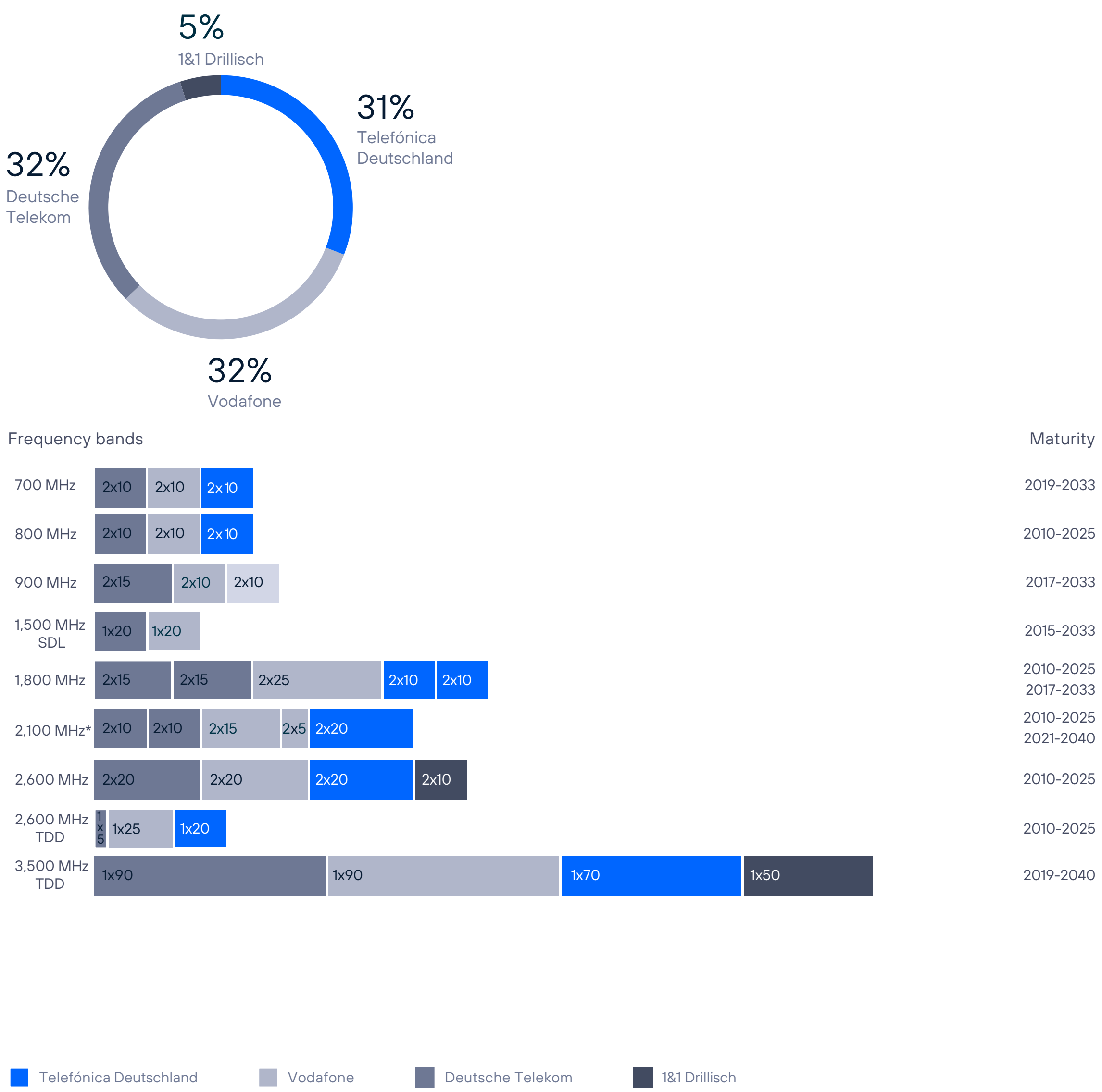
[1] Example illustrations of secondary brands and partner brands.

[2] Source: Telefónica Deutschland Holding AG press release: "O_2 network achieves best result in company history" (30 November 2021); WEKA MEDIA PUBLISHING GmbH article: "Mobilfunknetztest 2022: Fazit & Interview (Mobile network test 2022: Conclusion and Interview)" (30 November 2021); Connect mobile communications network test, issue 1/2022: „very good" (874 points); in total, three „very good" ratings (944, 913 and 874 points) were awarded

[3] Source: Telefónica Deutschland Holding AG press release: "O_2 accelerates 3G switch-offs in many regions" (26 August 2021)

G 02

FREQUENCY BANDS FOR MOBILE NETWORK OPERATORS IN GERMANY 2021 – 2025 [4, 5]



*Since 2021, additionally 19.2 MHz TDD
From 1 January 2026: 1&1 Drillisch: 2x10 MHz; Telefónica Deutschland Group: 2x10 MHz; Vodafone: 2x20 MHz; Deutsche Telekom: 2x20 MHz

[4] Source: German Federal Network Agency (https://www.bundesnetzagentur.de/DE/Sachgebiete/Telekommunikation/Unternehmen_Institutionen/Breitband/MobilesBreitband/Frequenzauktion/2019/Auktion2019.html)
[5] The German Federal Network Agency formally allocated the spectrum to the company in the 2.1 GHz range with one block effective 1 January 2021, and will allocate another block effective 1 January 2026. The 3.6 GHz spectrum is fully available from 2022.

We will initially use the acquired spectrum to supply urban areas and industrial areas with 5G, delivering high data rates and low latency. Our 5G roll-out progressed in 2021.[6] As a result, our 5G network already serves around 30%[7] of the German population. The Telefónica Deutschland Group will continue to drive the roll-out of 5G in both urban and rural areas in 2022.

Fixed-line business

We offer nationwide fixed services to complement our mobile services. Our fixed-line customer base amounted to around 2.3 million at the end of 2021.

We focus on intelligent partnerships in the fixed-line business. Our strategic partnership with Telekom Deutschland GmbH ("Telekom") grants us access to future-proof, next-generation fixed-line infrastructure and currently provides a total of around than 34 million[8] households in Germany with high-speed VDSL internet access. In October 2020, the Telefónica Deutschland Group and Telekom extended and expanded their existing fixed-line cooperation agreement by ten years, well in advance of the expiry date. The agreement will make it possible for the Telefónica Deutschland Group to market Telekom's fibre-to-the-home (FTTH) lines to its customers in future. We will also continue to use Telekom's VDSL and vectoring wholesale products. The Telefónica Deutschland Group will also benefit from all future improvements made by Deutsche Telekom in the fixed-line area.

The access agreements with Vodafone and Tele Columbus also enable us to offer our customers a broader range of fixed-line services throughout Germany. As part of the cooperation with Vodafone, we are able to supply up to 24 million[9] cable households in Germany with fixed-line products, largely with higher download speeds than VDSL from January 2021. In addition, our cooperation with Tele Columbus has made it possible for us to serve another 2.4 million households since July 2021.

We also connect more households with advanced FTTH connectivity through a partnership with Unsere Grüne Glasfaser (UGG), which was established in 2020 as an independent wholesale company by Telefónica, S.A. Group / Telefónica Deutschland Group and Allianz Group, with Telefónica Deutschland Group holding a 10% stake. UGG installs fibre-optic connections in previously underserved rural areas. The roll-out began in 2021. By 2026, up to 2.2 million households will be connected with FTTH, complementing the Telefónica Deutschland Group's fixed-line coverage (>Management Report OPPORTUNITIES<) .[10]

This is complemented by the coverage O_2 provides through cooperations with regional providers, such as in Hamburg and Schleswig-Holstein with Wilhelm.tel. Via the network operator-independent platform vitroconnect, for example through which we already have access to the VDSL network of EWE TEL GmbH in Lower Saxony, we serve around 250 thousand households that are connected to the Westenergie broadband VDSL network in Rhineland-Palatinate, North Rhine-Westphalia and Lower Saxony since January 2022.[11] We offer a technology-agnostic solution based on a broadband mix of VDSL, cable, fibre and FMS (Fixed Mobile Substitution) marketed via the O_2 HomeSpot. The mobile-based WLAN router constitutes a fully-fledged fixed-line replacement solution.

Hardware business

We use many channels to distribute a wide variety of terminal devices to our customers. Via our O_2 My Handy programme, customers can, for example, immediately buy any device in O_2's offering or pay in flexible monthly instalments. We also supply our partners with hardware to some extent and support them as needed in the sales and marketing of the hardware to their customers.

Our most important suppliers for mobile phones are the manufacturers Samsung and Apple. We focus increasingly on the sale of 5G-enabled smartphones, however. We also cover the demand from our secondary brand customers with a wide range of smartphones.

Digital services

In order to make our offerings even more attractive for our customers and to increase our revenues outside our core business, we offer a variety of additional products and services. These include our products and services in connection with Internet of Things (IoT) as well as our digital additional services such as O_2 TV and O_2 Cloud. In 2021, we expanded our entertainment offer with O_2 Select & Stream, partnering with Netflix and Sky Deutschland.[12]

Our market areas

We are strengthening the market position of our core brand O_2. We aim to gain further customers in the private and business customer segments and increase the sales revenue per customer and per household. Furthermore, we offer our wholesale partners access to our infrastructure and to our services.

[6] Source: Telefónica Deutschland Holding AG press release: "O_2 controls racing vehicles in real time using 5G network at the IAA" (8 September 2021)
[7] Telefónica Deutschland Holding AG press release: "O_2 deactivates last 3G sites in its network" (29 December 2021)
[8] Source: Deutsche Telekom AG press release: "Broadband expansion: 174,000 households now have faster internet access with Telekom" (27 September 2021)
[9] Source: Telefónica Deutschland Holding AG press release: "O_2 launches nationwide roll-out of cable connections" (26 January 2021)
[10] Source: Telefónica Deutschland Holding AG press release: "O_2 relies on strong fibre-optic network coverage in Germany for its customers" (2 March 2021)
[11] Source: Telefónica Deutschland Holding AG press release: "O_2 markets fast fixed-net products via the network of Westenergie Breitband" (10 January 2022)
[12] Source: Telefónica Deutschland Holding AG press release: "O_2 Select & Stream offers one year of streaming included" (10 February 2021)

Private customers
We address the needs of our private customers in the digital world with data-centric mobile and fixed-line contracts. With the introduction of our O_2 Free tariff portfolio, we have consistently aligned our O_2 core brand with the customer promise of freedom in the mobile communications area. In 2021, we continued on this path by continuously expanding the tariff portfolio, with 5G as a fixed component of an increasing number of tariffs. In the fixed-lines network, we market products via a technology mix of VDSL, cable, fibre, and 4G or 5G mobile. The O_2 my Home offering applies equally to DSL, cable, fibre and FMS and as such is technology-agnostic. Customers who use both an O_2 fixed-line and mobile contract at the same time also benefit from monthly service and price advantages.

The Blau brand is our secondary brand defined for price-conscious private customers, clearly differentiated from O_2, offering this customer segment a mobile communications portfolio reduced to the essentials. We also address ethnic target groups with brands such as AY YILDIZ or Ortel Mobile.

Wholesale partners
Our partner business is an important pillar of our multi-brand approach. We offer our partners a broad portfolio of opportunities. This is based on a scalable business model with varying levels of value creation, which we can offer to potential partners.

Our largest partners from the reseller and service provider area include MEDIONmobile (ALDI TALK), 1&1 and mobilcom/debitel. The Telefónica Deutschland Group and the 1&1 Group consolidated their long-term partnership in 2021 by converting the current MBA-MVNO agreement into a National Roaming Agreement (NRA). As part of the merger with E-Plus, we had committed to selling 20% of our mobile network capacity via mobile bitstream access (MBA) to the 1&1 Group. The NRA has an initial contractual term of five years, retroactively starting 1 July 2020, and can be extended in a first step through mid-2029, and in a second step for a further five years. The NRA secures long-term revenue for the Telefónica Deutschland Group.[13]

We were also able to win international mobile phone provider Lebara as a new wholesale partner in 2021. Lebara is an independent virtual network operator offering mobile voice and data services for 'global citizens'. This partnership solidifies our positioning as one of the leading network operators and wholesale providers in the German market. Lebara customers are expected to be migrated onto the Telefónica Deutschland Group network in the course of 2022.

Business customers
The Telefónica Deutschland Group offers mobile and fixed-line products to business customers, too. Our focus is on addressing small and medium-sized enterprises (SME) as well as small offices/home offices (SoHo) via our core brand O_2 with a product portfolio that is tailored towards customer needs. For example, with the O_2 Business Smart Network, the Group offers a digital networking solution based on SD-WAN (Software Defined Wide Area Network) technology for SMEs.[14]

We also offer business customers services in the field of the Internet of Things (IoT), machine-to-machine communication (M2M) and managed connectivity, tapping into new business areas which are close to our core business. With IoT Connect, for example, we support business customers in the intelligent networking of their M2M and IoT applications and provide the appropriate connectivity.

Management System

The Management Board runs the business of the Telefónica Deutschland Group and reports to the Supervisory Board. The Supervisory Board participates in the Management Board transactions requiring consent (e.g. for the adoption of the annual budget, for changes to the corporate structure or the principles of the corporate strategy). Together with the Supervisory Board, the Management Board issues the invitation to the Annual Shareholders' Meeting.

The seven-person Management Board takes all operational and strategic decisions which help to successfully manage the Company in the individual business divisions in weekly meetings. This includes, for example, the specification and adoption of the strategy across all operational divisions, the consistent and uniform operationalisation of the strategy, the management of operational performance, the assurance of cross-functional coordination and cooperation, assurance that budget targets are achieved, the definition and implementation of measures for performance improvement and the functional risk management for the respective area of responsibility.

Our aim is to increase the value of our Company for the benefit of our shareholders. We are also firmly convinced that the satisfaction of customers and employees makes a major contribution to achieving this value growth.

The management of the Telefónica Deutschland Group has introduced a comprehensive internal management system for the control of the Group, which primarily comprises the following components:

- Process for strategic target setting
- Integrated budgeting and planning system
- Financial and non-financial performance indicators
- Monthly reporting to the Management Board and Supervisory Board
- Ongoing opportunity and risk management
- Target-oriented leadership at all levels of the organisation
- Compliance with legal and regulatory requirements.

[13] Source: Telefónica Deutschland Holding AG press release: "Telefónica Deutschland establishes long-term partnership with 1&1 Drillisch" (15 February 2021)

[14] Source: Telefónica Deutschland Holding AG press release: „The digital networking solution for medium-sized businesses" (27 July 2021)

Strategic objectives are reviewed and redefined annually

As part of the annual planning process, the Management Board of Telefónica Deutschland reviews the corporate strategy with the support of the Strategy department. We develop long-term strategic goals for the positioning of the Company on the German market as well as a strategy plan, including in-depth financial planning for the next two to three years as part of this process. Detailed budget planning for the next financial year is then prepared on the basis of the agreed multi-annual goals. The short-term priorities are defined at the same time. Decisions are based on current market and competitor analyses as well as market forecasts, which are compared with the corporate vision and long-term strategic goals.

This systematic approach serves as the basis for identifying both growth opportunities and risks and as the source of our corporate strategy and investment decisions. The corporate strategy is then translated into concrete strategies for the different organisational units. At this level, the opportunities relevant to the respective organisational unit are prioritised in the operational implementation of the strategy.

Management system of the Telefónica Deutschland Group

We have established key performance indicators (KPIs) for the management of our strategic and operating goals. Financial performance indicators are a component of the management system of the Telefónica Deutschland Group and reflect the interests of our various stakeholders.

The following monitoring parameters were of particular significance for our Company's value-oriented management and evaluation in financial year 2021:

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PERFORMANCE INDICATORS

Most important and control-relevant key performance indicators	Revenues	OIBDA adjusted for exceptional effects	Investment ratio (CapEx/Sales ratio)
Other key performance indicators	Free cash flow	Net leverage ratio	

Revenues
The development of revenues is a key indicator of the success of our Company. Revenues depict the total value of our operational activity and are therefore a key indicator of the success of our products' and services' sales on the market. We reserve the right to consider the performance indicator adjusted for regulatory effects for better comparability with the previous year if these have a material influence on the development of the performance indicator in the reporting year.

OIBDA adjusted for exceptional effects
OIBDA corresponds to operating income before depreciation and amortisation of intangible assets, property, plant and equipment and rights of use assets. On the basis of the OIBDA, we measure the profitability of our operating activities. This analysis provides a comprehensive view of our expense and revenue structure. As exceptional effects make comparability with previous years difficult, we use the OIBDA adjusted for exceptional effects for a transparent presentation. These exceptional effects have a direct impact on the result of operations and follow from a changed composition of the Group, from sales of businesses, acquisition-related consultancy fees, restructuring expenses or non-operational transactions. We reserve the right to consider the performance indicator adjusted for the regulatory effects of the reporting year, insofar as these have a material influence on the development of the performance indicator. The effects on earnings are adjusted if the comparability of the performance indicator with prior-year periods is not appropriate due to a transaction carried out during the year. However, as other companies may use a different basis of calculation for OIBDA, it is possible that our representation is not comparable with other companies.

Investment ratio (CapEx/Sales-ratio)
For the Telefónica Deutschland Group, the investment ratio (CapEx/sales-ratio) essentially serves to secure our future business activities and reflects the percentage share of investments in revenue. Capital expenditure (CapEx) consists of the additions to property, plant and equipment and other intangible assets. The investments in property, plant and equipment are primarily carried out to expand the coverage and capacity of our network as well as for product development. Investments in mobile frequency licences and mergers are not included in CapEx.

Free cash flow
The free cash flow performance indicator is defined as the sum of the cash flows from operating activities and investing activities. The change in working capital affects free cash flow in the respective reporting period. Working capital management thus contributes to free cash flow management in the relevant reporting period.

As a performance indicator, free cash flow describes the change in financial liquidity from operational inflows and outflows of funds as well as all investment-related inflows and outflows that were made for the maintenance or expansion of the business. The figure provides information about the change in the Company's available financial funds, which enable us to make investments in growth or to pay dividends or service debt, for example.

Net leverage ratio

The net leverage ratio is defined as the quotient of the net financial debt and the OIBDA adjusted for exceptional effects for the last twelve months. Net financial debt includes short- and long-term interest-bearing assets and interest-bearing financial liabilities and cash and cash equivalents. Liabilities from the acquisition of mobile communications frequencies are not included in net financial debt.

The net leverage ratio compares the net financial debt level with an operational success parameter (OIBDA adjusted for exceptional effects) and provides management with information about the Company's debt reduction ability. The maximum leverage ratio defined within the framework of our financing policy and applicable since 1 January 2019 is 2.5x.

Budgeting and planning system defines specific targets

The integrated planning system is based on strategic and operating goals. With respect to the most important management performance indicators, the Management Board of Telefónica Deutschland sets internal objectives for the Group. To define a detailed plan for the next two to three years, the anticipated market development as well as internal expectations with regard to progress in the areas of growth and efficiency evolution are discussed once a year. The first year of planning is depicted on a monthly basis in order to make a detailed budget possible. For controlling reasons, the budget is updated twice a year by a forecast. Alongside the results that have already been achieved and which are analysed as part of monthly reporting, current market developments and the additional opportunities or risks that are known at the relevant point in time are taken into account in the update. This prognosis is then used to introduce operational improvements and take advantage of new opportunities presenting themselves to the Group.

Economic Report of the Group

Overall Economic and Industry Conditions

The German economy continues to be affected by the COVID-19 pandemic[15]

The COVID-19 pandemic continues to shape the economic situation in Germany. After experiencing a slowdown in the winter half-year 2020/21 due to the pandemic, the German economy continued to recover from the second quarter of 2021 onwards. According to calculations published by the Federal Statistical Office (Destatis), gross domestic product (GDP) grew by 2.0% (calendar-adjusted) in the second quarter of 2021 compared to the same period in the prior year. In the third quarter of 2021, GDP increased by 1.7% compared to the second quarter of 2021 – adjusted for price, seasonal and calendar effects. The decline in new infections in the summer months made possible widespread opening steps in previously restricted sectors of the economy. On the demand side, private consumption was the main growth driver for the summer recovery. Industrial production also continued to decline. The primary reasons behind this were persistent supply bottlenecks and shortages of primary products and raw materials.

Economists at the Bundesbank forecast that the growth of the German economy will have slowed by year-end 2021 due to supply bottlenecks and the worsening of the COVID-19 infection situation. For 2021 as a whole, experts at the Federal Statistical Office estimate real gross domestic product growth of approximately 2.8% (calendar-adjusted).

Inflation growth has accelerated since the beginning of 2021, according to data from the Federal Statistical Office (Destatis). There are several reasons for this, including base effects from low prices in 2020. In particular, the temporary reduction in VAT in the second half of 2020 and the drop in the price of mineral oil products in 2020 are having an increasing effect. Other factors include the introduction of CO_2 pricing since January 2021 and factors related to the crisis, such as price increases at the upstream economic stages. Preliminary estimates by the Federal Statistical Office estimate that the inflation rate in Germany was +5.3% in December 2021 and +5.2% in November 2021 compared to the same month of the previous year. Energy, up 18.3% year-on-year, was again the main price driver in December. Food prices rose by 6.0%, services by 3.1%.

After the easing of pandemic measures in the spring of 2021, the labour market recovered and improved in 2021 but then slowed again in the autumn of 2021. Figures from the Federal Employment Agency indicate that the number of unemployed fell from 2.7 million at the end of 2020 to 2.3 million in December 2021. The unemployment rate fell from 5.9% to 5.1% over this period.

Technology trends bring growth potential for the telecommunications market[16]

The COVID-19 crisis has clearly shown the important role of telecommunications in our society and our economy. The pandemic has changed our everyday lives and the world of work. The use of digital solutions for work, leisure and shopping have increased further and has accelerated a number of (digital) developments. Connectivity in particular has proven to be an important component of everyday life. In particular due to working from home, home schooling, but also to entertainment services at home, consumers' demand for internet access with ever higher bandwidth is increasing.

[15] Sources: German Federal Statistical Office (Destatis): Press releases № 532 (25 November 2021), № 541 (29 November 2021), № 005 (6 January 2022) and № 039 (28 January 2022); Bundesbank: Monthly Report November (22 November 2021) and December (20 December 2021); Bundesbank: Press release "Bundesbank projections: Upswing shifts somewhat" (17 December 2021); Federal Employment Agency (Bundesanstalt für Arbeit): Monthly Report December 2021 (4 January 2022); German Council of Economic Experts: Annual expert reports 2021/22 (10 November 2021)

[16] Sources: VATM: "Telecommunications Market Study 2021" (28 October 2021); Deutsche Telekom AG: Press release 1st half of 2021/22 (16 November 2021); Digital association Bitkom: Future of Consumer Technology Study 2021 (22 September 2021); Ad Alliance: Press release "Mobile 360° Study: Smartphones are now essential" (18 November 2021); PC Welt: 5G networks increasingly gaining traction (6 August 2021); Deloitte and BVDW: Study " Consumer IoT Fact Check" (10 March 2021); mm1 Consulting: Study "10 Years of Fixed-Mobile Convergence" (June 2020); Statista: Global Consumer Survey (September 2021); PC Welt: Mobile routers under test (27 October 2021)

Fast internet is also provided by 5G technology, which is available in more and more areas of Germany. 5G offers a wide range of application possibilities in both the private and business sectors. This will include, for example, offerings such as 4K-/8K video, virtual and augmented reality and real-time gaming, as well as connected and autonomous cars. The growing range of high-end, mid-range and entry-level 5G-enabled smartphones is also driving the adoption of the new mobile communications standard. VATM estimates that by the end of 2021, 10.8 million SIM cards will allow the use of fifth-generation mobile networks.

Since the beginning of the coronavirus crisis, the Germans have been using their smartphones more than before. According to a study by Ad Alliance, the smartphone is now the preferred means of communication for many people, and at the same time it is a source of knowledge, an assistant in everyday life, an entertainer, a games console, a fitness partner and a wallet. The use of apps has increased correspondingly, especially in the areas of health, gaming, shopping and delivery services. In addition, apps that simplify the transition to the digital and contactless payment world are also becoming increasingly important in the market. A quarter of the people surveyed already use the option of mobile payment for stationary retail. According to another Bitkom survey, the smartphone became the most popular online shopping device in 2021. Today, 6 out of 10 people use their smartphone to make online purchases. In the previous year, the laptop was still in first place.

LTE and 5G routers, are becoming increasingly popular as an alternative to fixed broadband connections for accessing the internet. The advantage over cable or DSL is that the devices can be used immediately, without the need for a technician. The internet connection runs via the mobile network. Depending on the provider or the product, these routers can be used at specific locations or independent of location. Typical use cases are, for example, in a second home, in a camper or at a campsite. But even in your own home, you can use a HomeSpot or LTE or 5G router as a replacement for classic fixed-line connections via DSL or cable, or as a bridging solution for Wifi while, for example, the fibre-optic network is being expanded in your neighbourhood. A survey by Statista found that around 11% of respondents now access the internet at home via mobile internet routers.

Telephony continued to be very popular in 2021, according to VATM data. Due to the pandemic, the number of fixed-linel minutes also increased in 2020 for the first time in 13 years – and even in 2021, fixed-linel calls were still made slightly more frequently, especially during lockdown periods. People are reaching for their smartphones more frequently and overall for longer periods of time: It is estimated that 433 million minutes a day were spent talking on mobile phones in 2021 and 234 million minutes were spent using over-the-top (OTT) providers.

The Internet of Things (IoT) and the smart connection of items play an important role not only in the transformation of companies and infrastructures: They have long since become part of consumers' everyday lives. According to a study by Deloitte and BVDW, seven out of ten consumers in Germany currently use at least one end device from the world of the Internet of Things. The products used range from connected TVs and game consoles to smart speakers and smartphone voice assistants to wearables such as smartwatches and fitness trackers for athletes. Smart homes also feature a wide range of devices. In particular, voice assistants are increasingly being used alongside smartphones as control centres, either in the form of separate smart speakers or as integrated voice control software. A study by Bitkom revealed that 44% of all internet users from 16 years on use voice commands to request information or control devices, at least from time to time, across all devices. That is 5 percentage points more than in the previous year. The smartphone is the leading device when it comes to the use of digital voice assistants.

The television market in Germany is also in a state of upheaval. This development was accelerated by the pandemic as well. The consumption of films, series and video clips via the internet was already an integral part of everyday media use in Germany before the crisis and has become even more important, especially during the lockdown. Video-on-demand (VoD) services are distributed over the top (OTT), i.e. via the Internet. Traditional linear television is in competition with these services, especially among the young target group. The continuous increase in the consumption of VoD content is supported by the flexible use of devices such as tablets or smartphones. Although linear television is losing overall popularity, the COVID-19 crisis has highlighted its importance as a reliable source of information. For example, according to a study by the digital association Bitkom, the smartphone is now the most popular device for daily video streaming: almost a third of those who stream use it every day to watch videos, a fifth of users do so multiple times each week.

Demand for mobile data services continues to grow[17]
The mobile phone market is a saturated market. According to VATM data, the number of SIM cards on the market at the end of 2021, including M2M or IoT cards, was 157.8 million (end of 2020: 150.0 million). The strong SIM card growth is mainly due to M2M and IoT cards: According to VATM, at the end of 2021, around 40.2 million SIM cards were in use for M2M and IoT applications, compared to 36.1 million at the end of 2020. These M2M or IoT cards accounted for over 25% of all SIM cards on the market by the end of 2021.

The continued demand for more data-intensive Internet services such as video streaming and social media was responsible for a further increase in mobile data use in 2021. According to VATM estimates, the average monthly data consumption per mobile phone customer increased from 2.6 GB in 2020 to 3.3 GB in 2021. This corresponds to an increase of 26%.

[17] Sources: VATM: "Telecommunications Market Study 2021" (28 October 2021); Company data and own calculations: Deutsche Telekom Investor Relations: publication of Q3 2021 results (12 November 2021); Vodafone Deutschland press release July-September 2021 results (16 November 2021); 1&1 AG: Interim Report Q3 2021 (9 November 2021)

Telefónica Deutschland Group continues to gain service revenue market share in the German mobile network operator market[18]

The German mobile telecommunications market currently consists of three network operators and several service providers and mobile virtual network operators (MVNOs). At the 5G frequency auction, which ended in June 2019, the provider 1&1 acquired frequencies and plans to establish itself as the fourth wireless services network operator in the future and build its own mobile network. The 1&1 Group concluded a long-term national roaming agreement with Telefónica Deutschland Group in May 2021, which will provide to 1&1 customers nationwide mobile coverage in the areas not yet served by the 1&1 Group during their 5G network roll-out phase.

In 2020, the mobile service revenues in the German mobile market were negatively impacted by the pandemic, for example through negative effects on roaming revenues, as well as through shop closures. However, the market largely recovered in 2021. The market grew by 2.0% year-on-year in the nine-month period from January to September 2021. Telefónica Deutschland Group increased its market share in mobile network operator service revenue in the nine months from January to September from 31.9% in 2020 to 32.5% in 2021, making it the number two player in the German market.

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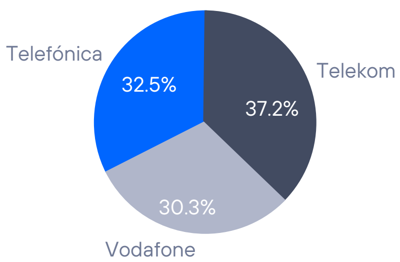
MARKET SHARE IN THE MOBILE COMMUNICATIONS MARKET
based on service revenue of network operators (in %)
Q1 to Q3 2021



Growth in German fixed line broadband market continues[19]

Growth in fixed line broadband connections continued unabated: VATM estimates that the number of accesses at the end of 2021 increased by around 3% year-on-year to approx. 37.4 million. DSL continues to be the dominant technology, with a share of approx. 69% of fixed-line broadband connections. With 9.0 million active broadband connections at the end of 2021, cable now accounts for a share of around 24% of the total market. “Real” fibre optic connections (FTTH/FTTB) continue to gain importance: According to VATM 2021, they have increased by more than 30% compared to the previous year and now account for almost 7% of active broadband connections. The Telefónica Deutschland Group relies on partnerships in its fixed line business. The Group reaches around 34 million households with VDSL through Deutsche Telekom’s infrastructure and, in the future, even more households will be reached with optical fibre (FTTH). As part of the cooperation with Vodafone, the Telefónica Deutschland Group has been able supply up to 24 million cable households in Germany with fixed-line products largely with higher download speeds than VDSL since January 2021. In addition, the cooperation with Tele Columbus has expanded service to another 2.4 million households since July 2021. The Telefónica Deutschland Group connects more households with advanced FTTH connectivity through a partnership with Unsere Grüne Glasfaser (UGG), which was established in 2020 as an independent wholesale company by Telefónica, S.A. Group / Telefónica Deutschland Group and Allianz Group, with Telefónica Deutschland Group holding a 10% stake. Overall, the trend towards higher-speed connections, driven by the COVID-19 pandemic and the need for working from home and home schooling, continues in Germany. According to VATM estimates, more than 52% of customers with a broadband connection will be using maximum download data rates of more than 50 Mbit/s by the end of 2021, compared to 49% at the end of 2020. The increased customer demand for more bandwidth is also reflected in the data volume generated per broadband connection and month. According to VATM, this increased by 30% in 2021 compared to 2020, to an average of 231 GB per access.

[18] Sources: VATM: “Telecommunications Market Study 2021” (28 October 2021); Company data and own calculations: Deutsche Telekom AG Investor Relations: publication of 2020 “Back Up” annual results and 2020 Annual Report (26 February 2021) and Q3 2021 results (12 November 2021); Vodafone Investor Relations Vodafone Group: July-September 2020 results “Vodafone FY21 H1 results announcement” (16 November 2020); July-September 2021 results “Excel Spreadsheet” and “Vodafone FY22 H1 results announcement” (16 November 2021); 1&1 AG: Interim Report Q3 2021 (9 November 2021)

[19] Sources: VATM: “Telecommunications Market Study 2021” (28 October 2021); Deutsche Telekom AG press release: “Broadband expansion: 174,000 households now have faster internet access with Telekom” (27 September 2021); Telefónica Deutschland Holding AG press release: “O_2 launches nationwide roll-out of cable connections” (26 January 2021); Tele Columbus press release: “Tele Columbus launches marketing activities with first wholesale partner” (14 July 2021); Telefónica Deutschland Holding AG press release: “O_2 relies on strong fibre-optic network coverage in Germany for its customers” (2 March 2021)

Regulatory Influences on the Telefónica Deutschland Group

As a provider of telecommunications services and an operator of telecommunications networks, the Telefónica Deutschland Group is required to meet certain regulatory requirements. As such, it is subject to supervision by the Bundesnetzagentur (BNetzA – German Federal Network Agency).

The key regulatory events affecting the Telefónica Deutschland Group in the year under review are discussed below.

Frequencies

BNetzA continues to provide mobile radio frequencies with a scenarios paper

Following the "Spectrum Compass 2020" published for consultation in August 2020, the BNetzA continued the procedure with publication of the "Principles and Scenarios for the Provision of the 800 MHz, 1.8 GHz and 2.6 GHz Spectrum" (scenarios paper) on 21 June 2021, with the aim of exploring the next steps in providing the frequencies. This document describes five scenarios for public consultation, relating to future provision of the 800 MHz usage rights in particular (auction, 800 MHz extension, 800 MHz operator model, combination of auction and extension elements, invitation to tender). The Telefónica Deutschland Group commented in due time and advocated for an extension of the frequencies to be made available through at least 2033. On the basis of the statements submitted concerning the scenario paper, the BNetzA has developed landmarks and put them up for consultation by 21 March 2022. This is accompanied by an initial demand survey to investigate indications of a possible shortage of frequencies. The landmarks essentially only mention an extension and/or auction as the most likely provision mechanisms at the moment.

2019 Frequency Auction

The appeal in the action brought by the Telefónica Deutschland Group against the decisions issued on 26 November 2018 by the Presidential Chamber of the BNetzA (Presidential Chamber Decisions III and IV) about the rules governing the award and the auction of frequencies in the 2 GHz and 3.6 GHz ranges was heard orally before the Federal Administrative Court on 20 October 2021. The Federal Administrative Court dismissed the action in the last instance in a ruling handed down on the same day. This concluded the legal action.

Coverage requirements resulting from the 2019 frequency auction and improved network coverage in "grey spots"

In July 2021, the Telefónica Deutschland Group, the Deutsche Telekom Group and the Vodafone Group entered into a cooperation for the joint construction of additional radio towers and masts, as well as their technical support and use. The cooperation is designed to meet coverage obligations, especially for transport routes and in rural areas. The plan is for the participating companies to construct an equal number of new sites, which can then be used by the cooperation partners as needed on equal terms and equipped with their own antennas and network technology. The 2019 spectrum auction's coverage requirements include far-reaching obligations for transport routes on railways, federal highways and rural or state roads, for so-called "white spots", as well as for seaports and waterways. Frequency holders are allowed to enter into cooperation agreements to fulfil these obligations.

In November 2021, the Telefónica Deutschland Group concluded an agreement with the Deutsche Telekom Group on active shared network usage at "grey spots", which are areas in which only one mobile network operator offers mobile network access to its customers. A similar agreement with the Vodafone Group has been concluded on 25 January 2022.

Coverage requirements resulting from the 2015 frequency auction

In March 2021, the BNetzA confirmed that the Telefónica Deutschland Group has met the coverage requirements in relation to the households nationwide and in every federal state. With regard to the main traffic routes, the BNetzA confirmed in December 2021 that the Telefónica Deutschland Group had also complied with this coverage requirement. This means that the Telefónica Deutschland Group has fulfilled all coverage requirements from the 2015 frequency auction.

Telecommunications market

Conditions from the Merger of the Telefónica Deutschland Group and E-Plus

The Telefónica Deutschland Group entered into a National Roaming Agreement (NRA) with the 1&1 Group (formerly: 1&1 Drillisch Group) on 21 May 2021. With this NRA, the Telefónica Deutschland Group fulfils another EU requirement imposed by the EU Commission arising from the merger of the Telefónica Deutschland Group and E-Plus in 2014.

On 22 February 2019, the EU Commission opened formal proceedings against the Telefónica Deutschland Group by submitting its grounds for objection arising from the implementation of 4G wholesale access as a result of the merger between the Telefónica Deutschland Group and E-Plus. On 12 March 2021, the EU Commission discontinued the proceedings. A fine was not imposed.

New Telecommunications Act for the Implementation of the EU Electronic Communications Code entered into force on 1 December 2021

The amended Telecommunications Act ("TKG") revises the regulatory framework in the telecommunications sector. This will also result in significant changes for the Telefónica Deutschland Group in many areas. The legal precedence with regard to the provision of frequencies in the event of spectrum scarcity has been dropped in favour of an auction, and extensions and invitations to tender for frequency allocations have also become possible in this case. The amended Telecommunications Act also contains extensive changes in the "Customer Protection" section. Among other things, the obligation to provide information and the right to terminate the contract have been expanded, meaning that a contract that has been tacitly renewed after the expiry of the minimum term can be terminated at any time with a notice period of one month. In addition, both mobile and fixed-line customers will have a special right of termination and a right to a reduction in price if the service provided deviates from the agreed service. The BNetzA has published a General Administrative Order for fixed-network internet access with effect from 13 December 2021 to specify the vague legal terms "significant, continuous or regularly recurring deviation in speed" and guidelines on a monitoring mechanism for furnishing proof of such deviations. In the mobile sector, the details are still being worked out by the BNetzA. The new Telecommunications Act also adapts and expands the powers and tasks of the BNetzA, such as powers with regard to broadband cooperation, the structuring of universal service and expanded information rights regarding network expansion. Among other effects, the regulations on the publication of financial statements are changing, which will require additional companies of the Telefónica Deutschland Group to publish their financial statements separately.

German legislature enacts law on fair consumer contracts

A law on fair consumer contracts was passed in August 2021. The individual provisions of this law will enter into force in stages on 1 October 2021, 1 March 2022 and 1 July 2022. In particular, the law includes the obligation to implement a "cancellation button" from 1 July 2022 so that consumers have an easy-to-reach online channel for cancelling the contract.

IT Security Act 2.0 enters into force

In May 2021, the „Second Act to Increase the Security of Information Technology Systems" (Zweites Gesetz zur Erhöhung der Sicherheit informationstechnischer Systeme) entered into force. It builds on the first act from 2015 and aims to better protect public structures from cyber attacks. This is especially true for critical infrastructures (KRITIS), such as telecommunications. As a result, certain components and manufacturers could be banned or excluded. On 23 August 2021, the BNetzA published a „General order for the definition of the catalogue of security requirements for the operation of telecommunications and data processing systems and for the processing of personal data (§ 109 paragraph 6 of the Telecommunications Act, „Security Catalogue")". The Security Catalogue contains a list of critical functions; this list is the basis for a prohibition or exclusion. Due to unclear wording in the list and the resulting legal uncertainty, the Telefónica Deutschland Group has filed an objection, which has not been decided on so far. On 7 October 2021, the Federal Ministry of the Interior and Community issued a „General order on the details of the minimum requirements for the guarantee declaration (prohibition of the use of critical components) for the telecommunications sector to be determined on the basis of the act covering the Federal Office for Information Security (BSI)". The aim is to establish minimum requirements for manufacturers of critical components in warranty statements made to operators of critical infrastructure. Since there are no clear definitions, the Telefónica Deutschland Group has brought an action against this general order, which has not been decided on so far.

Discontinuation of data retention by BNetzA

In 2017, BNetzA published a notification according to which it will refrain from issuing ordinances and taking other measures to enforce the retention obligations in respect of all companies required to do so until the lawfulness of the retention obligations had been legally clarified. For this reason, Telefónica Deutschland Group temporarily discontinued the retention in 2017. The legally binding clarification of the legality of the storage obligation also continued in 2021.

Access and price regulation

MTR and FTR – delegated act enters into force

The EU Commission's delegated act entered into force on 1 July 2021 and the approved charges have been amended accordingly. It provides for the application of a glide path for the MTR (Mobile Termination Rate), according to which a charge of EUR 0.70 cents per minute will apply from 1 July 2021, decreasing to EUR 0.55 cents per minute from 1 January 2022, to EUR 0.40 cents per minute from 1 January 2023 and to EUR 0.20 cents per minute from 1 January 2024. FTRs (Fixed Termination Rate) have been subject to a charge of EUR 0.07 cents per minute since 1 July 2021. These charges will apply to all German providers of these services. In some cases, different charges apply to providers in other European countries.

EU Roaming Regulation to be revised

In November 2021, the EU Commission, the EU Council and the EU Parliament agreed on a first draft of a new version of the EU Roaming Regulation, which will take effect from 1 July 2022. Additional rounds of voting are still pending. The current principle of "roam-like-at-home" will be extended until 2032 and additional benefits and protections for consumers will be introduced. In all probability, the key innovations will be the introduction of Quality of Service (QoS), improved, free access to emergency call services, the obligation to provide information about and protections against additional charges abroad, such as for service numbers or in aeroplanes, as well as the reduction of wholesale charges. There are also plans to ask the EU Commission to look into measures on intra-EU calls, i.e. calls from the home country to an EU member state.

BNetzA continues regulatory procedures on fibre-optic infrastructures

The BNetzA has identified the existence of significant market power of Telekom Deutschland GmbH on markets 3a (= market for wholesale access provided locally at a fixed location) and 3b (= market for wholesale mass market products provided centrally at a fixed location) and still deems both wholesale markets to be in need of regulation. This applies to both the copper network of Telekom Deutschland GmbH and the newly constructed fibre optic network for the implementation of FTTH.

For market 3a, the BNetzA has determined that Telekom Deutschland GmbH has nationwide market dominance for ADSL, VDSL and FTTH. On 11 October 2021, the BNetzA published a draft decision on the framework conditions under which charges and other access conditions will be controlled by the BNetzA in future. This relates both to access to the local loop in the copper network, the so called "last mile", and also to virtual unbundled local access (VULA) to the copper and fibre connections of Telekom Deutschland GmbH. The Telefónica Deutschland Group submitted comments on the draft decision within the specified time limit.

With respect to market 3b, the BNetzA published a draft decision in the third quarter of 2020 in which Telekom Deutschland GmbH was identified as having market dominance only in cities with populations of more than 60,000. A draft decision on the type of regulation of fees and other access conditions for wholesale products in market 3b resulting from this will probably not be published until 2022.

Conclusion of an agreement with Telekom Deutschland GmbH for long-term access to xDSL and FTTH accesses

On 1 October 2020, the Telefónica Deutschland Group concluded binding long-term preliminary agreements with Telekom Deutschland GmbH, defining future access entitlements and corresponding conditions for access to xDSL and FTTH accesses. Most of the agreed conditions are subject to the BNetzA not prohibiting the fee agreements. No prohibition has been issued with regard to the agreed xDSL conditions. A review of the FTTH conditions is still ongoing. There are currently no indications that the BNetzA might decide to prohibit the charges at a later date.

Overview of the Financial Year 2021

Operational Performance

In financial year 2021, the Telefónica Deutschland Group delivered sustained solid operational and financial performance in a rational, while dynamic market environment, underpinned by the focused execution of the company's 'Investment for Growth' programme. As the German economy recovered and with the easing of the COVID-19 measures taken in the wake of the COVID-19 pandemic from the second quarter onwards, the gradual reopening of the O_2 shops was enabled. This reinforced Telefónica Deutschland Group's operational performance, with the O_2 Free tariff portfolio as a key driver.

In total, the Telefónica Deutschland Group recorded 1,526 thousand postpaid net adds (1.043 thousand in 2020) and 203 thousand M2M net adds (218 thousand in 2020) in the financial year owing to the positive development of the retail customer business in combination with a robust partner business. In the prepaid market, the trend of prepaid to postpaid migration continued unchanged. Against this backdrop, the Telefónica Deutschland Group recorded a decline of prepaid accesses by 310 thousand in 2021 (-813 thousand in the previous year).

Overall, the number of mobile accesses grew by 3.2% in 2021 and amounted to 45.7 million at the end of the year. The strongest growth driver (+6.5% year-on-year) was mobile postpaid excluding M2M, which recorded 25.1 million accesses as of 31 December 2021 (54.9% of total mobile base, up 1.7 percentage points year-on-year). Churn rates remained at historic lows, with the O_2 brand's implied annualised churn rate improving to 11.1% from 13.1% in 2020. This is confirmation of our sustained quality improvements and a multi-award winning customer experience on the O_2 network. The number of M2M connections totalled 1.6 million as of 31 December 2021, an increase of 14.4% compared to the prior year. In contrast, mobile accesses in the mobile prepaid segment declined by 1.6% year-on-year to 19.0 million, which reflects the ongoing prepaid-to-postpaid migration trend in the market.

Own brand postpaid ARPU grew 0.2% year-on-year in financial year 2021 despite the impact of travel restrictions on roaming revenues and the mobile termination rate cut brought forward to 1 July 2021.

Fixed broadband business returned to growth with the reopening of the O_2 shops while recording a total of +1 thousand net adds (+55 thousand in 2020) in financial year 2021. Accordingly, the fixed-line customer base remained largely stable at a total of 2.3 million customers (+0.1% year-on-year). Telefónica Deutschland Group also registered continued strong demand for mobile-based fixed-mobile substitution (FMS) products in its O_2 my Home portfolio.

Financial Performance

The Telefónica Deutschland Group's continued focus on profitable growth also resulted in a strong financial performance.

Revenues in the 2021 financial year were EUR 7,765 million, an increase of 3.1% year-on-year and thus in line with the expectations that had been raised in the first half-year. This development was driven in particular by the continued growth of mobile service revenues, which increased by 3.5% year-on-year despite the existence of a few remaining roaming restrictions and some pressure from the reduction in mobile termination rates, which has been brought forward to 1 July 2021. High-quality mobile phones remained popular, and handset sales rose by 1.9% despite some supply chain bottlenecks. Fixed broadband posted growth of 3.6% compared to the previous year.

Operating income before depreciation and amortisation (OIBDA), adjusted for exceptional effects came to EUR 2,411 million in the reporting year, +3.9% compared to the previous year (EUR 2,319 million) and thus remained within the expectations of the outlook upgraded twice. The adjusted OIBDA margin of 31.0% (+0.3 percentage points year-on-year) reflects operating momentum combined with the revenue mix and continued improvements in operating efficiency. This was partly offset by the EU/non-EU roaming mix and some inflation-related cost pressure, among other factors.

Exceptional effects in financial year 2021 totalled EUR 243 million (previous year: EUR 364 million) and mainly included the net gain on disposal of EUR 262 million from the second tranche of the sale of major parts of the business operations of the rooftop sites to Telxius Telecom, S.A. (>Note 7 DISPOSAL GROUPS<) as well as other income from the release of provisions in connection with M&A in the amount of EUR 3 million. This was offset by restructuring expenses of EUR 22 million (previous year: EUR 38 million). In the previous year, the sale of spectrum licences also resulted in net losses of EUR 5 million.

Capital Expenditure

Capital expenditure (CapEx) amounted to EUR 1,284 million in 2021 (previous year: EUR 1,094 million) with an investment ratio of 16.5% (previous year: 14.5%). The Telefónica Deutschland Group executed its three-year (2020 to 2022) network-focused Investment for Growth programme according to plan. The focus of investment was, as expected, in the second year, with the Telefónica Deutschland Group targeting the capital expenditure efficiency. The O_2 5G network reached around 30% population coverage in Germany by the end of 2021. The company is rapidly scaling up 5G with the goal of nationwide coverage by 2025.

T 01

OVERVIEW OF THE FINANCIAL YEAR 2021

	Actual 2020 (in EUR million)	**Outlook for 2021**[20] (year-on-year)	**Updated outlook for 2021**[20] (year-on year)	**Financial year 2021** (year-on-year in %)	**Assessment** (compared to the original outlook)
Revenues	7,532	Unchanged to slightly positive year-on-year	Slightly positive year-on-year	EUR 7,765 million (+3.1%)	Better than expected
OIBDA adjusted for exceptional effects	2,319	Largely unchanged to slightly positive year-on-year	Low mid single-digit percentage growth	EUR 2,411 million (+3.9%)	Better than expected
Investment ratio (CapEx/Sales ratio)	14.5%	17 – 18%	<17 - 18%	16.5%	Better than expected

Sale of major parts of the business operations of the rooftop sites

In the 2020 financial year, the Telefónica Deutschland Group with Telxius Telecom, S.A. ("Telxius"), an affiliated company of the Telefónica, S.A. Group, the sale of major parts of the business operations of the rooftop sites.

This includes the spin-off and sale of a large part of its passive infrastructure on 10,113 mobile communications sites, consisting of 10,037 rooftop sites and 76 tower sites including the related lease agreements, associated assets and liabilities, know-how and other legal arrangements, at a nominal purchase price of EUR 1.5 billion. Due to the transfer of important processes, this involves the sale of a business as defined by IFRS 3. The sale of the business was recorded under IFRS 10.

The active radio technology at the transferred stations remains the property of the Telefónica Deutschland Group and will continue to be used by the company, unchanged, for operation of the mobile communications network.

The transaction of two steps: on 19 August 2020, around 60% of the sites (5,975 rooftop sites and 58 tower sites) were spun off to Telefónica Germany Mobilfunk Standortgesellschaft mbH ("TGMS"), a company newly in the first half of 2020. The shares in this company were transferred to Telxius on 1 September 2020. TGMS was then renamed Telxius Towers Erste GmbH. In December 2020, this company was merged into Telxius Towers Germany GmbH ("Telxius Germany").

With effect from 1 June 2021, ATC Germany Holdings GmbH has acquired all the shares in Telxius Germany; as a result, the latter was renamed ATC Germany Munich GmbH.

On 22 July 2021, a further approximately 40% of the sites (4,062 rooftop sites and 18 tower sites) were spun off to Telefónica Germany Zweite Mobilfunk Standortgesellschaft mbH ("TGZMS"), a company that was established in financial year 2020. The shares in this company were transferred to Telxius with effect from 1 August 2021 (>Note 7 DISPOSAL GROUPS<) . Telxius then transferred all the shares in TGZMS to ATC Germany Holdings GmbH and the company was renamed ATC Germany Munich Zweite GmbH. ATC Germany Munich Zweite GmbH was merged into ATC Germany Munich GmbH with effect from 19 November 2021. With the specific selection of the individual transfer locations in June 2021, the associated assets and liabilities were identified individually. The assets and liabilities to be transferred were therefore reported as „held for sale" in accordance with IFRS 5 during the course of the year, up to the date of sale on 1 August 2021.

The purchase price receivable including purchase price allocation from the second transaction step amounts to EUR 632 million. The amount of EUR 519 million was already paid within the reporting period. The remaining purchase price receivable of EUR 113 million is due for payment in 2022 with a share of EUR 16 million. A further EUR 97 million will be due for payment in 2025.

With the transfer of the TGZMS to Telxius and the subsequent transfer to ATC Germany Holdings GmbH, the Telefónica Deutschland Group will lease areas of the transferred passive infrastructure from ATC Germany Munich GmbH for the installation and operation of its active radio technology.

The entire transaction was approved by the competent authorities in the previous year.

Business development is further detailed in the following sections.

[20] The financial outlook originally issued for the financial year 2021 in the Annual Report dated 3 March 2021 for revenues and OIBDA adjusted for exceptional effects, was raised in the context of the H1 2021 results and OIBDA adjusted for exceptional effects, was raised again in the context of the Q3 results. The expectations for the investment ratio were also adjusted as a result.

Results of Operations

T 02

CONSOLIDATED INCOME STATEMENT

1 January to 31 December

(in EUR million)	2021	2020	Change	% change
Revenues	**7,765**	**7,532**	**233**	**3.1**
Other income	402	542	(140)	(25.9)
Operating expenses	(5,514)	(5,391)	(122)	2.3
Supplies	(2,403)	(2,435)	32	(1.3)
Personnel expenses	(585)	(611)	26	(4.2)
Impairment losses in accordance with IFRS 9	(72)	(69)	(3)	4.3
Other expenses	(2,454)	(2,276)	(177)	7.8
Operating income before depreciation and amortisation (OIBDA)	**2,653**	**2,683**	**(29)**	**(1.1)**
OIBDA margin	***34.2%***	***35.6%***	**-**	***(1.4%-p.)***
Depreciation and amortisation	(2,382)	(2,369)	(13)	0.5
Operating income	**272**	**314**	**(42)**	**(13.4)**
Financial result	(62)	(66)	3	(5.1)
Gains/(losses) from companies accounted for using the equity method	(4)	–	(4)	-
Profit/(loss) before tax	**205**	**248**	**(43)**	**(17.2)**
Income tax	5	80	(75)	(93.6)
Profit/(loss) for the period	**211**	**328**	**(118)**	**(35.9)**

T 03

REVENUE BREAKDOWN

1 January to 31 December

(in EUR million)	2021	2020	Change	% change
Mobile business revenues	**6,942**	**6,730**	**212**	**3.2**
Mobile service revenues	5,492	5,307	185	3.5
Hardware revenues	1,450	1,423	27	1.9
Fixed line/DSL business revenues	**814**	**785**	**29**	**3.6**
Other revenues	**10**	**17**	**(7)**	**(43.6)**
Revenues	**7,765**	**7,532**	**233**	**3.1**

T 04

RECONCILIATION OF PERFORMANCE INDICATORS ALSO USED FOR THE INTERNAL MANAGEMENT

1 January to 31 December

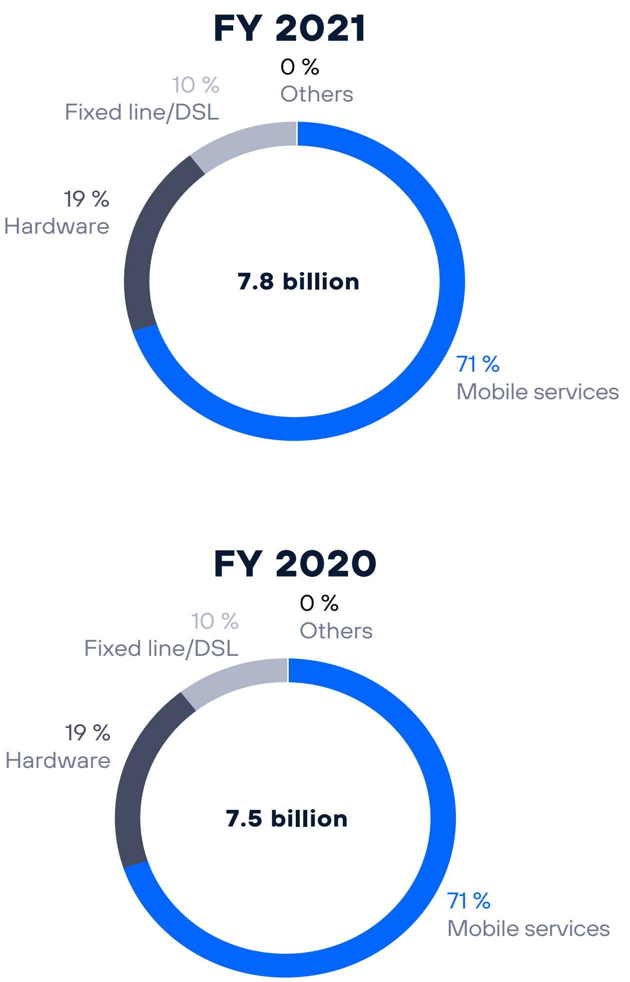
(in EUR million)	Consolidated Income Statement 2021	Exceptional effects from restructuring 2021	Exceptional effects from the disposal of major parts of the business activities of rooftop sites 2021	Other exceptional effects 2021	2021 adjusted	2020 adjusted	Change	% change
Revenues	**7,765**	**–**	**–**	**–**	**7,765**	**7,532**	**233**	**3.1**
Other income	402	–	(262)	–	140	132	8	5.8
Operating expenses	(5,514)	22	–	(3)	(5,495)	(5,345)	(150)	2.8
Supplies	(2,403)	–	–	–	(2,403)	(2,435)	32	(1.3)
Personnel expenses	(585)	8	–	–	(578)	(583)	6	(1.0)
Impairment losses in accordance with IFRS 9	(72)	–	–	–	(72)	(69)	(3)	4.3
Other expenses	(2,454)	14	–	(3)	(2,442)	(2,257)	(185)	8.2
Operating income before depreciation and amortisation (OIBDA)	**2,653**	**22**	**(262)**	**(3)**	**2,411**	**2,319**	**91**	**3.9**

Increase in revenues

Revenues increased in financial year 2021, mainly due to the accelerated growth in revenues from mobile services as well as from the contribution of revenues from fixed line/DSL and hardware. In addition, in the year-on-year comparison, revenues were affected positively by negative non-recurrent special factors in the financial year 2020 and positive non-recurrent special factors in the financial year 2021 in the total amount of EUR 39 million. There were no shifts in the revenue breakdown compared to the prior year.

G 05

REVENUES
(in % and in EUR billion)



Higher revenues from mobile services
In financial year 2021, the Telefónica Deutschland Group still operated in a rational and dynamic competitive environment that was impaired by COVID-19. In financial year 2021, the revenue mix improved, due in particular to the positive business performance of own brands, with the postpaid ARPU of the own brands returning to growth and supported by the solid contribution of the partner brands in the course of the year. Increased travel activity also resulted in an increase in the share of roaming revenues. Data revenues also rose. In addition, the development of mobile service revenues was positively influenced by the special factors mentioned above in 2021. Another driver was the significant increase in the customer base compared to 31 December 2020, a result of the good development of our O_2 Free portfolio and the partner brands. As a result, our postpaid mobile customer base excluding M2M increased by 1.5 million net additions to 25.1 million in financial year 2021 (growth in financial year 2020: 1.0 million), which led to an increase of the postpaid share of total mobile customers excluding M2M by 1.7 percentage points compared to 31 December 2020, to 54.9%. In addition, the average revenue per user (ARPU) increased slightly to EUR 10.0 compared to the previous year (EUR 9.9).

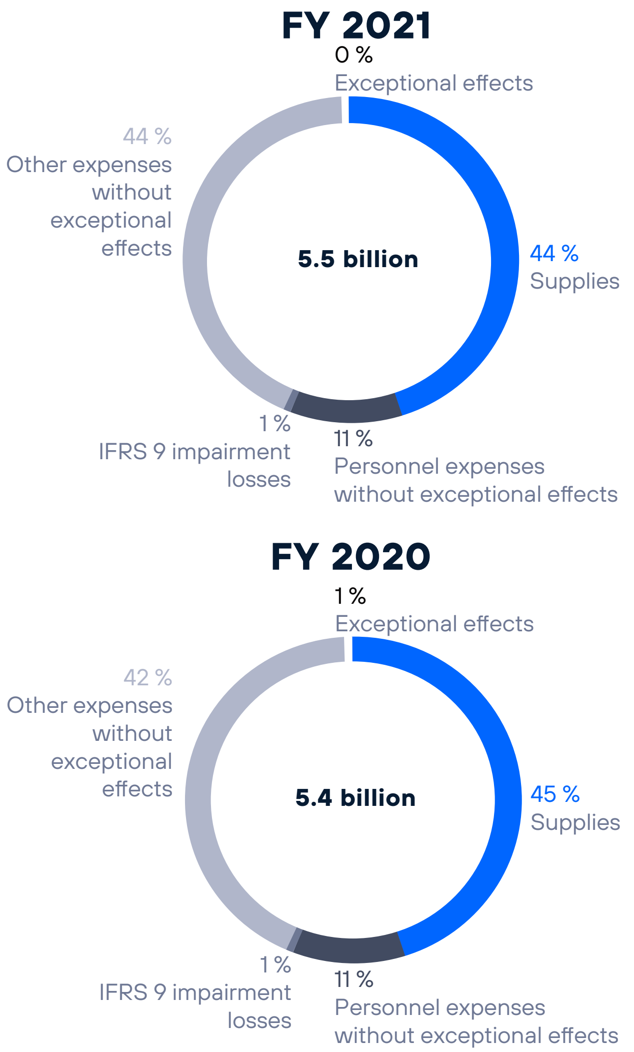
Increase in hardware revenues
Hardware revenues are generally subject to general fluctuation, as they depend on the launch cycles of new mobile devices. Due to continued demand for hardware in financial year 2021, revenue from sales of increasingly high-end devices – including to mobile service partners – increased year on year.

Rise in fixed line/DSL business revenues
Revenues from fixed line business rose in financial year 2021, due mainly to the stable customer base and the sustained demand not only for VDSL products but also for new cable and fibre-optic products, and the associated higher share of the customer base.

Other income influenced by net gains on disposal
Other income in the 2021 financial year fell to EUR 402 million (previous year: EUR 542 million). In both years, these mainly included the net gains on disposal of EUR 262 million and EUR 407 million respectively related to the two transaction steps of the sale of major parts of the business operations of the rooftop sites to Telxius (>Note 7 DISPOSAL GROUPS<) . Due to the lower number of mobile communications sites transferred, the net gain on disposal of the second transaction step (EUR 262 million) was lower than in the first transaction step (EUR 407 million). Gains on disposal in the amount of EUR 4 million from the sale of spectrum licences were also recognised in the previous year.

Increase in operating expenses
Operating expenses increased in financial year 2021 compared with the previous year, mainly due to the increase in other expenses. This was partially offset by reduced material and personnel expenses. Operating expenses include exceptional effects of EUR 19 million (previous year: EUR 46 million), which are due to restructuring expenses of EUR 22 million and, counteracting this to a lesser extent, to income from the reversal of provisions in connection with M&A of EUR 3 million.

G 06
OPERATING EXPENSES
(in % and in EUR billion)



Decrease in supplies

Supplies for hardware and connectivity decreased year-on-year in the 2021 financial year, mainly due to a decrease in the supplies for connectivity as a result of the reduction in mobile telecommunications termination rates on 1 December 2020 and 1 July 2021, as well as from lower expenses for connectivity in fixed-line/DSL. The decline is due to a lower hardware cost of sales. This was countered by higher supplies for connectivity from roaming as a result of the renewed increase in the share of roaming.

Personnel expenses down year-on-year

Personnel expenses were lower in the financial year 2021. Compared to the previous year, restructuring expenses were lower at EUR 8 million (previous year: EUR 28 million). This decrease is also due to a lower headcount and social security payments received for employees in the company's own shops that were temporarily closed. Their salaries were topped up to 100% by the company.

Increase in other expenses

Other expenses increased in the financial year 2021. This is chiefly due to higher expenses in the technology area for transformation and expanding 5G, as well as an increase in costs for selling, marketing and shifts in customer service. In addition, restructuring expenses, mainly related to the disposal of customer service sites, increased year-on-year to EUR 14 million (previous year: EUR 10 million). This was offset by other income from the reversal of provisions in connection with M&A activities of EUR 3 million while the prior year contained disposal losses of EUR 9 million from the sale of spectrum licences.

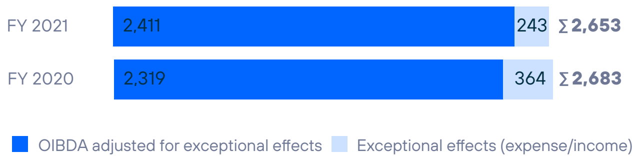
Increase in OIBDA adjusted for exceptional effects

OIBDA adjusted for exceptional effects increased by 3.9% year-on-year to EUR 2,411 million in the 2021 financial year. This development is due to an improved revenue mix, the two non-recurrent special factors from 2020 and 2021 and the decline in supplies and personnel expenses. Offsetting this were higher other expenses in the financial year 2021. In the financial year 2021, the exceptional effects of EUR 243 million (previous year: EUR 364 million) included the net gain on disposal of EUR 262 million from the second transaction step of the sale of major parts of the business operations of the rooftop sites (previous year: EUR 407 million), other income from the reversal of provisions in connection with M&A of EUR 3 million and lower restructuring expenses of EUR 22 million. As a result, OIBDA decreased to EUR 2,653 million (previous year: EUR 2,683 million).

G 07

OIBDA

(in EUR million)



Increase in depreciation and amortisation

Depreciation and amortisation increased in the 2021 financial year to EUR 2,382 million (previous year: EUR 2,369 million). The increase in depreciation and amortisation is essentially due to the shortened useful lives of some assets. As the network and IT architecture is being optimised, the useful lives of the relevant parts of the assets were shortened in 2021, resulting in higher depreciation and amortisation compared to the same period in the previous year. To a lesser extent, additional depreciation and amortisation resulted from increased additions to capitalised right-of-use assets and property, plant and equipment. These effects were almost offset by the amortisation of the UMTS licences which expired at the end of 2020.

Operating income influenced by net gains on disposal

In the reporting year, similar to the previous year, operating income was strongly influenced by net gains on disposals and in financial year 2021 was below the previous year (EUR 314 million) at EUR 272 million. The main factor here was the net gain on disposal from the second transaction step of the sale of major parts of the business operations of the rooftop sites to Telxius, which at EUR 262 million was lower than in the first transaction step (EUR 407 million) due to the lower number of mobile communications sites transferred. Without these effects, operating income would have risen year-on-year, in particular as a result of the increase in revenues, operational efficiency gains and effective cost management, which more than offset the increase in other expenses.

Financial result benefits from more favourable refinancing

The improvement in the financial result from EUR -66 million in the previous year to EUR -62 million in the reporting period is primarily due to lower interest expenses as a result of more favourable refinancing.

Gains/(losses) from companies accounted for using the equity method

Against the backdrop of the joint venture with Telefónica Infra, S.L.U. and the Allianz Group, newly formed in the previous year to expand fibre-optic connections (FTTH) for households in Germany, pro rata income was posted in financial year 2021 for the first time in relation to the 10% investments in UGG TopCo

GmbH & Co. KG and in UGG TopCo/HoldCo General Partner GmbH that are accounted for using the equity method. This amounted to EUR -4 million in the reporting period (previous year: EUR 0).

Income tax
After proportionate offsetting against tax losses carried forward, the Telefónica Deutschland Group again posted positive taxable income in 2021, consequently forming income tax liabilities of EUR 93 million as of 31 December 2021. Taxable income is also affected by the second transaction step as part of the spin-off and the sale of major parts of the business operations of the rooftop sites to Telxius. In the course of the spin-off, hidden reserves were realised for tax purposes and were subject to tax as regular taxable income within the scope of minimum taxation.

Tax income of EUR 5 million reported in the 2021 financial year includes current tax expense of EUR 79 million for income tax liabilities recognised and, offsetting this, tax income of EUR 84 million from changes in deferred taxes. In addition to other effects, deferred tax income includes expected taxable income and the related pro rata use of tax loss carryforwards for the spin-off contractually agreed in 2021 as part of the second step of the transaction for the sale of additional major parts of the business operations of the rooftop sites to Telefónica Germany Zweite Mobilfunk Standortgesellschaft mbH. In the previous year, there was a current tax expense of EUR 15 million and income from deferred taxes of EUR 95 million.

Decreased result for the period
As in the previous year, the result for the period was positive in the 2021 financial year at EUR 211 million (previous year: EUR 328 million). The decrease is due to the lower net gain on disposal in the second transaction step of the sale of major parts of the business operations of the rooftop sites to Telxius compared to the first transaction step due to the lower number of transferred mobile communications sites. However, current tax expenses were higher year-on-year, as hidden reserves were recognised for tax purposes in the course of the spin-off and subjected to tax as regular taxable income within the scope of minimum taxation.

Financial Position

Principles and goals of financial management

Risk control and a central management are the fundamental principles of financial management at the Telefónica Deutschland Group. The goal of financial management is to continually ensure sufficient financial liquidity and stability. Risk controls are used in order to anticipate potential risks and counteract those using corresponding measures. At present, there are no circumstances which would indicate that the Telefónica Deutschland Group would not be able to meet its financial obligations.

One key performance indicator is the net leverage ratio (>Management Report MANAGEMENT SYSTEM<) .

Financing

Borrowed capital is obtained through credit facilities and capital market instruments.

Refinancing of the syndicated loan
On 22 March 2016, the Telefónica Deutschland Group signed a syndicated credit line in the amount of EUR 750 million, which on 17 December 2019 was replaced by a new revolving syndicated credit line in the same amount with a term until 17 December 2024. In 2020, the term of this credit facility was extended by one year to 17 December 2025. The term of this credit facility was again extended by another year to 17 December 2026 in 2021. The credit line serves general corporate purposes and has not been drawn as of 31 December 2021.

Financing agreements with the European Investment Bank (EIB)
On 13 June 2016, the Telefónica Deutschland Group signed its first financial agreement with the EIB, which originally amounted to EUR 450 million. The facility is intended to finance the consolidation, modernisation and expansion of the Telefónica Deutschland Group's mobile network after the acquisition of the E-Plus Group. The funds provided by the EIB have terms of up to eight years. The amortizing loan a value of EUR 258 million as of 31 December 2021.

Additional financing agreements with the EIB were signed on 18 December 2019 for EUR 300 million and on 14 January 2020 for EUR 150 million. These loans were fully drawn down as of 31 December 2021. The EIB loan will also have a maturity of eight years as of drawdown and will be repaid in equal instalments.

Promissory notes and registered bonds
On 13 March 2015, the Telefónica Deutschland Group completed an initial placement of promissory notes and registered bonds with different maturities up to 2032 and a total volume of EUR 300 million. In February 2018, further promissory notes in various tranches and a registered bond with a total volume of EUR 250 million with various maturities up to 2033 were issued. In financial year 2019, further promissory notes in various tranches with a total volume of EUR 360 million with maturities up to 2029 were placed on 25 April. In the 2021 financial year, variable-interest tranches totalling EUR 326 million were terminated and repaid in advance as part of active financial management. Taking into consideration further scheduled repayments in the financial years 2019 and

2020 totalling EUR 188 million, a promissory note volume of EUR 397 million is still outstanding as of 31 December 2021.

Bond liabilities
In February 2014, O2 Telefónica Deutschland Finanzierungs GmbH placed a bond with a nominal amount of EUR 500 million and a term of seven years, which was repaid on schedule in February 2021. In July 2018, another bond with a nominal value of EUR 600 million and a term of seven years was placed. The issuer transferred the net proceeds on the issue of the bonds to its shareholder Telefónica Germany GmbH & Co. OHG as a loan. Both bonds were or are guaranteed by Telefónica Deutschland. The details are as follows:

T 05

NOMINAL AMOUNT

Nominal amount (in EUR million)	Term from	until	Coupon p.a.
600	5 July 2018	5 July 2025	1.75%

Telefónica Deutschland Group continues to benefit from the Telefónica, S.A. Group cash pooling
The Telefónica Deutschland Group will continue to participate in the liquidity management system of the Telefónica, S.A. Group. Agreements have been made with Telfisa Global B.V. for deposits and liquidity management. The liquidity of the entire Telefónica, S.A. Group is centralised by means of these agreements. This allows us to benefit from the economies of scale of the entire Telefónica, S.A. Group. The cash pool means that the Group continues to have access to short-term overdraft facilities up to a maximum of EUR 454 million. Telefónica, S.A. has guaranteed the performance of Telfisa Global B.V.'s obligations arising from the cash pooling agreements.

Unused credit facilities provide financial flexibility
The Group's financial flexibility remains secure reasoned to the availability of unused credit facilities totalling EUR 1,454 million. This comprises bilateral revolving credit facilities with various banks to the value of EUR 250 million, of which EUR 200 million with a remaining term of more than one year, the unutilised syndicated loan facility of EUR 750 million, and available overdraft facilities from Telfisa Global B.V. of EUR 454 million.

Silent factoring as a tool to manage working capital
We have entered into factoring agreements with various credit institutions regarding the sale of receivables in order to strengthen our working capital. This mainly relates to factoring transactions for instalment receivables with a total net cash effect of EUR 487 million in financial year 2021. The sold receivables were fully derecognised at the time of sale, with the exception of continuing involvement. Further information on silent factoring can be found in the Notes to the Consolidated Financial Statements for the year ended 31 December 2021 (>Note 5.5 TRADE AND OTHER RECEIVABLES<) .

Financial efficiency and payment flexibility due to extension of payment periods
In order to obtain greater financial efficiency and cash flexibility, the Telefónica Deutschland Group has entered into agreements with certain commercial suppliers to extend payment periods. The industry-standard payment terms were not exceeded, so that a reclassification is not required, and the payments are shown within trade payables.

Financial analysis

Decreased net financial debt
Net financial debt, a key component of the net leverage ratio, which was 1.3x at the end of the reporting year, decreased as of 31 December 2021 compared to the previous year by EUR 123 million to EUR 3,045 million.

The decrease in net financial debt resulted in particular from free cash flow of EUR 1,502 million. Proceeds from disposals of companies of EUR 540 million contributed to the decrease. The main effect within proceeds from disposals of companies is the receipt of payment of the purchase price receivable due in the 2021 financial year from the second transaction step of the sale of major parts of the business operations of the rooftop sites to Telxius in the amount of EUR 519 million. A decreasing effect has the portion of the purchase price receivable that is not yet due as a result of the second step of the transaction amounts to EUR 113 million.

Offsetting this, the second transaction step results in an increase in lease liabilities due to additions of lease liabilities amounting to EUR 496 million from the leasing of space on the transferred passive infrastructure for the installation and operation of active radio technology of ATC Germany Munich GmbH.

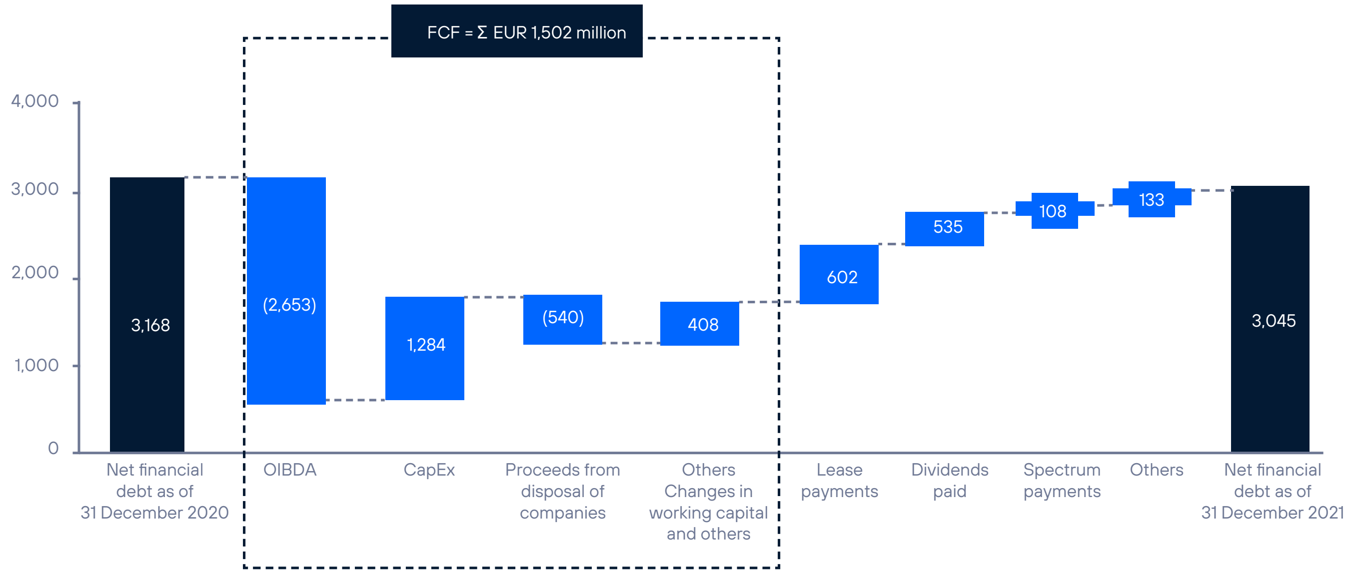
Other factors included the payment of lease liabilities of EUR 602 million, the dividend payment for the financial year 2020 of EUR 535 million and payments for spectrum licences of EUR 108 million.

The graphic below illustrates the development of net financial debt in financial year 2021.

G 08

DEVELOPMENT OF NET FINANCIAL DEBT

(in EUR million)



The following table shows the composition of net financial debt – i.e. the net amount of interest-bearing financial liabilities less any cash and cash equivalents and interest-bearing financial assets.

T 06

COMPOSITION OF NET FINANCIAL DEBT

As of 31 December

(in EUR million)	2021	2020	Change	% change
A Liquidity	1,020	1,337	(317)	(23.7)
B Current financial assets [1]	450	304	145	47.8
C Current financial debt [2]	637	1,229	(592)	(48.2)
D=C-A-B Current net financial debt	(833)	(412)	(421)	102.1
E Non-current financial assets [1]	531	322	208	64.5
F Non-current financial debt [2]	4,408	3,903	505	12.9
G=F-E Non-current net financial debt	3,878	3,581	297	8.3
H=D+G Net financial debt [3]	**3,045**	**3,168**	**(123)**	**(3.9)**

[1] Current and non-current financial assets include handset receivables not yet due, other interest-bearing assets, net investment (in accordance with IFRS 16), the positive performance of the fair value hedge for fixed interest financial debt and loans issued to third parties.
[2] Current and non-current financial debt mainly includes lease liabilities, issued bonds, promissory notes and registered bonds as well as other loans.
[3] Net financial debt includes current and non-current financial debt less current and non-current financial assets and liquidity.

Note:
Handset receivables are presented in trade receivables in the Statement of Financial Position.

Off-balance sheet obligations

Purchase obligations and other contractual obligations increased by EUR 2,669 million to EUR 5,554 million in the 2021 financial year. The increase is mainly due to the extension and expansion of the fixed line cooperation with Telekom Deutschland GmbH announced in October 2020 - which has now come into effect – and the associated obligations to purchase VDSL, vectoring and fibre-optic wholesale products, as well as, to a lesser extent, extended supply contracts for mobile devices and contracts for IT and network optimisation (>Note 19 PURCHASE AND OTHER CONTRACTUAL OBLIGATIONS<).

Liquidity analysis

T 07

CONSOLIDATED STATEMENT OF CASH FLOWS

1 January to 31 December

(in EUR million)	**2021**	**2020**
Cash flow from operating activities	2,133	2,134
Cash flow from investing activities	(631)	(238)
Free cash flow (cash flow from operating activities + cash flow from investing activities)	**1,502**	**1,896**
Cash flow from financing activities	(1,818)	(1,340)
Net increase (decrease) in cash and cash equivalents	**(317)**	**556**
Cash and cash equivalents at the beginning of the period	**1,337**	**781**
Cash and cash equivalents at the end of the period	**1,020**	**1,337**

Consolidated Statement of Cash Flows

The following is an analysis of the cash flow development of the Telefónica Deutschland Group in the financial years 2021 and 2020.

Cash flow from operating activities almost unchanged

Cash flow from operating activities totalled EUR 2,133 million in financial year 2021, almost unchanged from the previous year's figure of EUR 2,134 million. This positive operating development is primarily offset by the change in working capital, which amounted to EUR -213 million in the reporting period (2020 financial year: EUR -83 million).

Cash flow from investing activities impacted by lower cash inflows and higher investment

The cash flow from investing activities in financial year 2021 amounted to EUR -631 million (previous year: EUR -238 million). The change compared to the prior year is due to both lower cash inflows and higher cash outflows. Cash outflows chiefly comprised increased investments in plant and software. They increased overall from EUR 1,026 million to EUR 1,181 million in the same period last year. Cash inflows decreased to EUR 549 million (same period of the previous year: EUR 788 million), mainly due to cash inflows from the disposal of companies of EUR 540 million (previous year: EUR 766 million). The main effect within proceeds from disposals of companies is the receipt of payment of the purchase price receivable due in the 2021 financial year from the second transaction step of the sale of major parts of the business operations of the rooftop sites to Telxius in the amount of EUR 519 million. The receipt of payment from the purchase price receivable as part of the first transaction step in the 2020 financial year amounted to EUR 766 million. (>Note 7 DISPOSAL GROUPS<).

Free Cash flow reduced at high level

Free cash flow amounted to EUR 1,502 million, a decrease of EUR 394 million in the 2021 reporting period compared to the same period of the previous year (EUR 1,896 million). This development is primarily due to the change in cash flow from investing activities with the effects described there.

Cash flow from financing activities affected by higher cash outflow

The cash flow from financing activities in financial year 2021 amounted to EUR -1,818 million (previous year: EUR -1,340 million). Cash outflows increased to EUR 2,572 million (same period of the previous year: EUR 2,131 million) and mainly comprise payments of lease liabilities of EUR 602 million, dividend payments of EUR 535 million, scheduled repayment of a bond of EUR 500 million, repayment of short-term credit lines with various credit institutions totalling EUR 419 million, repayment of promissory notes of EUR 326 million, payments for spectrum licences of EUR 108 million and repayment of an EIB loan of EUR 75 million. In contrast, the 2020 financial year included the repayment of Telfisa Global B.V.'s short-term overdraft facility of EUR 791 million, payments of lease liabilities of EUR 547 million, the payment of a dividend of EUR 506 million, the repayment of promissory notes of EUR 113 million, the payment for spectrum licences of EUR 87 million and the repayment of an EIB loan of EUR 75 million.

Cash inflows decreased by EUR 37 million year-on-year (EUR 791 million) to EUR 754 million. The change is due to decreased financial needs and primarily involves drawing on two loans from the EIB amounting to EUR 450 million, and utilising short-term credit lines with two credit institutions in the amount of EUR 300 million. Both of the short-term credit lines were already repaid within the reporting period. In comparison, financial year 2020 included the utilisation of a short-term overdraft facility from Telfisa Global B.V. totalling EUR 791 million during the year.

Decrease in cash and cash equivalents

Based on the above-mentioned cash inflows and outflows, cash and cash equivalents decreased by EUR 317 million compared to the previous year's reporting date and on 31 December 2021 amounted to EUR 1,020 million (31 December 2020: EUR 1,337 million).

Net Assets

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of 31 December

(in EUR million)	**2021**	**2020**	**Veränderung**	**% change**
Goodwill and other intangible assets	5,497	6,234	(737)	(11.8)
Property, plant and equipment	3,491	3,706	(216)	(5.8)
Right-of-use assets	3,349	2,852	496	17.4
Investments accounted for using the equity method	3	2	1	62.5
Trade and other receivables	1,766	1,454	313	21.5
Deferred tax assets	433	473	(40)	(8.5)
Other financial assets	466	368	98	26.6
Other non-financial assets	657	639	18	2.8
Inventories	138	129	8	6.5
Cash and cash equivalents	1,020	1,337	(317)	(23.7)
Total assets = Total equity and liabilities	**16,819**	**17,194**	**(375)**	**(2.2)**
Interest-bearing debt	1,716	2,292	(575)	(25.1)
Lease liabilities	3,330	2,841	489	17.2
Trade and other payables	2,787	2,488	299	12.0
Payables – Spectrum	1,097	1,196	(98)	(8.2)
Provisions	713	850	(137)	(16.1)
Other non-financial liabilities	53	50	3	6.5
Income tax liabilities	93	15	79	>100
Deferred income	739	768	(29)	(3.8)
Deferred tax liabilities	255	365	(110)	(30.2)
Equity	**6,036**	**6,330**	**(295)**	**(4.7)**

Decrease in goodwill and other intangible assets

The decrease compared with the previous year was chiefly due to scheduled amortisation of other intangible assets in the amount of EUR 849 million and the disposal of the pro rata goodwill in the amount of EUR 256 million on the basis of the second transaction step of the sale of major parts of the business operations of the rooftop sites to Telxius (>Note 7 DISPOSAL GROUPS<) .

This was offset by the additions to intangible assets of EUR 372 million, which related primarily to investments in software.

Decrease in property, plant and equipment

The decrease in property, plant and equipment was largely due to depreciation of EUR 948 million and the disposal of passive infrastructure for rooftop and tower sites with a net carrying amount of EUR 126 million on the basis of the second transaction step of the sale of major parts of the business operations of rooftop sites to Telxius (>Note 7 DISPOSAL GROUPS<) .

This was partially offset by additions of EUR 913 million in the 2021 financial year relating primarily to network investments for technical equipment.

Increase in right-of-use assets

The increase in right-of-use assets is chiefly due to additions of right-of-use assets amounting to EUR 496 million from the leasing of space on the transferred passive infrastructure for the installation and operation of active radio technology of ATC Germany Munich GmbH from 1 August 2021, and other additions of EUR 833 million, which relate in particular to right-of-use assets for technical equipment.

This was offset by the disposals of right-of-use assets from the transfer of lease agreements with third parties to Telxius with a net carrying amount of EUR 133 million on the basis of the second transaction step of the sale of major parts of the business operations of the rooftop sites (>Note 7 DISPOSAL GROUPS<) and other disposals in the amount of EUR 263 million. Scheduled depreciation and amortisation of EUR 585 million also reduced the figure.

Increased investment ratio (Capex/sales-ratio)

Investments (CapEx) rose in the 2021 financial year to EUR 1,284 million, compared to EUR 1,094 million in the comparison period 2020, mainly due to increased investment in expanding 5G and in optimising the network. The investment ratio consequently rose to 16.5% (2020: 14.5%).

Investments accounted for using the equity method

The shares in companies accounted for using the equity method amounting to EUR 3 million (previous year: EUR 2 million) comprise the investments made by the Telefónica Deutschland Group in the fibre-optic companies of the Telefónica Deutschland Group, newly formed in financial year 2020 along with Telefónica Infra, S.L.U. and the Allianz Group (>Management Report BUSINESS ACTIVITIES<) .

Trade and other receivables increased

The increase is mainly due to the rise in O_2 My Handy receivables as a result of the recent increase in demand for higher-value mobile devices and lower factoring transactions in the 2021 financial year compared to the previous year.

Deferred tax assets

Deferred tax assets (gross) fell in financial year 2021, from EUR 473 million to EUR 433 million. In addition to other effects, such as the elimination of deferred tax liabilities due to the disclosure of hidden reserves during the sale of additional major parts of the business operations of the rooftop sites to Telefónica Germany Zweite Mobilfunk Standortgesellschaft mbH, as part of the second step of the transaction in 2021, which served as a source of value for the recognition of deferred tax assets, the decrease also takes into account realised taxable income as a result of the spin off. These proceeds were used to utilise tax loss carryforwards on a pro rata basis.

Increase in other financial assets

The increase of EUR 98 million resulted mainly from the portion of the purchase price receivable of EUR 113 million not yet due from the second transaction step of the sale of major parts of the business operations of the rooftop sites to Telxius (>Note 7 DISPOSAL GROUPS<) .

Other non-financial assets post small increase

The small increase is mainly due to higher capitalized costs of obtaining contracts.

Inventories of mobile devices increase slightly

The reason for the slight increase in inventories was the build-up of stocks due to the availability of new mobile devices.

Decrease in cash and cash equivalents

This development is attributable to several factors that are presented in more detail in the chapter >Management Report FINANCIAL POSITION< .

Interest-bearing debt down on previous year

The decline of EUR 575 million in interest-bearing liabilities compared to the previous year was primarily due to the scheduled repayment of a bond in the amount of EUR 500 million, the repayment of promissory notes in the amount of EUR 326 million, the repayment of a short-term credit line from a bank in the amount of EUR 119 million and the scheduled partial repayment of a loan from the European Investment Bank (EIB) in the amount of EUR 75 million. This was offset by drawing on two loans from the EIB totalling EUR 450 million.

Increase in lease liabilities

The increase in lease liabilities is due in particular to additions of lease liabilities amounting to EUR 496 million from the leasing of space on the transferred passive infrastructure for the installation and operation of active radio technology of ATC Germany Munich GmbH from 1 August 2021. The increase was also due in part to contract modifications made in the course of regular business activities.

This was offset by the disposals of lease liabilities from the transfer of lease agreements with third parties to Telxius in the amount of EUR 125 million due to of the second transaction step the sale of major parts of the business operations of the rooftop sites (>Note 7 DISPOSAL GROUPS<) as well as EUR 55 million higher payments of lease liabilities compared to the 2020 financial year.

Trade and other payables record increase

The increase compared to the previous year results in particular from the procurement of high-quality mobile devices for sale and partly from fluctuations in normal operating business.

Payables – Spectrum

The payables are attributable to the outstanding payment obligations resulting from the mobile frequency auction in 2019. They decreased largely due to the instalment payment made in the financial year.

Provisions down significantly year-on-year

Provisions decreased, chiefly due to the higher discount rate compared to the previous year, which led to a decrease in asset retirement obligations as well as in pension provisions. In addition, asset retirement obligations declined in the amount of EUR 46 million as a result of the transfer of the passive infrastructure as well as the associated asset retirement obligations in connection with the second transaction step of the sale of major parts of the business operations of the rooftop sites to Telxius (>Note 7 DISPOSAL GROUPS<). There are no longer any asset retirement obligations for the transferred communications infrastructure of mobile network sites at the end of the reporting period.

Income tax liabilities

This item comprises recognition of income tax totalling EUR 93 million. The increase of EUR 79 million compared to 31 December 2020 results from current allocations relating to financial year 2021, taking into account the disclosure of hidden tax reserves from the sale of additional major parts of the business operations of the rooftop sites to Telefónica Germany Zweite Mobilfunk Standortgesellschaft mbH under application of the minimum taxation.

Deferred income declines

Deferred income fell by EUR 29 million. The decline results in particular from regular reversals, among other factors, in the context of the obligation from the payments received under the contract with an MVNO, which was classified as a contract liability. This was offset in particular by accruals under the transport use agreement with UGG and from increased voucher sales in the prepaid business.

Decline in deferred tax liabilities

The development is attributable to the realisation of taxable temporary differences. These include reductions in tax amortisation of intangible assets which were realised as planned. In addition to this effect, taxable temporary differences recognised in previous years as part of the sale in anticipation of the second transaction step of the sale of parts of the business operations of the rooftop sites, whose carrying amounts were mainly recognised in non-current assets, had been realised as part of the sale.

Equity below prior year level

The changes to equity mainly result from the dividend payment of EUR 535 million which was executed by 26 May 2021 and, offsetting this, to the positive result for the period of EUR 211 million.

Subsequent Events

On 9 February 2022, the Management Board of Telefónica Deutschland resolved to propose a total cash dividend of approx. EUR 535 million or EUR 0.18 per share to the next Annual General Meeting which is scheduled for 19 May 2022.

Jaime Smith Basterra was appointed to the Supervisory Board as a shareholder representative by order of the competent court on 30 December 2021 with effect from 4 January 2022.

No additional events subject to disclosure requirements occurred after the end of the financial year.

Report on Risks and Opportunities

The Telefónica Deutschland Group anticipates opportunities that are important for achieving its strategic goals. To take advantage of these opportunities, however, the Company also has to take certain risks. Our risk management is designed to recognise these risks at an early stage and actively mitigate them.

Risk Management and Risk Reporting

Fundamental risk management principles

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

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

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

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

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

Opportunities are not recorded in the risk management system.

Risk evaluation

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

To identify the risks illustrated in the following with material influence on business development, we use a 5×5 matrix as a starting point, within which the potential level of impact and the relevant likelihood of occurrence are each divided into five categories:

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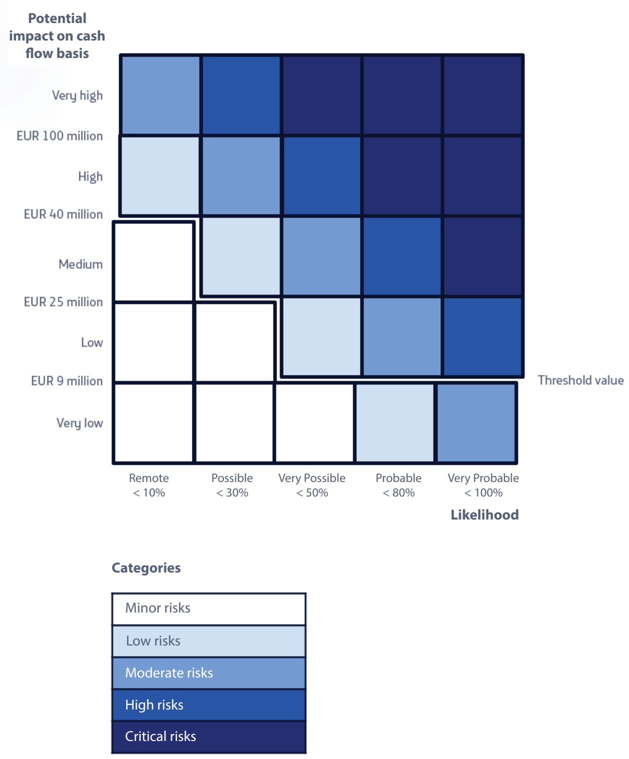
RISK PROFILE



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

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

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

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

Risks

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

Business risks

Competitive markets and changing customer demands
We operate in markets characterised by a high level of competition and continuous technological developments. Our Company faces increasing competition from alternative telecommunications service providers – among them cable operators, MVNOs and consumer electronics companies – and also competes with alternative telecommunications services like OTT. There is the risk that our growth targets and planned revenues will not be reached. In order to prevail against these companies and developments, we must also continue to provide competitive services and successfully market our products in the future. In doing so, we systematically observe new customers' needs, our competitors' business activities, technological changes, and the general economic, political and social conditions and take them into account in our planning. We classify this risk as critical.

Geopolitical risks
Political conflict can influence our international trade relations and directly or indirectly impact both our supply chain and the economic environment. The current political tension between the various countries could also impact our relations with suppliers as a result of existing or future trade barriers.

If certain network technologies or hardware were no longer to be available, the resulting follow-on costs could be enormous. Equally, the sale of devices could suffer and result in lower revenues. Although we do not currently see any signs of this, shortages of certain goods could be possible.

To counter this risk, we strive to avoid possible dependencies on individual suppliers, to increase our inventories, and to monitor regulations on the certification of critical components. We classify this risk as moderate.

Market acceptance and technological transformation
In an environment characterised by major technological transformation, there is the risk that we will not be able to anticipate and implement technical requirements and customers' requirements in time. False interpretations or incorrect decisions could harbour the risk of negatively influencing the acceptance of our products by customers and could lead to us not reaching our growth and earnings targets. We counter this low risk by monitoring our gross margin, churn rates and through extensive market research activities.

COVID-19 pandemic
There are also further possible restrictions with regard to COVID-19 that may impact our business activities. In view of global developments, especially with regard to the spread of different variants and varying vaccination rates in individual countries, some uncertainty remains for us as well.

Deliveries for network expansion and other hardware necessary for business operations, for example, from regions that are particularly hard hit, could be delayed or even cancelled.

The potential economic downturn might prevent companies from being able to compensate for the consequences of the pandemic. Any resulting payment difficulties or changes in demand on the part of our customers could impair our business activities. Our future business activities are also dependent on the overall economic recovery.

We are countering this risk with a number of measures. In particular, we have drawn up a comprehensive, top-level pandemic plan as part of our emergency and crisis management. It is constantly being adapted to possible changes in the situation.

The company introduced a hybrid working model to prevent the spread of the virus among employees. This model makes it possible to continue to work flexibly, and to adapt to changing circumstances.

Our inventories have been optimised due to the current situation so that we are prepared for potential bottlenecks. Our online and remote channel capabilities have been upgraded to offset potential limitations in our traditional physical channels. In addition, our Controlling department ensures extensive monitoring. This makes it possible to take appropriate steps in good time to avoid any divergence from the defined targets.

As a result of the measures we have adopted and because the telecommunications industry as a whole seems to be less affected by the consequences of the pandemic, we now classify this risk as low rather than critical.

Regulatory environment
We operate in a strongly-regulated market environment. Decisions made by the regulatory authorities can directly and critically influence services, products and prices.

Regulation issues
Our business activity is subject to significant influences and requirements by regulatory authorities. Any deviations in the interpretation of these requirements may result in fines and therefore have a negative effect on our financial position or reputation.

The regulatory authorities could take additional measures at any time in order to curtail tariffs and fixed or mobile telecommunications termination rates even more. They could similarly oblige us to grant third parties access to our networks at reduced prices. Based on a reassessment of the impact of new roaming requirements, we now consider the risk that measures by regulatory authorities could negatively affect our business activity as well as our financial position and results of operations to be high rather than moderate.

Licences and frequencies
Our licences and the licence usage rights granted to us are time-limited and depend on prior allocation. If we cannot extend or cannot newly obtain the licences and frequency usage rights necessary for our business or if the financial conditions for the use of these licences and rights change significantly, this will lead to higher investment costs than planned. A potential change to the network expansion resulting from this could also have a negative impact on expected revenues. Overall, we classify the risk as low after the conclusion of the frequency auction in 2019.

Regulatory requirements in connection with the acquisition of the E-Plus Group
In approving the acquisition of the E-Plus Group, the European Commission obligated the Telefónica Deutschland Group to meet various requirements. This includes an obligation to provide frequencies, infrastructure and network capacities to a potential new mobile network operator in exchange for payment. In fulfilment of the frequency part of this condition, the Telefónica Deutschland Group agreed with the 1&1 Group to transfer 2 x 10 MHz in the frequency range at 2.6 GHz to the 1&1 Group until the end of the term at the end of 2025; in return, the Telefónica Deutschland Group will receive an annual usage fee. The contract was approved by the EU Commission. To meet another requirement of the European Commission, we entered into extensive agreements with the 1&1 Group in 2014 on the provision of network capacities and services. An extensive project was launched to ensure strict compliance with the contracts concluded and hence prevent the possibility of significant fines. We classify this risk as low.

Regulatory influences on our transmission power
The electromagnetic compatibility of transmitters could be subject to new regulations due to potential, as yet unproven, health risks. In this case, if the requirements regarding maximum permitted transmission power were changed this would negatively affect the performance and expansion of our mobile network. We classify this risk as low.

In order to guard against the stated regulatory risks, the Telefónica Deutschland Group maintains close communications with the decision makers on a national and international level. This allows us to introduce our interests and views to the decision-making process in good time. Moreover, we review and use legal protective mechanisms against decisions of the regulatory authorities in order to actively foster positive changes for us.

Insurance
Considering the existing opportunities and evaluating financial efficiency, the Telefónica Deutschland Group counters risks by concluding comprehensive insurance contracts. In particular, this substantially reduces risks that might arise from the operation of the technical infrastructure as well as from potential violations of the copyrights or patent rights. Despite this, unforeseen events could, inter alia, result in financial losses if our insurance protection or our provisions should prove to be insufficient. As part of the management of our insurance cover, a regular review takes place in order to achieve the best possible and most economical cover. We classify this risk as low.

Operational risks

Reliability of our services

Attracting and retaining customers
The success of our business depends on our ability to attract new customers and retain existing customers. In an environment characterised by continuous further development of products, services and tariffs, we must also keep an eye on the performance of our network and that of our competitors. If our offers are not accepted on the market, we would lose out to our competitors in acquiring new customers. We counter this critical risk by intensively monitoring and evaluating customer satisfaction and by extensively monitoring our network elements.

Damage caused by cyberattacks
Cyberattacks on our network or our IT systems that are not detected or averted in good time could lead to disruptions or damage that could also affect our services and thus result in lost revenue and customer dissatisfaction. The availability and confidentiality of data that we process may be impacted by these attacks. In addition to reputational losses, legal consequences would also be possible, and we could be fined. We counter this risk, on the one hand, by analysing and reducing weaknesses and focusing on an early warning system, and, on the other hand, we are constantly improving our systems for rectifying faults and establishing increased risk awareness among our employees with regard to cyberattacks. We classify this risk as critical.

Technical failures
Lasting or repeated disturbances or damages to our mobile telecommunications or fixed networks and in our technical facilities and systems could have a negative influence on customer satisfaction and result in a loss of customers or revenue losses. We implement extensive monitoring of our network elements and systems here, too. In addition, insurable risks are covered by our insurance programme. Comprehensive crisis and emergency management should enable the Company to continue its core business in the event of a disruption and then ensure the resumption of all business operations in order to achieve its corporate goals. Despite the continuous adjustment of the planned measures, the resumption of business operations could be delayed in the event of disruptions or failures. We consider this risk to be high because even minor faults can result in substantial losses in sales.

Supply chain disruptions

As a mobile and fixed network operator and a provider of telecommunications services and products, we are dependent on a few main suppliers in the same way as other companies in the industry. These suppliers provide us with important products and services that are primarily related to the IT and network infrastructure and mobile devices. If these suppliers do not provide or are unable to provide their products and services as expected, this could jeopardise the operation and expansion of the network and the sale of telecommunications products, which in turn could adversely affect our Company and earnings. The same applies if service providers to whom we award projects for reasons of efficiency do not perform the services in time or with the required quality. As part of our supplier management, we assess the quality of the services provided and any potential risks in this regard on a continuous basis. This allows us to identify weak points at an early stage and to counter them. We classify this risk as moderate.

Loss of advantages in the case of reduced integration in the Telefónica, S.A. Group

Use of trademark rights
The use of the core brand O_2 in Germany is subject to a licence agreement with O_2 Worldwide Ltd, a subsidiary of Telefónica, S.A. The trademark rights are of major importance for our business activities. The loss of a brand in particular could have a negative impact on customer growth, and hence on our revenues. We classify this risk as moderate, even if there are no indications of future disruptions to the contractual relationships.

Use of services
The Telefónica Deutschland Group still obtains services and inputs from the Telefónica, S.A. Group to a significant extent. There are a range of contracts, particularly in the areas of financial management and IT services. If inputs from the Telefónica, S.A. Group are no longer provided, there is a low risk of not being able to procure them on the market, or not at the same favourable conditions. Likewise, there are no indications of future disruptions to these service relationships.

Legal risks

As part of its business activity, the Telefónica Deutschland Group is required to comply with a large number of laws. An infringement of legal provisions poses an intrinsic risk to the business activities, success and reputation of the Company.

Data privacy regulations
In the course of our business activities, we also collect and handle customer data and other personal data. There is the risk of misuse or loss of these data. This could represent a breach of the relevant laws and provisions and result in fines, loss of reputation and the migration of customers, and hence the loss of revenues. The fact that the EU-US Privacy Shield agreement has been declared invalid could, in particular, give rise to uncertainties in contractual relationships. We classify this risk as moderate.

Contractual relationships
Contractual penalties or claims could result from contracts with sales partners, suppliers and customers if we do not comply with our contractual or legal obligations or fail to meet agreed purchasing quantities, for example. We classify this risk as moderate.

Violation of customers' rights
Our customer relationships and the contractual terms arising from these relationships are monitored by consumer protection agencies on a continuous basis. Interpretations differing from the Company's viewpoint may result in these agencies regarding them as a violation of customers' rights and taking legal actions against us. There is the low risk that this could negatively affect our business result or our reputation.

In order to avoid legal risks, particularly from competition and data protection law, the Telefónica Deutschland Group has established a compliance management system. Components of this management system include the applicable business principles, a number of guidelines and ongoing employee training with regard to the main legal provisions and standards, in particular also the General Data Protection Regulation and the topic of information security. In supplement, legal risks are covered by insurance to the extent permitted. The Telefónica Deutschland Group also maintains an internal compliance and legal department, and enters into continuous contact with external law firms, authorities, associations and official groups.

Financial risks

There were no material financial risks at the end of the financial year.

Overview of assessments of reported risks

Risk	Potential level of impact	Likelihood of occurrence	Assessment
Business risks			
Competitive markets and changing customer demands	Very high	Probable	Critical
Geopolitical risks	High	Possible	Moderate
Market acceptance and technological transformation	Medium	Possible	Low
COVID-19 pandemic	Low	Very Possible	Low
Regulatory environment			
General regulatory influences	High	Very Possible	High
Licences and frequencies	High	Remote	Low
Regulatory requirements in connection with the acquisition of the E-Plus Group	High	Remote	Low
Regulatory influences on our transmission power	High	Remote	Low
Insurance	High	Remote	Low
Operational risks			
Reliability of our services			
Attracting and retaining customers	High	Probable	Critical
Damage caused by cyberattacks	Very high	Very Possible	Critical
Technical faults	High	Very Possible	High
Supply chain disruptions	High	Possible	Moderate
Loss of advantages in the case of reduced integration in the Telefónica, S.A. Group			
Use of trademark rights	Very high	Remote	Moderate
Use of services	High	Remote	Low
Legal risks			
Data privacy regulations	High	Possible	Moderate
Contractual relationships	Low	Probable	Moderate
Violation of customers' rights	High	Remote	Low

Risks from Financial Instruments

The Telefónica Deutschland Group is exposed to various financial market risks as part of its business activity. In the context of the above-mentioned risk management process, these risks are regarded as low risks. Should these financial market risks occur, they could have a negative effect on the net assets, financial position and results of operations of the Group and are therefore presented individually below.

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

Market risk

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

Currency Risk

The underlying currency of the financial reports of the Telefónica Deutschland Group is the euro. All financial statements of all subsidiaries of the Telefónica Deutschland Group are also prepared in euros; thus the Telefónica Deutschland Group is not subject to any translation risk.

The regional focus of the Telefónica Deutschland Group's activities means that the translation risk arising from the Group's business relationships with its suppliers or business partners in countries with a different national currency than the euro is not material. Because the Telefónica Deutschland Group finances itself exclusively through internally generated cash in euros as well as euro-denominated equity and debt, there is also no exchange rate risk.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flow of a financial instrument could fluctuate as a result of changes in market interest rates. The Group manages its interest rate risk by seeking to ensure it has a balanced portfolio of fixed-interest and variable-interest financing instruments. Where necessary, interest rate swaps are used in achieving this aim. Interest rate risks are managed as part of interest rate management.

The Telefónica Deutschland Group is exposed to interest rate risks arising from variable-rate loan agreements as borrower and from the variable-rate cash pooling accounts with Telfisa Global B.V. as well as in the form of opportunity costs in connection with the conclusion of fixed-rate debts, the interest rate of which may exceed market interest rates during the term. To reduce these opportunity costs, interest rate swaps in connection with the issue of a bond were concluded on a partial amount of the nominal value of the bond. Under this interest rate swap contract, the Telefónica Deutschland Group paid a variable interest rate on a nominal amount and received a fixed interest rate on the same amount in return. The nominal amount of this interest rate swap was used to offset the effects of future changes in market interest rates on the fair value of the underlying fixed-rate financial debt from the bond issue (fair value hedge). Hedge accounting for these hedge relationships complied with IFRS 9. The term of the swap ended as scheduled in February 2021 with the repayment of the bond.

Inflation risk

The inflation risk consists of the risk of a negative effect on the financial result as a result of an adverse change in the inflation rate for the Telefónica Deutschland Group. Non-current contractual receivables totalling EUR 246 million are subject to this risk.

Credit risk

Credit risk describes the risk of financial losses due to the inability of contractual partners to repay or service debts in accordance with the contract. The maximum default risk of the Telefónica Deutschland Group corresponds to the carrying amount of the financial assets.

The Telefónica Deutschland Group considers the management of the commercial credit risk to be critical in order to achieve its goals for sustainable growth of the business and the customer base in harmony with its risk management guidelines. Suitable processes have been established for the management and the monitoring of the credit risk. These include the ongoing monitoring of the expected risks and the level of default. Particular attention is paid here to the customers which could have significant effects on the Consolidated Financial Statements of Telefónica Deutschland Group. For these customers, credit management instruments such as credit insurance or collateral for limiting the default risk are used, depending on the business area and type of business relationship. To control credit risk, the Telefónica Deutschland Group regularly conducts an analysis of the maturity structure of trade receivables and recognises adjustments for expected credit defaults on receivables. Against the backdrop of COVID-19 and a potentially elevated risk of default, we stepped up our risk monitoring activities. However, no material changes were identified in bad debts and in our assessment of the default risk.

Liquidity risk

Liquidity risk encompasses the risk that the Telefónica Deutschland Group may be unable to sufficiently comply with its financial obligations. To safeguard liquidity, cash inflows and outflows are permanently monitored and centrally controlled on the basis of detailed financial planning. The Telefónica Deutschland Group works on its liquidity management with the Telefónica, S.A. Group and, in accordance with corporate policy, has concluded cash-pooling and deposit agreements with Telfisa Global B.V., Netherlands. In addition to operating liquidity, the opportunities arising on the financial markets are continuously examined with a view to ensuring the financial flexibility of the Telefónica Deutschland Group.

Opportunity Management

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

The opportunities and growth potential identified in the strategic goal-setting process are prioritised as part of an annual planning process in close cooperation with the individual business areas, and relevant strategic goals are derived from this. To measure the implementation, concrete financial objectives in the form of financial and non-financial key performance indicators (KPIs) are defined at the level of the organisation units.

Opportunity management is a significant component of the entire process for strategic goal setting. It takes place both as part of budget creation for the following financial year as well as within long-term planning.

Opportunities are neither recognised in the risk register nor quantified.

Opportunities

Increase in mobile data usage

A further increase in mobile data usage by customers could accelerate the demand for high-quality O_2 tariffs. A significant increase in demand for mobile data may result from several developments. Significant improvements in LTE network availability and increasing availability of 5G through growing network coverage and the rising number of compatible mobile devices enable more customers to use high data transfer rates. The increased availability and use of streaming and TV services may also further increase demand for data. These effects can lead to an increase in the average monthly data consumption per customer and thus further increase the demand for tariffs with larger data volumes. If these effects are more positive than expected, they could have a more positive impact on our revenues.

In addition, a stronger demand for mobile fixed-network connections through mobile-based WLAN routers (FMS), which can be used as an alternative to the traditional DSL connection, can also increase data usage. If demand for our mobile-based fixed-line alternatives is stronger than previously expected, this could have a positive impact on our revenues and OIBDA.

Moreover, a stronger increase in demand for convergent offerings and mobile bundled products, e.g. for families, could have a positive effect on average revenue per customer as well as on customer loyalty, thus increasing revenues.

Improving our LTE and 5G networks

While we are placing a much stronger focus on the 5G roll-out and the technological transformation of the network, we are continuing to invest in the expansion of our LTE network, which millions of customers use every day. In 2022, we will continue to push ahead with the expansion of our LTE network, especially in rural areas.

The Telefónica Deutschland Group secured 90 MHz of spectrum for nationwide use in the mobile frequency auction, which ended in June 2019, with a term until 2040. The Group pushed ahead intensively with the 5G network expansion in the past financial year. The 5G network already and serves around more than 30% of the German population. We will continue to push ahead with network expansion in 2022 and make 5G available in more and more cities, and particularly in rural regions. 5G delivers additional capacity and higher speeds, which further enhances our O_2 customers' mobile data experience and opens the door to new applications. Private and business contract customers of our core brand O_2 will benefit equally from the 5G network.

Within the business customer segment, 5G also lays the foundation for numerous new business models in areas such as campus networks, autonomous driving, virtual reality and the Internet of Things.

If the roll-out of the 5G network proceeds faster than planned, or if the market reacts more positively to the network roll-out than previously anticipated, this could have a positive impact on our revenues and OIBDA.

Fixed-line cooperation agreements via various technologies

As an integrated telecommunications provider, the Telefónica Deutschland Group not only provides comprehensive mobile telephony services but also fixed-line services, which are made possible by various cooperation agreements. Since 2013, we have been focusing on a nationwide strategic partnership with Telekom Deutschland GmbH ("Telekom"), through which we can offer our customers DSL products. In addition, cooperation agreements expand our presence in the fixed-line market and also open up further growth opportunities (>Management Report BUSINESS ACTIVITIES<) .

As part of the cooperation with Vodafone, we will have access to up to 24 million[21] cable households in Germany and can supply them with fixed-line O_2 products, largely with higher download speeds than VDSL. Through the cooperation agreement with Tele Columbus, the Telefónica Deutschland Group also has long-term access to a further 2.4 million[22] households supplied with IP products by Tele Columbus via cable and fibre networks. This agreement allows us to provide customers with data speeds of up to 1 Gbit/s.

As part of the joint venture of the Telefónica Deutschland Group with Telefónica Infra, S.L.U. and the Allianz Group, the Telefónica Deutschland Group can offer even more O_2 residential and business customers high-performance fibre-to-the-home connections. The independent wholesale company, which operates under the name Unsere Grüne Glasfaser GmbH & Co. KG, in which Telefónica Deutschland Group holds a 10% stake, is expanding local fibre networks in underserved rural areas and business parks and offering non-discriminatory FTTH wholesale access to interested telecommunications service providers. Through this partnership, Telefónica Deutschland Group will further expand the fibre share of its fixed-line coverage in future.

If the availability of high-speed connections via our cooperation partners or via Unsere Grüne Glasfaser increases more significantly than planned, this could lead to stronger than expected demand for our fixed-network products and have a positive effect on our revenue.

In addition, our fixed-line network cooperation agreements open up additional growth opportunities for us in the area of convergent offerings. Furthermore, the remuneration for our transport services for UGG could develop more positively than expected in the long term, depending on the progress of the expansion. Therefore, a Transport Use Agreement with a minimum term of 15 years was concluded in January 2021 to enable synergies between the companies in the wholesale sector.

Digital innovation
In order to fully exploit our position in the German market for mobile telecommunications services and to monetise additional opportunities for growth, we have introduced innovative digital products and value added services in various areas such as communication services and financial services. We are also developing new digital market segments such as IoT for all our customer groups.

Should the demand for our digital products and services develop better than currently expected, this could positively affect our revenues and OIBDA exceeding our forecast.

Digitalisation of processes and use of artificial intelligence
We are moving ahead strongly with the digital transformation of our Company and the associated process optimisation. This makes interaction with customers simpler and more intuitive, since customers can, for example, use intuitive self-care offers or identify and buy the desired product more quickly. We are also using digital transformation to reduce, simplify and automate our processes. Our overall goal is to create a consistent customer experience across all contact points.

If the digital transformation of our Company can take place faster than expected and the customer response is even more positive than expected, this could lead to higher customer satisfaction, higher revenues and cost savings and thus increase our OIBDA.

Potential in the SME segment of the business customer market
Our planning focuses on the expansion of our still relatively small market share in the segment of SMEs. The size of this market segment makes it attractive for us, so that we expect to be able to win corresponding SME customers with lean, tailor-made mobile communications and fixed-network products and tap the resulting growth potential.

If our renewed and constantly growing product portfolio for business customers, with products such as O_2 Business Unlimited or O_2 Business Blue including 5G, meets the customer needs of small and medium-sized companies even better than expected, demand could be higher than anticipated.

Acceleration of digitalisation
Specifically, the COVID-19 pandemic has led to the acceleration of digitalisation among private and business customers. This could result in increasing demand for our constantly adapted digital products and services, leading also to greater demand for higher-value data tariffs.

Membership of the Telefónica, S.A. Group
As part of one of the largest telecommunications corporations in the world, the Telefónica Deutschland Group benefits from economies of scale in the areas of purchasing, cooperation and the development of digital products. Should these economies of scale develop better than currently expected, this could positively affect our revenues and our earnings position and lead to us exceeding our forecast.

[21] Source: Telefónica Deutschland Holding AG press release: "O_2 launches nationwide roll-out of cable connections" (26 January 2021)
[22] Source: Telefónica Deutschland Holding AG press release: "O_2 markets fixed-line tariffs via cable connections from Tele Columbus" (14 July 2021)

Summary of the Risks and Opportunities

Based on our assessment, the intensive competition on the German telecommunications market, the regulatory environment and the need to ensure reliable service pose our greatest risks. In comparison to the previous year, we have lowered our assessment of the COVID-19 pandemic risk, partly because the telecommunications industry as a whole seems to be less affected by the consequences of the pandemic. We also view the fact that the risk arising from tax issues has fallen below the threshold as another positive development. However, our regulatory risk has increased due to changes in the regulatory requirements in the roaming sector.

In our estimation, the situation regarding the significant risks and opportunities for the Telefónica Deutschland Group has not changed substantially compared to the previous year, except for the items described above. We have not identified any risks at this time that could threaten the ability of our Company to continue as a going concern, either individually or in the aggregate.

In the coming financial year, we are confident that we will again be able to identify relevant risks at an early stage and take appropriate measures to counter them by continuing to implement the risk management approach applied to date.

We are also confident that our corporate strategy will enable us to exploit the market opportunities that present themselves to us and to deploy the necessary resources.

Accounting-Related Internal Control and Risk Management System

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

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

The risk management system described in the chapter >Management Report RISKS AND OPPORTUNITIES< also includes an accounting-related perspective with the aim of ensuring the reliability of financial reporting. In addition to the legal requirements of, for example, the German Stock Corporation Act (AktG) and the German Commercial Code (HGB), the ICS introduced by us also has to comply with the provisions of the US Sarbanes-Oxley Act (SOX). The obligation for the Telefónica Deutschland Group to fulfil these SOX requirements results from the registration of its majority shareholder, Telefónica, S.A., with the US SEC (Securities and Exchange Commission). In addition, the Telefónica Deutschland Group's ICS reflects the global ICS control setup of Telefónica, S.A.

Establishing and effectively maintaining appropriate internal controls for financial reporting is the responsibility of the Management Board of Telefónica Deutschland and is performed taking company-specific requirements into account.

The conceptual framework for preparing the Consolidated Financial Statements primarily comprises the Group-wide uniform accounting guidelines and the chart of accounts. Both of these must be consistently applied by all the companies of the Telefónica Deutschland Group. New laws, accounting standards and other official pronouncements are analysed on an ongoing basis with regard to their relevance and effects on the proper preparation of the Consolidated Financial Statements. The changes resulting from this are taken into consideration by the Finance & Accounting department in our accounting policies and the chart of accounts.

The data basis for the preparation of the Consolidated Financial Statements consists of the financial statement information reported by Telefónica Deutschland, its subsidiaries and joint ventures and associated companies, which in turn is based on the accounting entries recorded within the companies. The financial reporting of the individual companies is performed either by the Finance & Accounting department or in close cooperation with it. For certain topics requiring specialist knowledge, such as the valuation of pension obligations, we draw upon the support of external service providers. The Consolidated Financial Statements are prepared within our consolidation system on the basis of the reported financial statement information. The steps to be taken when preparing the Consolidated Financial Statements are subject to both manual and system-based controls at all levels. The Supervisory Board reviews the financial statements itself, taking into account the recommendations of the Audit Committee and the auditor's report, and approves them after its own review.

Employees involved in the financial reporting process are already examined in terms of their professional suitability before they are hired, and are provided with regular training. The financial statement information must go through certain approval processes at every level. Critical task areas in the financial reporting process are divided appropriately in order to ensure the effective separation of duties, and the dual control principle generally applies. Further control mechanisms include target/performance comparisons and analyses of the composition of content and changes in individual items, both in the financial statement information reported by individual group companies and in the Consolidated Financial Statements. The accounting-related IT systems are used to control IT security, change management and IT operations in particular. For example, access authorisations are defined and established in order to ensure that accounting-related data is protected from unauthorised access, use and change.

The appropriateness and effectiveness of the ICS are assessed annually by the Management Board of Telefónica Deutschland. Our Internal Audit department continuously reviews compliance with guidelines, the reliability and functionality of our ICS and the appropriateness and effectiveness of our risk management system and reports on this to the Management Board of Telefónica Deutschland.

The Supervisory Board of Telefónica Deutschland is involved in the ICS in part via the Audit Committee in accordance with section 171 (1) AktG in conjunction with section 107 (3) AktG. In particular, the Audit Committee is responsible for monitoring the accounting process, the effectiveness of the ICS, the risk management and internal audit systems, and the audit of the financial statements. It also reviews the documents for the Annual Financial Statements of Telefónica Deutschland and the Consolidated Financial Statements and discusses the financial statements with the Management Board and the external auditor.

As part of its risk-oriented audit approach, the external auditor expresses an opinion on the effectiveness of the parts of the ICS that are relevant for financial accounting and reports to the Supervisory Board in the course of the discussion of the financial statements.

The Consolidated Financial Statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. If required, e.g. for the purposes of the HGB Annual Financial Statements or for tax purposes, a reconciliation based on the relevant provisions is performed at account level. Accordingly, the correct preparation of the IFRS financial statement information also serves as an important basis for the Annual Financial Statements of Telefónica Deutschland Holding AG. For Telefónica Deutschland Holding AG and other Group companies reporting in accordance with HGB, the conceptual framework described above is supplemented by an HGB chart of accounts.

As the parent company of the Telefónica Deutschland Group, Telefónica Deutschland Holding AG is included in the aforementioned Group-wide accounting-related internal control system. As a matter of principle, the information presented above also applies to the HGB Annual Financial Statements of Telefónica Deutschland Holding AG and the other Group companies reporting in accordance with HGB.

Report on Expected Developments

Economic Outlook

The COVID-19 pandemic continues to shape the economic development in Germany. In the summer of 2021, some sectors of the German economy had recovered from the consequences of the pandemic, according to the Bundesbank. Falling numbers of new infections made it possible to relax containment measures. This led to an increase in private demand as well as a recovery in the trade and services sectors, which were severely hit by the pandemic, since May 2021. In contrast, supply chain and capacity bottlenecks in the international value chains continued to weigh on growth in some economic sectors, such as mechanical engineering and the automotive industry. Later in the year, growth was disrupted by multiple supply-side bottlenecks in global value chains and continued restrictions related to the pandemic. The Bundesbank expects industrial production in particular to shift in part into next year. According to the Federal Statistical Office, gross domestic product (GDP) is expected to have grown by 2.8% (calendar-adjusted) in 2021 compared to the prior year. The economic situation in Germany remains vulnerable in the winter half-year 2020/21 due to the restrictions of the fourth wave of the pandemic and persistent supply-side bottlenecks for primary products. However, the pandemic situation should ease moving forward from spring 2022. The Bundesbank experts forecast a normalisation of private consumer demand and industrial production, with the German economy growing by 4.2% in 2022.

Inflation projections by the Bundesbank are consistently significantly higher than expected in June 2021. An inflation rate of 3.2% is forecast for 2021 (measured by the Harmonised Index of Consumer Prices). The increase is not only due to exceptional effects that have been known for some time, such as the expired reduction in VAT rates and the introduction of CO_2 emission certificates. One reason general price levels have risen so sharply is the increase in commodity prices for energy on the international markets. Companies are also passing on higher costs to consumers due to supply and transport bottlenecks. These factors are likely to drive the inflation rate higher, to 3.6% in 2022, according to Bundesbank estimates. Experts do not expect the situation to ease until 2023.

The German labour market recorded favourable developments in 2021. The impact of the COVID-19 pandemic is gradually fading, according to the Federal Employment Agency, and reported demand for new workers remained high at the end of 2021. The number of unemployed fell from 2.7 million at the end of December 2020 to 2.3 million at the end of December 2021. The Bundesbank forecasts that the unemployment rate will fall from an annual average of 5.9% in 2020 to 5.7% in 2021 and 5.2% in 2022.[23]

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GDP GROWTH 2020 – 2022 GERMANY (CALENDAR-ADJUSTED)[24]

In % compared to previous year	2020	2021	2022
Germany	-4.9	2.8	4.2

[23] Sources: Bundesbank: Monthly Report December 2021 (20 December 2021); Council of Economic Experts: Annual expert reports 2021/22 (10 November 2021); Federal Employment Agency: Monthly Report December 2021 (4 January 2022); Federal Statistical Office: Press release № 039 (28 January 2022)

[24] Sources Bundesbank: Press release "Bundesbank projections: Upswing shifts somewhat" (17 December 2021)

Market Expectations[25]

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 further increased. According to a study by the digital association Bitkom, German commercial enterprises have become more engaged with key digital technologies. The boost to digitalisation triggered by the coronavirus pandemic in the German economy will be lasting. The majority of the technology solutions that have been adopted, such as videoconferencing and collaboration tools, and the development of new digital business models, will be maintained or even expanded. Businesses are also increasingly exploring the use of important digital technologies, such as data analytics and artificial intelligence. Two-thirds (65%) of the companies surveyed are interested in the Internet of Things, which is particularly important for the integrated production. Roughly half of the companies are interested in 3D printing (54%), the new 5G mobile communications standard (53%) and virtual or augmented reality (50%). One in three companies is looking into artificial intelligence or uses AI technologies. Autonomous vehicles are a factor for 30% of the companies.

The expansion of the fibre-optic network and the 5G mobile communications standard will be decisive for further digitalisation in Germany. The market research specialists at Analysys Mason expect that the number of 5G connections will increase from 7.5 million at the end of 2021 to around 17.4 million at the end of 2022. They also expect data traffic to continue to grow, which is reflected in increased average data consumption per customer. Analysys Mason estimates that a mobile customer's data consumption will increase by over 44% from 2021 to 2022 to 4.2 GB per month. According to the German Entertainment and Media Outlook (GEMO) study, the main drivers will include streaming, especially the use of video-intensive social networks, as well as the increase in gaming services. The demand for fast internet access will increase as more high-quality games are developed in conjunction with virtual or augmented reality. The increased use of networks for working from home as well as for private purposes requires seamless processes to an even greater degree and shifts the demands to network operators.

[25] Sources: Digital association Bitkom: Press release "Digitalisation boost in the economy will outlast pandemic" (24 November 2021); Breko: Market analysis 2021 (27 July 2021); PwC: German Entertainment and Media Outlook (GEMO) 2021-2025 (14 September 2021); Analysys Mason: Analysys Mason DataHub Export (4 January 2022)

Financial Outlook 2022

The financial year 2022 marks the final year of Telefónica Deutschland Group's three-year 'investment Investment for growth' programme with focus on, three growth pillars:

- Growing in mobile market share in rural areas while reinforcing a strong market position in urban
- Smart bundling of fixed & mobile products as well as fixed-mobile substitution (FMS)
- Seizing the B2B market opportunity, particularly in the SME segment.

In 2022, Telefónica Deutschland Group will continue to build on the sustained operational and financial momentum delivered in financial year 2021, leveraging on the focused execution and the achievements in the first two years of the programme, in particular its network quality equalisation. The O_2 network was again awarded a "very good' rating in the renowned connect magazine test, achieving the best result in Telefónica Deutschland Group's history despite tougher test criteria. This is the result of the company's consistent network expansion strategy including the focus on a fast 5G network, which also supports the ongoing historic lows in churn for the O_2 brand.

The multi-brand and multi-channel strategy remains the backbone of the marketing strategy of Telefónica Deutschland Group's go-to-market strategy and the company continues to focus on both, ARPU-up and churn-down. Postpaid is the strongest value-generator for the business, driven mainly by own brand performance. In prepaid, the company expects the current trend of pre- to postpaid migration to continue. Telefónica Deutschland Group assumes pricing in the premium and discount segments to remain stable in 2022 based on current market dynamics and expects a more benign COVID-19 environment.

Telefónica Deutschland Group anticipates regulatory changes to remain a headwind for its financial performance in 2022. Revenues, and to a lesser extent OIBDA, will be impacted mainly by the drag of the termination rate cut for mobile voice minutes from EUR 0.70 cents to EUR 0.55 cents as of 1 January 2022.

At the same time, Telefónica Deutschland Group will continue to pursue its path of digital transformation and as a result expects to benefit from top-line growth as well as efficiency gains. Telefónica Deutschland Group emphasizes sustainable growth and, as part of its ESG targets, is committed to achieve net zero CO_2 emissions by 2025. Already today Telefónica Deutschland Group uses 100% electricity from renewable sources.

As a result, of Telefónica Deutschland Group's sustained mobile service revenues (MSR) momentum continues to be the main driver of the company's revenue trajectory. Telefónica Deutschland Group expects roaming revenues to show further recovery over the course of the year with anticipated easing of COVID-19 restrictions.

Hardware revenues continue to depend on market dynamics as well as the launch cycles and availability of new smartphones. As in the past, hardware margins continue to be broadly OIBDA-neutral.

On the fixed business, the side technology-agnostic approach of Telefónica Deutschland Group includes all key infrastructures (i.e. VDSL, cable, fibre, FMS) enabling the company to match individual customer needs in the best way.

In this context, Telefónica Deutschland Group expects both, financial year 2022 total revenues and OIBDA adjusted for exceptional effects, to post 'low single-digit percentage year-on-year growth' with further adjusted OIBDA margin expansion, while including regulatory headwinds of ca. EUR -70 to -80 million at revenues and ca. EUR -15 to -20 million at OIBDA level, respectively.

To fully capture these revenues and OIBDA growth opportunities Telefónica Deutschland Group will continue its network-focused investment programmewhich peaked in 2021. It is aimed at boosting rural coverage primarily with 4G and adding urban capacity preferably through 5G. Telefónica Deutschland Group expects a CapEx to Sales ratio (C/S) of 14%-15% in the financial year 2022 with C/S normalising towards year end.

Telefónica Deutschland Group's assumptions are based on broadly unchanged overall economic conditions, current competitive dynamics, and existing wholesale relationships. At the same time, management is continuously monitoring and analysing the impact on the company from the COVID-19 environment, including the worldwide supply chain developments.

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FINANCIAL OUTLOOK 2022

	Actual 2021	Outlook for 2022[26]
Revenues	EUR 7,765 million	low single-digit percentage year-on-year growth
OIBDA adjusted for exceptional effects	EUR 2,411 million	low single-digit percentage year-on-year growth
Capex to Sales Ratio	16.5%	14% – 15%

[26] Including regulatory headwinds of ca. EUR -70 to -80 million at revenues level and ca. EUR -15 to -20 million at OIBDA level.

Other Disclosures

Report on Relations with Affiliated Companies

In the period from 1 January to 31 December, Telefónica Deutschland Holding AG was a directly dependent company of Telefónica Germany Holdings Limited, Slough, United Kingdom, within the meaning of section 312 AktG. In addition, Telefónica Deutschland Holding AG was an indirectly dependent company of O2 (Europe) Limited, Slough, United Kingdom and of Telefónica, S.A., Madrid, Spain, within the meaning of section 312 AktG. There is neither a domination agreement nor a profit and loss transfer agreement between Telefónica Deutschland Group and the aforementioned companies.

Accordingly, the Management Board of Telefónica Deutschland Holding AG has prepared a report on relations with affiliated companies in accordance with section 312 (1) AktG. This report includes the following final declaration:

"Our company has, with regard to the legal transactions listed in the dependency report for the reporting period, and based on the circumstances which were known to us at the time at which the legal transactions were carried out, received adequate compensation for each legal transaction. It has not been disadvantaged as a result of measures being taken or refrained from during the reporting period."

Combined Separate Non-financial Report

Telefónica Deutschland will publish a combined, separate, non-financial report which contains the information for both Telefónica Deutschland Group and Telefónica Deutschland, at the following website address: www.telefonica.de/nfe.

Disclosures in Accordance with Section 289a and Section 315a HGB

Composition of subscribed capital

The registered share capital of Telefónica Deutschland Holding AG amounts to EUR 2,974,554,993, which is consistent with the prior year. The share capital is divided into 2,974,554,993 non-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. As of 31 December 2021 and at the time this Management Report was prepared, Telefónica Deutschland Holding AG did not hold any of its own shares. In accordance with section 6 (2) of the articles of association, the shareholders do not have the right to securitise shares. Each non-par value share grants one vote at the Annual General Meeting. The shares are freely transferable.

Voting restrictions and restrictions on the transferability of shares

There are no general limitations on voting rights. We are not aware of any contractual agreements with Telefónica Deutschland Holding AG or other agreements about limitations on voting rights or the transferability of shares. In addition to the statutory provisions on insider trading and the prohibition on trading in accordance with the Market Abuse Regulation, the Company informs the relevant parties about "silent periods" of 30 days prior to the publication of financial data with corresponding recommendation to refrain from trading in this period. Other than this, there are no internal governance provisions providing for restrictions on the purchase and sale of shares by Management Board members or employees.

Participation in the share capital of more than 10% of the voting rights

As of 31 December and according to information provided to the Company, Telefónica Germany Holdings Limited, Slough, United

Kingdom, approximately 69.224% of the shares of Telefónica Deutschland Holding AG and the same amount of voting rights. Both O2 (Europe) Limited, Slough, United Kingdom, and Telefónica, S.A., Madrid, Spain, indirectly hold approx. 69.224% of the shares in Telefónica Deutschland Holding AG via Telefónica Germany Holdings Limited. Other than this, we were not informed of any participation in the share capital of Telefónica Deutschland Holding AG of more than 10% of the voting rights and we are not aware of any such participations.

Shares with special rights

There are no shares with special rights, and in particular no shares with rights that grant control.

Control of voting rights when employees hold stakes in the share capital

Just like all other shareholders, employees who hold shares in Telefónica Deutschland Holding AG exercise their control rights directly in accordance with the statutory provisions and the articles of association.

Appointment and dismissal of Management Board members

Pursuant to section 7 of the articles of association and section 84 AktG, the Supervisory Board determines the number of members of the Management Board and is responsible for their appointment and dismissal as well as for the appointment of the Chair of the Management Board (Chief Executive Officer, CEO). Deputy members of the Management Board may be appointed.

In financial year 2021, the Management Board of Telefónica Deutschland Holding AG consisted of seven members.

Management Board members are appointed by the Supervisory Board for a term of no more than five years. They can be re-appointed and their term can be extended provided one period of office does not exceed a period of five years. The Supervisory Board may dismiss a Management Board member in the event of good cause, such as a gross breach of duties or if the Annual General Meeting adopts a no-confidence resolution in relation to the respective Management Board member. Other reasons for dismissal – such as mutual termination – remain unaffected.

Telefónica Deutschland Holding AG is subject to the provisions of the German Co-Determination Act (Mitbestimmungsgesetz – MitbestG).

Pursuant to section 31 MitbestG, a majority of two-thirds of the votes of Supervisory Board members is required for the appointment and dismissal of Management Board members. If this majority is not reached in the first round of voting by the Supervisory Board, the appointment or dismissal may occur on the recommendation of the Mediation Committee, which is to be formed in accordance with section 27 (3) MitbestG, in a further round of voting with a simple majority of the votes of the Supervisory Board members. If the mandatory majority is still not achieved, a third round of voting must take place which again requires a simple majority; for this round of voting, however, the Chair of the Supervisory Board has two votes.

If a required Management Board member is missing, the Munich Local Court must appoint the member on application by a party concerned pursuant to section 85 (1) AktG in urgent cases.

Changes to the articles of association

In accordance with section 179 (1) sentence 1 AktG, any change to the articles of association of Telefónica Deutschland Holding AG requires a resolution of the Annual General Meeting. In accordance with section 27 of the articles of association conjunction with section 179 (2) sentence 2 AktG, resolutions of the Annual General Meeting of Telefónica Deutschland Holding AG regarding changes to the articles of association are passed with a simple majority of the votes cast and a simple majority of the share capital represented at the passing of the resolution. If the law requires a higher majority of votes or capital, this majority must be applied. In connection with changes that only affect the wording of the articles of association, the Supervisory Board is entitled to make changes in accordance with section 179 (1) sentence 2 AktG in conjunction with section 17 (3) of the articles of association.

Authorisation of the Management Board to issue shares

The powers of the Management Board are governed by sections 76 et seqq. AktG in conjunction with sections 8 et seqq. of the articles of association. In particular, the Management Board runs the company and represents it in and out of court.

The authorisation of the Management Board to issue shares is governed by section 4 of the articles of association in conjunction with the statutory provisions. As of 31 December 2021, the following authorisations of the Management Board for the issuing of shares exist:

Authorised capital

As of 31 December 2021, the Management Board is authorised, with the approval of the Supervisory Board, to increase the share capital of the company in the period until 19 May 2026 (inclusive), on one or more occasions, by a total of EUR 1,487,277,496 by issuing up to 1,487,277,496 new no-par value shares in exchange for cash and/or non-cash contributions (Authorised Capital 2021/I). The authorisation stipulates that shareholder subscription rights can, in certain cases, be completely or partially excluded (section 4 (3) of the articles of association). This was resolved by the Shareholders' Meeting on 20 May 2021, which at the same time cancelled the existing Authorised Capital 2016/I.

Conditional capital

For the purpose of the issue of registered no-par value shares to the holders or creditors of bonds, the share capital of the company is conditionally increased by up to EUR 558,472,700 by issuing 558,472,700 new registered no-par value shares (Conditional Capital 2019/I). This was resolved by the Shareholders' Meeting on 21 May 2019, which at the same time cancelled the existing Conditional Capital 2014/I.

Authorisation of the Management Board to buy back shares

The authorisation of the Management Board to buy back own shares is governed by section 57 (1) sentence 2 and sections 71 et seqq. AktG. As of 31 December 2021, there is no mandate to repurchase own shares by resolution of the Annual General Meeting.

Change of control/compensation agreements

Telefónica Deutschland Group's significant agreements containing a change-of-control clause relate to financing.

In the event of a change of control, the rating of Telefónica Deutschland Group or of the outstanding non-current liabilities within the Group will be examined with regard to capital market liabilities. In the event of a deterioration in the rating as contractually defined, the contracts grant O2 Telefónica Deutschland Finanzierungs GmbH as the issuer of the bonds the option to terminate the financing early at a redemption amount of 101% of the nominal amount plus accrued interest. Otherwise, the interest rate will be increased by 3.0% p.a.

A small number of other contracts grant the contracting partners the right of termination in the event of a change of control in accordance with normal practice; this would result in an obligation to fulfil all outstanding obligations or the termination of the right to receive benefits.

The service contracts of the Management Board members of Telefónica Deutschland Holding AG grant the right to terminate these contracts in the event of a takeover offer by a third party with three months' notice to the end of the month; however, this termination must occur within six months of a change of control. In this case, the relevant Management Board member is entitled to a one-off compensation to the value of one fixed annual salary plus the last annual bonus received. However, the compensation may not exceed the remuneration that would have been payable by the end of the contract.

Business Development of Telefónica Deutschland Holding AG

The Annual Financial Statements of Telefónica Deutschland Holding AG were prepared in accordance with the provisions of the German Stock Corporation Act (AktG) and the German Commercial Code (HGB).

Telefónica Deutschland Holding AG acts as a holding company and as a service provider, it is responsible for the management and strategic approach of the Telefónica Deutschland Group. As the parent company of the Telefónica Deutschland Group, Telefónica Deutschland Holding AG has no relevant financial key performance indicators on its own. Telefónica Deutschland Holding AG is integrated into the management system of the Telefónica Deutschland Group.

Telefónica Deutschland Holding AG has been the controlling company for an extended group of controlled companies of the Telefónica Deutschland Holding AG fiscal unity for value-added tax (VAT) purposes.

As of 31 December 2021, Telefónica Deutschland Holding AG did not have any employees.

Results of Operations

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INCOME STATEMENT

1 January to 31 December

(in EUR million)	2021	2020	Change	% change
Revenues	**10**	**10**	**(0)**	**(3.3)**
Other income	2	1	0	26.0
Operating expenses	(12)	(12)	0	(3.5)
Personnel expenses	(9)	(8)	(1)	9.7
Other operating expenses	(3)	(4)	1	(27.9)
Operating income	**(1)**	**(1)**	**0**	**(45.7)**
Financial result	(1)	22	(23)	(>100)
Profit/(loss) before tax	**(1)**	**21**	**(22)**	**(>100)**
Income tax	(36)	(5)	(31)	(>100)
Profit/(loss) after tax	**(37)**	**16**	**(53)**	**(>100)**
Other taxes	(0)	(0)	–	–
Profit /(loss) for the period	**(37)**	**16**	**(53)**	**(>100)**

Telefónica Deutschland generates its revenues from compensation for services which it provides for its subsidiaries. In financial year 2021, the reimbursement costs resulted in revenues in the amount EUR 10 million.

Revenues in the 2021 financial year were at the previous year's level of EUR 10 million. In particular, increased expenses from income taxes in the reporting year, which are related to the results of Telefónica Germany GmbH & Co. OHG and its controlled companies, resulted in a net loss for the year of approximately EUR 37 million.

Revenues at previous year's level
In the financial year, revenues in the amount of EUR 10 million (2020: EUR 10 million) were generated. The revenues were essentially comprised of charging on the costs for the remuneration of Management Board members, as well as additional administration costs, which are assumed by Telefónica Germany GmbH & Co. OHG in accordance with agreements. Furthermore, invoiced management services are included in the amount of EUR 294 thousand, which Telefónica Deutschland Holding AG provided for Telefónica Germany GmbH & Co. OHG and Telefónica Germany Management GmbH.

Personnel expenses slightly above previous year's level
Personnel expenses comprise the remuneration of the Management Board including social security contributions and amounted to EUR 9 million (2020: EUR 8 million).

Other operating expenses slightly below previous year's level
At EUR 3 million, other operating expenses were at the same level as in the previous year. They essentially include legal and consulting expenses from external service providers.

Financial result significantly below previous year's level
The financial result totalled EUR -1 million (2020: EUR 22 million). In the previous year, the financial result mainly comprised income of EUR 22 million from the investment in Telefónica Germany GmbH & Co. OHG, due to the distribution of the 2019 net profit of Telefónica Germany GmbH & Co. OHG in 2020. As a result of the amendment of the partnership agreement of Telefónica Germany GmbH & Co. OHG on 18 December 2020, the profits of Telefónica Germany GmbH & Co. OHG, since the financial year 2020, are credited to the joint reserve account and thus retained. Losses will be charged against the reserve accounts. If the losses exceed the shareholders' fixed capital account of the partners. Resolutions of the partners are required for profit distributions.

Income taxes significantly above previous year's level

Income tax expenses of EUR 36 million (2020: EUR 5 million) consist of current corporate income tax expenses including the solidarity surcharge. The increase of EUR 31 million compared to 31 December 2020 is due to ongoing additions relating to financial year 2021, taking into account the spin-off of additional major parts of the business activities of rooftop sites of Telefónica Germany GmbH & Co. OHG to Telefónica Germany Zweite Mobilfunk Standortgesellschaft mbH and the application of minimum taxation. As a shareholder of Telefónica Germany GmbH & Co. OHG, Telefónica Deutschland Holding AG is a taxable entity for corporate income tax and solidarity surcharge purposes.

Annual results down
In 2021, the company achieved annual results of around EUR -37 million (2020: EUR 16 million). The decrease is mainly due to the increase in income tax expense described above as well as the decrease in the financial result.

Financial Position and Net Assets

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STATEMENT OF FINANCIAL POSITION

As of 31 December

(in EUR million)	2021	2020	Change	% change
Fixed assets				
Financial assets				
Investments in affiliated companies	7,506	8,042	(535)	(6.7)
Current assets				
Receivables from affiliated companies	83	89	(6)	(6.4)
Other assets and miscellaneous assets	0	–	–	–
Total assets	**7,590**	**8,131**	**(541)**	**(6.7)**
Equity	**7,482**	**8,055**	**(573)**	**(7.1)**
Provisions	**51**	**14**	**37**	**>100**
Liabilities	**57**	**62**	**(5)**	**(8.6)**
Total equity and liabilities	**7,590**	**8,131**	**(541)**	**(6.7)**

Principles and goals of financial management

As a service provider, Telefónica Deutschland Holding AG is responsible for the management of the Telefónica Deutschland Group. It mainly finances itself with equity and generates an operating cash flow from charging on these management services to Telefónica Germany GmbH & Co. OHG and Telefónica Germany Management GmbH. In addition, cash flow is ensured by the annual withdrawal from the reserve accounts of the investment in Telefónica Germany GmbH & Co. OHG. Furthermore, Telefónica Deutschland Holding AG is integrated into the Group-wide financial management of the Telefónica Deutschland Group and is therefore able to fulfil its payment obligations at all times. In this respect, the further information made in the Financial Position section of the Group applies.

Bonds for corporate financing

In February 2014 and July 2018, O2 Telefónica Deutschland Finanzierungs GmbH issued two bonds with a nominal value of EUR 500 million and EUR 600 million, each with a term of seven years. The bond due in February 2021 was repaid as scheduled at the end of the term.

The bonds of O2 Telefónica Deutschland Finanzierungs GmbH were transferred to Telefónica Germany GmbH & Co OHG as loans. In the reporting period, Telefónica Germany GmbH & Co. OHG repaid the intra-Group loan to O2 Telefónica Deutschland Finanzierungs GmbH in the amount of EUR 500 million.

Within the scope of the Group-wide financial management of the Telefónica Deutschland Group, Telefónica Deutschland Holding AG guarantees the punctual payment of interest, principal and any other additional amounts which are payable under the bond terms.

Investment projects

There are currently no extensive investments planned at the level of Telefónica Deutschland Holding AG.

Decrease in financial assets

Investments in affiliated companies relate in the amount of EUR 7,496 million (2020: EUR 8,031 million) to the shares in Telefónica Germany GmbH & Co. OHG, Munich, of which the Company is the personally liable shareholder. The decrease in the carrying amount of the investment in Telefónica Germany GmbH & Co. OHG results from the withdrawal by Telefónica Deutschland of a total of EUR 535 million on the basis of a shareholders' resolution dated 28 April 2021 in accordance with section 4 (3) of the shareholders' agreement. As in the previous period, a carrying amount of EUR 10 million relates to the shares in Telefónica Germany Management GmbH, Munich.

Decline of receivables from affiliated companies

The decrease of EUR 6 million was due to the reduction in receivables from affiliated companies from the fiscal unity for value-added tax purposes from EUR 79 million in 2020 to EUR 77 million in the reporting year. In addition, the decrease was due to the reduction of cash pool receivables from Telfisa Global B.V., Amsterdam from EUR 8 million in 2020 to EUR 5 million in the reporting year.

Increase in provisions
The increase in provisions of EUR 14 million in 2020 to EUR 51 million in the reporting year is primarily due to the tax provision for corporation tax including solidarity surcharge of EUR 36 million recognised in the financial year, which is related to the results of Telefónica Germany GmbH & Co. OHG and its subsidiaries. As a shareholder of Telefónica Germany GmbH & Co. OHG, Telefónica Deutschland Holding AG is a taxable entity for corporate income tax purposes.

At EUR 4 million, pension provisions were at the previous year's level (2020: EUR 3 million). At EUR 6 million, other provisions in the reporting year were also at the previous year's level (2020: EUR 5 million).

Decrease in liabilities
The decrease in liabilities in the reporting year was primarily the result of the decline in other liabilities by EUR 6 million to EUR 32 million (2020: EUR 38 million). The other liabilities of around EUR 32 million relate in particular to VAT liabilities, which the Company is required to pay to the tax authority as the controlling company of the VAT group of Telefónica Deutschland Holding AG.

Trade payables and liabilities to affiliated companies were at the previous year's level.

Decline in equity
Equity decreased in financial year 2021 by EUR 573 million or 7.1% to EUR 7,482 million (2020: EUR 8,055 million). The change in equity resulted from the dividend payment of EUR 535 million resolved on 20 May 2021 and paid in the financial year and from the result for the period of EUR -37 million.

The share capital of Telefónica Deutschland Holding AG is conditionally increased by up to EUR 558,472,700 by issuing up to 558,472,700 new non-par value registered shares (Conditional Capital 2019/I). Conditional Capital 2019/I was resolved by resolution of the Annual General Meeting on 21 May 2019 – with Conditional Capital 2014/I being cancelled.

Employees

As in 2021, Telefónica Deutschland Holding AG had no employees in financial year 2020..

Subsequent Events

With regard to business transactions of particular importance that occurred after the end of the reporting year, reference is made to >Notes, SUBSEQUENT EVENTS in the 2021 Annual Financial Statements of Telefónica Deutschland Holding AG.

Risks and Opportunities

The business development of Telefónica Deutschland Holding AG is basically subject to the same risks and opportunities as that of the Telefónica Deutschland Group. Telefónica Deutschland Holding AG in principle participates in the risks and opportunities of its subsidiaries and holdings corresponding to its respective ownership share.

In its capacity as the parent company of the Telefónica Deutschland Group, Telefónica Deutschland Holding AG assumes warranty obligations for its subsidiaries. Within the framework of the issue of the bond of O2 Telefónica Deutschland Finanzierungs GmbH, Munich, Telefónica Deutschland Holding AG has given an unconditional and irrevocable guarantee to each holder of the issued bond in July 2018 in the amount of EUR 600 million for the proper and timely payment of all amounts payable by the issuer on the bond in accordance with the bond terms.

The risk of claims arising from contingent liabilities is considered to be 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 is fully controlled by Telefónica Germany GmbH & Co. OHG. The creditworthiness of O2 Telefónica Deutschland Finanzierungs GmbH is therefore determined by the operational business of the Telefónica Deutschland Group itself.

Telefónica Deutschland Holding AG issued a letter of comfort to Telefónica Germany GmbH & Co. OHG and Telefónica Germany Management GmbH in financial year 2016. The letters of comfort continue to be valid and may be terminated at the end of a financial year of the companies, subject to a notice period of six months.

On 21 January 2019, Telefónica Deutschland Holding AG also issued a letter of comfort for Telefónica Germany GmbH & Co. OHG with a term until 31 December 2040.

The letters of comfort do not significantly change the economic substance of the opportunities and risks. The risk of claims arising from contingent liabilities is considered to be low.

For further information, please see >RISK AND OPPORTUNITIES MANAGEMENT< .

Telefónica Deutschland Holding AG, as the parent company of the Telefónica Deutschland Group, is integrated in the Group-wide risk management system. For further information, please see >RISK AND OPPORTUNITIES MANAGEMENT< .

The required description of the internal control system in accordance with section 289 (5) HGB for Telefónica Deutschland Holding AG is given in >INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM BASED ON THE CONSOLIDATED FINANCIAL REPORTING PROCESS< .

Outlook for 2022

Telefónica Deutschland Holding AG functions as a management and holding company. The long-term future development is therefore crucially based on the development of the operating companies of the Telefónica Deutschland Group, particularly Telefónica Germany GmbH & Co. OHG. With regard to the financial and market development, as well as the expected development of important key figures at the Telefónica Deutschland Group level, we refer to the >REPORT ON EXPECTED DEVELOPMENTS < .

Management Declaration

The Company has published this declaration, which, among other items, also contains the declaration of compliance pursuant to section 161 AktG, section 76 (4) and section 111 (5) AktG, and the statements on the diversity concept for the Supervisory Board and Management Board on its website (www.telefonica.de/management-declaration-2021) and in the Corporate Governance section of the annual report. This management declaration in accordance with section 289f HGB in conjunction with section 315d HGB forms part of this combined management report. It also refers to the Company website where the remuneration report is made publicly available (https://www.telefonica.de/investor-relations/corporate-governance.html).

Munich, 17 February 2022

Telefónica Deutschland Holding AG

The Management Board

Markus Haas

Markus Rolle

Valentina Daiber

Nicole Gerhardt

Wolfgang Metze

Alfons Lösing

Mallik Rao

CONSOLIDATED FINANCIAL STATEMENTS

for Financial Year 2021

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Consolidated Financial Statements

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Editorial note:
We use largely gender-neutral language in this report. We use the generic masculine in some places for reasons of readability and comprehensibility. These formulations apply without restriction to the other genders as well.
The figures in the following have been rounded in accordance with established commercial practice. Therefore, recalculations may slightly differ from the totals shown in the tables. We also advise that absolute amounts smaller than EUR 500,000 are stated either as "0" or "(0)", depending on whether a plus or minus sign appears before it. A nil notification using "-" is indicated for items that do not have a value.

Consolidated Statement of Financial Position

Assets (in EUR million)	Notes	**As of 31 December 2021**	As of 31 December 2020
A) Non-current assets		**13,657**	**13,913**
Goodwill	[5.1]	1,360	1,616
Other intangible assets	[5.2]	4,137	4,617
Property, plant and equipment	[5.3]	3,491	3,706
Right-of-use assets	[5.4]	3,349	2,852
Investments accounted for using the equity method	[11]	3	2
Trade and other receivables	[5.5]	269	157
Other financial assets	[5.6]	396	301
Other non-financial assets	[5.7]	221	188
Deferred tax assets	[6.7]	433	473
B) Current assets		**3,162**	**3,281**
Inventories	[5.8]	138	129
Trade and other receivables	[5.5]	1,498	1,297
Other financial assets	[5.6]	70	67
Other non-financial assets	[5.7]	436	451
Cash and cash equivalents	[5.9]	1,020	1,337
Total assets (A+B)		**16,819**	**17,194**

Equity and Liabilities (in EUR million)	Notes	**As of 31 December 2021**	As of 31 December 2020
A) Equity		**6,036**	**6,330**
Subscribed capital	[5.10]	2,975	2,975
Additional paid-in capital	[5.10]	3,929	4,512
Retained earnings		(868)	(1,156)
Total equity attributable to owners of the parent company		6,036	6,330
B) Non-current liabilities		**6,495**	**6,373**
Interest-bearing debt	[5.11]	1,627	1,577
Lease liabilities	[5.12]	2,781	2,326
Trade and other payables	[5.13]	8	12
Payables – Spectrum	[5.14]	990	1,089
Provisions	[5.15]	647	784
Deferred income	[5.13]	187	219
Deferred tax liabilities	[6.7]	255	365
C) Current liabilities		**4,289**	**4,491**
Interest-bearing debt	[5.11]	89	715
Lease liabilities	[5.12]	548	514
Trade and other payables	[5.13]	2,779	2,475
Payables – Spectrum	[5.14]	107	107
Provisions	[5.15]	66	66
Other non-financial liabilities	[5.7]	53	50
Income tax liabilities	[6.7]	93	15
Deferred income	[5.13]	552	548
Total assets (A+B+C)		**16,819**	**17,194**

Consolidated Income Statement

1 January to 31 December

(in EUR million)	Notes	**2021**	2020
Revenues	[6.1]	**7,765**	**7,532**
Other income	[6.2]	402	542
Supplies		(2,403)	(2,435)
Personnel expenses	[6.3]	(585)	(611)
Impairment losses in accordance with IFRS 9		(72)	(69)
Other expenses	[6.4]	(2,454)	(2,276)
Operating income before depreciation and amortisation (OIBDA)		**2,653**	**2,683**
Depreciation and amortisation	[6.5]	(2,382)	(2,369)
Operating income		**272**	**314**
Finance income		6	3
Exchange gains		1	1
Finance costs		(68)	(69)
Exchange losses		(1)	(1)
Financial result	[6.6]	**(62)**	**(66)**
Gains/(losses) from companies accounted for using the equity method		(4)	–
Profit/(loss) before tax		**205**	**248**
Income tax	[6.7]	5	80
Profit/(loss) for the period		**211**	**328**
Profit/(loss) for the period attributable to owners of the parent		**211**	**328**
Profit/(loss) for the period		**211**	**328**
Earnings per share	[8]		
Basic earnings per share in EUR		**0.07**	**0.11**
Diluted earnings per share in EUR		**0.07**	**0.11**

Consolidated Statement of Comprehensive Income

1 January to 31 December

(in EUR million)	Notes	**2021**	2020
Profit/(loss) for the period		**211**	**328**
Items that will not be reclassified to profit/(loss)			
Remeasurement of benefits after termination of employment	[5.15]	44	(40)
Income tax impact	[6.7]	(14)	13
Other comprehensive income/(loss)		**30**	**(27)**
Total comprehensive income/(loss)		**240**	**302**
Total comprehensive income/(loss) attributable to owners of the parent		240	302
Total comprehensive income/(loss)		**240**	**302**

Consolidated Statement of Changes in Equity

(in EUR million)	Notes	Subscribed capital	Additional paid-in capital	Retained earnings	Total equity attributable to owners of the parent company	Equity
Financial position as of 1 January 2020		**2,975**	**4,800**	**(1,240)**	**6,534**	**6,534**
Profit/(loss) for the period		–	–	328	328	328
Other comprehensive income/(loss)		–	–	(27)	(27)	(27)
Total comprehensive income/(loss)		**–**	**–**	**302**	**302**	**302**
Dividends	[5.10]	–	–	(506)	(506)	(506)
Withdrawal	[5.10]	–	(288)	288	–	–
Financial position as of 31 December 2020		**2,975**	**4,512**	**(1,156)**	**6,330**	**6,330**
Financial position as of 1 January 2021		**2,975**	**4,512**	**(1,156)**	**6,330**	**6,330**
Profit/(loss) for the period		–	–	211	211	211
Other comprehensive income/(loss)		–	–	30	30	30
Total comprehensive income/(loss)		**–**	**–**	**240**	**240**	**240**
Dividends	[5.10]	–	–	(535)	(535)	(535)
Withdrawal	[5.10]	–	(583)	583	–	–
Other movements		–	–	0	0	0
Financial position as of 31 December 2021		**2,975**	**3,924**	**(868)**	**6,036**	**6,036**

Consolidated Statement of Cash Flows

1 January to 31 December

(in EUR million)	Notes	**2021**	2020
Cash flow from operating activities			
Profit/(loss) for the period		**211**	**328**
Adjustments to profit/(loss)			
Financial result	[6.6]	62	66
Gains on disposals of assets		(245)	(408)
Income taxes	[6.7]	(5)	(80)
Depreciation and amortisation	[6.5]	2,382	2,369
Other non-cash expenses/income		2	–
Change in working capital and others			
Other non-current assets	[5.5], [5.6], [5.7]	(155)	3
Other current assets	[5.5], [5.6], [5.7],[5.8]	(197)	128
Other non-current liabilities and provisions	[5.13], [5.15]	(49)	86
Other current liabilities and provisions	[5.13], [5.15]	188	(300)
Others			
Interest received		4	5
Interest paid		(64)	(63)
Cash flow from operating activities		**2,133**	**2,134**
Cash flow from investing activities			
Proceeds from disposals of property, plant and equipment and intangible assets		4	17
Payments on investments in property, plant and equipment and intangible assets	[5.2], [5.3]	(1,167)	(1,000)
Proceeds from disposal of companies	[7]	540	766
Acquisition of companies, net of cash acquired		–	(1)
Payments on investments in associated companies		(7)	–
Proceeds from financial assets		6	5
Payments for financial assets		(7)	(25)
Cash flow from investing activities		**(631)**	**(238)**

1 January to 31 December

(in EUR million)	Notes	2021	2020
Cash flow from financing activities			
Repayments of lease liabilities	[5.11]	(602)	(547)
Payments made relating to frequency auctions	[5.14]	(108)	(87)
Proceeds from interest-bearing debt	[5.11]	754	791
Repayments of interest-bearing debt	[5.11]	(1,319)	(990)
Dividends paid		(535)	(506)
Other proceeds/payments relating to financing activities		(8)	(2)
Cash flow from financing activities		**(1,818)**	**(1,340)**
Net increase/(decrease) in cash and cash equivalents		**(317)**	**556**
Cash and cash equivalents at the beginning of the period	[5.9]	**1,337**	**781**
Cash and cash equivalents at the end of the period	[5.9]	**1,020**	**1,337**

Notes to the Consolidated Financial Statements

1. Reporting Entity

The Consolidated Financial Statements of Telefónica Deutschland Holding AG have been prepared as of and for the year ending 31 December 2021 and comprise Telefónica Deutschland Holding AG (also referred to as "Telefónica Deutschland" or the "Company") and its subsidiaries as well as joint operations (together referred to as the "Telefónica Deutschland Group" or the "Group") and associated companies.

The Telefónica Deutschland Holding AG is a stock corporation (AG) incorporated under German law 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.

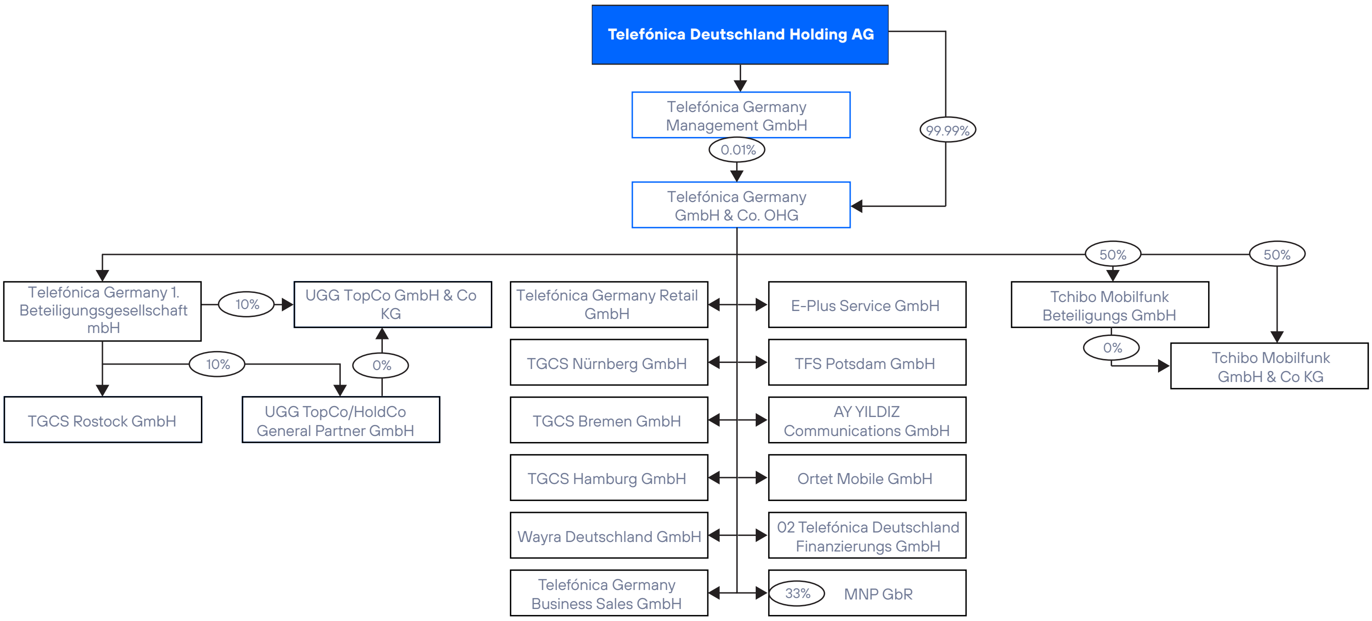
As of 31 December 2021, approx. 30% of the shares were in free float. 69.224% were held by Telefónica Germany Holdings Limited, Slough, United Kingdom (Telefónica Germany Holdings Limited), an indirect wholly owned subsidiary of Telefónica, S.A., Madrid, Spain (Telefónica, S.A.), and 0.715% were held by Telefónica, S.A.

The company's name is "Telefónica Deutschland Holding AG". The company's registered office is located in Munich, Germany. Telefónica Deutschland Holding AG is registered in the commercial register of the local court in Munich under registration number HRB 201055. The company's business address is Georg-Brauchle-Ring 50, 80992 Munich, Germany (telephone number: +49 (0)89 2442-0; www.telefonica.de). Telefónica Deutschland Holding AG was established for an indefinite period.

The financial year is the calendar year (1 January to 31 December).

The Telefónica Deutschland Group is one of the three leading integrated network operators in Germany. The Telefónica Deutschland Group offers private and business customers voice, data and value added services in mobile and fixed-line networks. In addition, the Telefónica Deutschland Group ranks among the leading wholesale providers in Germany. Wholesale partners are offered access to the Group's infrastructure and services. The Telefónica Deutschland Group is part of the Telefónica, S.A. Group, one of the biggest telecommunications corporations in the world.

As of 31 December 2021, the companies included in the Consolidated Financial Statements of the Telefónica Deutschland Group were organised as shown in the following organisation chart:



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

For changes in the Group structure, please refer to >Note 10 GROUP COMPANIES OF THE TELEFÓNICA DEUTSCHLAND GROUP< .

2. Basis of Preparation

The Consolidated Financial Statements of Telefónica Deutschland Holding AG are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

The accounting policies applied in the published Consolidated Financial Statements for the previous year have also been applied to these Consolidated Financial Statements as of 31 December 2021. Exceptions to this are amendments to the IFRS and valuation changes as presented in >Note 3.1 CHANGES IN ACCOUNTING STANDARDS; PUBLISHED AMENDMENTS REQUIRING MANDATORY APPLICATION< . Furthermore, the Group applied the additional requirements of German commercial law pursuant to section 315e (1) of the German Commercial Code (HGB).

The Management Board approved the Consolidated Financial Statements of Telefónica Deutschland Holding AG for publication and submission to the Supervisory Board on 17 February 2022.

Unless stated otherwise, the figures in these Consolidated Financial Statements are presented in millions of euros (in EUR million) and rounded according to established commercial principles. Therefore, recalculations may slightly differ from the totals shown in the tables. We also advise that absolute amounts smaller than EUR 500,000 are stated either as "0" or "(0)", depending on whether a plus or minus sign appears before it. A nil notification using "-" is indicated for items that do not have a value.

When preparing the Consolidated Financial Statements of Telefónica Deutschland Holding AG in accordance with IFRS, assumptions must also be made in some cases that may have an effect on the valuation of the assets and liabilities recognised in the balance sheet as well as on the amount of expenses and income.

The key assumptions concerning the future and other relevant sources of uncertainty in estimates at the reporting date that could have a material impact on the Consolidated Financial Statements within the next financial years are disclosed in the Notes to the respective items of the Statement of Financial Position or Income Statement (see >Note 5 SELECTED NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION< and >Note 6 SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED INCOME STATEMENT<). The estimates and underlying assumptions are based on the knowledge currently available to management and are accordingly derived from factors that are considered relevant, such as historical experience.

Unforeseeable developments outside management's control may cause actual amounts to differ from the original estimates. In this case, the assumptions made and, if necessary, the carrying amounts of the pertinent assets and liabilities will be adjusted accordingly.

3. Changes in Accounting Standards

3.1 Published and mandatory amendments

The standards that are mandatory in the EU for the first time as of 1 January 2021 had no material impact on the Consolidated Financial Statements.

3.2 Published amendments not yet applicable

The standards and interpretations presented below have been adopted by the IASB, but their application is not yet mandatory until the date of publication of the 2021 Consolidated Financial Statements.

The Telefónica Deutschland Group expects to adopt all required amendments. The Group does not currently expect the new and revised standards to have a material impact on the net assets, financial position and results of operations, as a result of the application of future standards, interpretations and amendments.

Standards, interpretations and amendments		Mandatory application for financial years beginning on or after
Annual Improvements, 2018-2020 cycle	Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41	1 January 2022
Amendments to IFRS 3 (narrow scope amendments)	Update of cross-references, introduction of an exception to the recognition requirements, inclusion of an explicit ban on the recognition of contingent claims in the standard text	1 January 2022
Amendments to IAS 16 (narrow scope amendments)	Recognition of revenue from sales during the production/construction phase of an item of property, plant and equipment	1 January 2022
Amendments to IAS 37 (narrow scope amendments)	Determining the "cost of performing a contract"	1 January 2022
Amendments to IAS 1	Classification of liabilities as current or non-current	1 January 2023[1]
IFRS 17 (incl. amendments to IFRS 17)	Insurance Contracts	1 January 2023
Amendments to IAS 1 and to the IFRS guideline document 2	Information on accounting policies	1 January 2023[1]
Amendments to IAS 8	Definition of accounting estimates	1 January 2023[1]
Amendments to IAS 12	Deferred taxes relating to assets and liabilities resulting from a single transaction	1 January 2023[1]
Amendments to IFRS 17	First-time application of IFRS 17 and IFRS 9 – Comparative information	1 January 2023[1]

[1] Disclosure for mandatory application according to IASB.

4. General Accounting Policies

4.1 Consolidation methods

a) Consolidation principles

The consolidation methods applied are as follows:

- Full consolidation method for companies where the Telefónica Deutschland Group has control. Control is assumed if the Telefónica Deutschland Group
- Proportionate consolidation of the attributable assets, liabilities, expenses and income for companies jointly controlled with third parties (joint operations), so that the corresponding share of total assets, liabilities, expenses, income and cash flows of these companies is integrated in the corresponding items in the Consolidated Financial Statements.
- Consolidation using the equity method for companies over which the Telefónica Deutschland Group exercises significant influence and which are neither subsidiaries nor joint ventures.

All material receivables and liabilities and transactions between the consolidated companies are eliminated in consolidation. The returns generated in transactions involving goods that may be capitalised or services by subsidiaries with other Telefónica Deutschland Group companies are also eliminated in consolidation.

The financial statements of the consolidated companies are prepared using the same accounting policies and have the same financial year-end as the parent company's individual financial statements. In the case of Group companies whose accounting and valuation methods differ from those of the Telefónica Deutschland Group, adjustments are made in consolidation in order to present the Consolidated Financial Statements

The Consolidated Income Statement and Consolidated Statement of Cash Flows include the income and expenses as well as the cash flows of companies that are no longer in the Telefónica Deutschland Group up to the date on which the related investment was sold or the company was liquidated.

Income and expenses as well as the cash flows of new Group companies are included from the date on which the investment was acquired or the company was established until the end of the year.

b) Subsidiaries

Control is assumed if the Telefónica Deutschland Group has power over an investee and is exposed to variable returns or has rights to these returns. In addition, the ability must exist to use its power over the investee to affect the returns. The existence and effect of substantial potential voting rights that may be currently exercised or converted, including potential voting rights held by other Group entities, are considered in assessing whether an entity is controlled.

All subsidiaries are included in the Consolidated Financial Statements (see >Note 1 REPORTING ENTITY<) unless they are considered immaterial individually and cumulatively.

c) Company acquisitions

Business combinations are accounted for using the acquisition method, which generally requires assets acquired and liabilities assumed to be measured at their fair values at the acquisition date.

d) Joint operations

TCHIBO Mobilfunk Beteiligungs-GmbH and TCHIBO Mobilfunk GmbH & Co. KG were classified as joint operations under application of IFRS 11.17, taking into account the specific facts and circumstances. In particular, the fact that the contractual partners have rights to the entire production output generated by both companies supports our assessment that the arrangement constitutes joint operations.

e) Associated companies

Investments in UGG TopCo GmbH & Co. KG and UGG TopCo/HoldCo General Partner GmbH were classified as associated companies under application of IAS 28.6, taking into account the specific facts and circumstances. We have based our assessment that the Telefónica Deutschland Group exercises significant influence on the the operating and financial policy on the fact that the Telefónica Deutschland Group enters into material transactions between the entity and its investee and participates in the policy-making processes.

f) Currency translation

The Consolidated Financial Statements are presented in euro, which is the functional currency of Telefónica Deutschland Holding AG and its subsidiaries.

4.2 Significant accounting policies

a) Goodwill

For business combinations, goodwill represents the excess of acquisition costs over the fair values of identifiable assets acquired and liabilities assumed at the acquisition date. Cost of acquisition is the sum of the fair value of consideration transferred and the value attributed to existing non-controlling interests. For each business combination, the Telefónica Deutschland Group determines the value of non-controlling interests at either their fair value or their proportional part of the net identifiable assets acquired.

For business combinations that occurred after 1 January 2004, goodwill represents the excess of the acquisition costs including transaction costs over the acquirer's interest, at acquisition date, in the fair values of the identifiable assets, liabilities and contingent liabilities of the acquired business. Subsequent expenditures on internally generated goodwill are recognised in the Consolidated Income Statement as incurred.

After initial measurement, goodwill is carried less any accumulated impairment losses.

Goodwill is not amortised on a scheduled basis but must be reviewed for impairment annually. In addition, an impairment test is carried out if events or circumstances indicate that the carrying amount is higher than the recoverable amount (see >Note 5.1 GOODWILL<).

b) Other intangible assets

Other intangible assets are carried at cost, less any accumulated amortisation and any accumulated impairment losses. Subsequent expenditure is capitalised only for existing other intangible assets if it increases the future economic benefit embodied in the asset to which it relates. Expenditures on brands are recognised in the Consolidated Income Statement as incurred.

Costs include external and internal costs which are composed of acquired assets and servicesas well as own work capitalised. Own work capitalised is recognised in other income.

Borrowing costs within the scope of IAS 23 that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as a component of the cost of the respective asset.

The useful lives of other intangible assets either finite or indefinite are determined individually. The Telefónica Deutschland Group has not recognised other intangible assets with indefinite useful lives. Other intangible assets with finite useful lives are amortised on a scheduled basis over the economic useful life and are assessed for impairment if events or circumstances indicate that their carrying amount may not be recoverable. Other intangible assets that are not yet available for use are also tested for impairment annually. Residual values of assets, useful lives and amortisation methods are reviewed annually at year-end and, when appropriate, adjusted.

Licences
This asset primarily includes acquisition costs for mobile frequency licences for the provision of telecommunications services. Capitalisation takes place either in connection with a grant by a public authority or in the context of an acquisition of a company. The mobile frequency licences represent a qualifying asset under IAS 23, as the purpose of the acquisition is to build a network. These mobile frequency licences and the corresponding network are reported under construction in progress until the network is completed and the frequencies are therefore fully usable.

These frequency licences are amortised on a straight-line basis over the life of the respective frequency blocks once commercial exploitation begins.

Customer bases
This category is for customer relationships which were acquired through company transactions, and therefore capitalised. They are amortised on a straight-line basis over the estimated duration of the customer relationship.

Software
Software is recognized at cost and is amortised on a straight-line basis over its useful life.

Brand names
This category is for brand names which were acquired through company transactions, and hence they were capitalised. Brand names are amortised on a straight-line basis over the period of their expected economic use.

c) Property, plant and equipment

Property, plant and equipment are carried at cost less any accumulated depreciation and any accumulated impairment losses. Land is not depreciated.

Costs include external and internal costs which are composed of acquired goods and services as well as own work capitalised. Own work capitalised is recognised in other income.

Costs include also, where appropriate, the estimate of the costs at initial recognition for dismantling and removing the item and restoring the site on which it is located to the extent that the entity incurs the obligation either when the item is acquired or as a consequence of having used it. Any corresponding valuation changes in subsequent years are allocated to the respective asset.

The costs of expansion, modernisation, or improvement leading to increased productivity, capacity and efficiency or to an extension of the useful lives of assets are capitalised if the recognition criteria are met.

Investment grants within the meaning of IAS 20 are recognised as soon as there is reasonable assurance that Telefónica will comply with the conditions of the grant and that the grant will be fully received. Under IAS 20.24, grants are recognised as a reduction of acquisition costs.

Repair and maintenance costs are expensed as incurred.

The Telefónica Deutschland Group depreciates its property, plant and equipment once they are in full working condition using the straight-line method based on the estimated useful lives of the assets. The estimated residual values of assets and depreciation methods are also regularly reviewed and, where appropriate, adjusted at each financial year-end.

d) Leases

<u>Accounting as lessee</u>
According to the regulations of IFRS 16, all contracts identified as leases must be accounted for by the lessee in such a way that a right-of-use asset and a lease liability are to be recognised.

A lease is defined as an arrangement whereby an identified asset is made available to the lessee in exchange for consideration for a specified period of time and the lessee has the right during this period to obtain substantially all the benefits of its use and to determine the nature and purpose of its use. The Telefónica Deutschland Group assumes a 3-year forecast period when determining the contractual term of a lease. The same also applies to the assessment of any termination and extension options.

Using the interest rate implicit in the lease, the present value of the lease payments have not been paid is to be recognised as a lease liability. If the implicit interest rate cannot be readily determined from a contract, the risk- and maturity-equivalent incremental borrowing rate is applied. The present value of the liabilities is determined using the effective interest method. In addition to fixed payments, lease liabilities also include variable index-linked or interest-linked payments, residual value guarantees issued by the lessee.

The initial value of the liability determines the acquisition cost of the right-of-use asset. The right-of-use asset also includes costs directly attributable to the acquisition. The acquired right-of-use asset must be capitalised as an asset. This is shown as a separate item in the balance sheet. The lease liability and the right-of-use asset are reduced by lease payments or depreciation over the lease term. The right-of-use asset is depreciated on a straight-line basis over the shorter of the lease term and the expected useful life of the right-of-use asset.

If a lease contains various contractual components, the services are generally divided into lease and non-lease components. The measurement of the lease therefore does not include any service portions.

If the lease liability is revalued due to a contract modification or a change in the estimates, the corresponding adjustment is recorded in the right-of-use asset. If the right-of-use asset has already been fully depreciated, it is recognised in the income statement.

If there are indications of impairment of the right-of-use asset, an impairment test is carried out in accordance with IAS 36.

The Telefónica Deutschland Group does not apply the regulations of IFRS 16 to contracts with intangible assets.

In accordance with IFRS 16.5, it is possible to deviate from the accounting treatment described above for leased assets of low value or for contracts with a short term (of 12 months or less). The Telefónica Deutschland Group makes use of this recognition exemption whereby the recognition exemption for leased assets of low value is only applied to operating and office equipment. Neither a lease liability nor a right-of-use asset is recognised for these leases. The resulting expenses are therefore recognised directly in the income statement.

Accounting as lessor

As a lessor, the Telefónica Deutschland Group classifies its leasing agreements as either operating leases or finance leases in accordance with IFRS 16.

A lease is classified as a finance lease if it transfers substantially all risks and rewards incidental to ownership. If this is not the case, the lease is classified as an operating lease.

If the sublease is classified as a finance lease as defined by IFRS 16.61 et seqq., the right of use of the leased asset is derecognised and a receivable is recognised in the amount of the net investment in the lease. The corresponding payments by the lessee are divided into interest and principal payments using the effective interest method. The interest rate of the head lease is used for discounting lease payments from subleases that have not yet been received.

If a sublease is classified as an operating lease, the right-of-use asset of the head lease continues to be recognised in the balance sheet and the lease payments received of the sublease agreement are shown in profit or loss over the term of the agreement.

e) Investments accounted for using the equity method

Investments in associates that are accounted for using the equity method are recognised in the Consolidated Statement of Financial Position from the date on which the Telefónica Deutschland Group obtains significant influence over the investment. Initial measurement is at cost; initial acquisition costs directly attributable to the transaction increase the carrying amount. The carrying amount of the investment is adjusted in subsequent periods by the proportionate change in equity of the associate. Dividends received reduce the carrying amount. The pro rata total comprehensive income/loss of the investment attributable to Telefónica Deutschland Group is presented as “Result of investments accounted for using the equity method” in the Consolidated Income Statement.

f) Impairment of goodwill and other intangible assets, property, plant and equipment, right-of-use assets from leases and carrying amount of investments accounted for using the equity method

Goodwill and intangible assets and with indefinite useful lives which have not yet been placed in service are tested for impairment annually at the reporting date or if there are any indications of an impairment. Property, plant and equipment, intangible assets with a finite useful life and right-of-use assets are tested for impairment only if any indications of impairment exist at the reporting date. The same applies to carrying amounts of associates accounted for using the equity method. Assets and goodwill are tested for impairment at the level of the cash-generating unit to which the asset belongs. As of 31 December 2021, the Telefónica Deutschland Group comprises one single cash-generating unit, the reportable segment Telecommunications. Within the Telefónica Deutschland Group, there are no further identifiable groups of assets below Group level that generate cash inflows that are largely independent of the cash inflows from other assets. An impairment is required if the carrying amount of an asset, the carrying amount of the investment accounted for using the equity method or a cash-generating unit exceeds its recoverable amount.

Generally, the Telefónica Deutschland Group determines the recoverable amount of a cash-generating unit based on its fair value less costs to sell. The fair value is determined based on the market capitalisation of Telefónica Deutschland Holding AG as of the reporting date. Costs to sell contain costs such as legal and consulting fees that can be directly allocated to the sale of the cash-generating unit.

If the recoverable amount of a cash-generating unit to which goodwill is allocated is less than the carrying amount of the unit, an impairment loss shall be recognised corresponding to the difference. If the impairment loss exceeds the carrying amount of the goodwill, the remainder shall be allocated to the other assets of the unit pro rata on the basis of the carrying amount of each asset.

If the carrying amount of an asset exceeds its recoverable amount, the carrying amount is written down to its recoverable amount and the resulting loss is recognised in the Consolidated Income Statement. Future depreciation or amortisation charges are adjusted for the asset’s new carrying amount over its remaining useful life.

If the investment carrying amount of an associate exceeds its recoverable amount, the carrying amount is written down to its recoverable amount and the resulting loss is recognised in the Consolidated Income Statement.

If the conditions for impairments recorded in earlier periods no longer apply, the relevant assets (with the exception of goodwill) are written up through profit and loss.

g) Inventories

Inventories are stated at the lower of cost and net realisable value and are written down, if necessary. The costs are determined on the basis of the weighted average costs. Estimates of the net realisable value are based on the most reliable evidence available and are based on the amount for which the inventories are expected to be sold. These estimates take into consideration the fluctuations of sales prices or costs, as well as the purpose for which the inventory is held.

If the circumstances that previously caused inventories to be written down to an amount below cost no longer exist, the amount of the write-down is reversed, so that the new carrying amount is the lower of cost and revised net realisable value.

The Group's inventory mainly consists of merchandise intended for sale to end customers. At the time of the sale when risk is transferred to the customer, the respective inventory is recognised as expense. The change in inventories is recorded in the item Supplies.

h) Cash and cash equivalents

Cash and cash equivalents are defined as short-term, highly liquid financial investments with a maximum term of three months, which can be converted into cash at any time and are not materially impacted by the risk of a change in values.

i) Financial instruments

A financial instrument in accordance with IFRS 9, is a contract that simultaneously gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Non-derivative financial instruments are recognised on the settlement date, except for derivatives, which are recognised on the trade date. Upon initial recognition, financial instruments are measured at fair value, which generally corresponds to the transaction price. Transaction costs directly attributable to the acquisition or issuance are considered in determining the initial value if the financial instruments are not measured at fair value through profit or loss.

For the purpose of subsequent measurement, financial instruments are subdivided into the following categories:

- Financial assets measured at fair value through profit or loss
- Financial liabilities at fair value through profit or loss
- Financial assets and liabilities measured at amortised cost
- Financial assets measured at fair value through other comprehensive income (debt instruments)

Telefónica Deutschland Group does not make use of the option to classify financial assets at fair value through profit or loss upon initial recognition ("fair value option"). Likewise, the option to classify equity instruments at fair value through other comprehensive income upon initial recognition is currently not used.

In accordance with IFRS 9 financial assets are classified depending on the business model and cash flow characteristics. Reclassification of financial assets is only permitted if the business model has changed; financial liabilities may not be reclassified.

Financial assets: Assessment of the cash flow criterion

The cash flow criterion involves assessing whether the contractually agreed cash flows are solely interest and principal payments on the outstanding principal amount. Principal payments imply the outstanding principal repayments and interest represents remuneration for the time value of money, credit and liquidity risk and other costs and profit margins incurred during the life of the financial instrument in the course of "holding" it. In the assessment, the contractual terms of the individual instruments are analysed in detail. This also includes an analysis of possible agreements that may affect the amount or timing of contractual cash flows and jeopardise non-compliance with the criterion.

Financial assets: Assessment of the business model

If the cash flow criterion is met, the Telefónica Deutschland Group uses the business model criterion to assess how the financial assets are managed at portfolio level. This assessment is made by persons in key positions. In particular, the objectives for the portfolio, the guidelines and practical and concrete instructions for action are taken into account. In principle, three types of business models are possible: "Hold", "Hold and Sell" and "Other". Decisive for the classification into these business models are, in particular, the frequency, volume, reasons and timing of sales of financial assets from previous periods as well as expectations regarding future sales. If the business model of financial assets is "hold" in order to collect contractual cash flows, these are measured at amortised cost. All financial assets whose main purpose is to be collected and sold are measured at fair value through other comprehensive income. If the conditions for the aforementioned business models are not met, for example if the intention to trade exists, the financial assets are allocated to the measurement category "at fair value through profit or loss".

Financial assets

Financial assets mainly include trade and other receivables, other financial assets as well as cash and cash equivalents.

Financial assets measured at fair value through profit or loss

Financial assets at fair value through profit or loss are primarily investments in start-ups. Initial and subsequent measurement is at fair value through profit or loss. Derivatives with a positive fair value that are not included in hedging relationships are also reported in this category.

Financial assets measured at amortised cost

These mainly relate to trade receivables and other receivables as well as loans. After initial recognition, these financial assets are carried at amortised cost using the effective interest method less any impairment losses. Gains and losses are recognised in the Consolidated Income Statement when the financial assets are sold, amortised or impaired. Interest effects from the application of the effective interest method are also recognised in profit or loss.

Effective interest method: The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the interest rate that exactly discounts the estimated future cash receipts or payments through the expected life of the financial instrument or, where appropriate, a shorter period to the net carrying amount on initial recognition. The interest income or expense is recognised on an effective interest basis.

Financial assets measured at fair value through other comprehensive income

These assets are primarily trade receivables for which the "hold and sell" business model applies. These receivables are subject to the factoring program and are resold depending on the capital requirements. These are subsequently measured at fair value. Changes in fair value are recognised in other comprehensive income. However, interest income, foreign currency gains and losses, impairment losses and reversals of impairment losses are recognised in the income statement. Upon derecognition, the accumulated gains and losses in other comprehensive income are reclassified to the profit and loss statement.

Impairment of financial assets

The Telefónica Deutschland Group recognises impairment losses on all financial assets that are debt instruments and that are measured at amortised cost or at fair value through other comprehensive income in the amount of the expected credit loss, unless the loss is considered to be immaterial.

Impairment losses on financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

In the case of financial assets in the measurement category through other comprehensive income, the impairment is recognised in profit or loss and derecognised from the other comprehensive income.

In determining the impairment, a distinction must be made between the expected loss within the next 12 months and the lifetime. Upon initial recognition, the expected loss within the next 12 months is initially recognised as an impairment loss. This does not apply to trade receivables, contract assets and receivables from leases. If a significant increase in credit risk becomes apparent, the recognition of impairment losses is extended to the lifetime.

The Telefónica Deutschland Group believes that a debt instrument has a low credit risk if its credit risk rating meets the global definition of investment grade. Accordingly, a decrease in the rating below investment grade is considered a significant increase in credit risk. In addition, the Telefónica Deutschland Group assumes that the credit risk for a financial asset has increased significantly if it is more than 30 days past due.

The Telefónica Deutschland Group continuously assesses whether financial assets carried at amortised cost or at fair value through other comprehensive income are specifically at risk of default and whether the receivables are transferred to external collection partners. The Group generally assumes this is the case if an internal collection measure has not been unsuccessful.

At each reporting date, the Telefónica Deutschland Group assesses whether financial assets carried at amortised cost or at fair value through other comprehensive income are at risk of default. The Telefónica Deutschland Group generally assumes that a financial asset is at risk of default if:

- It is unlikely that the borrower will settle its loan obligations to the Telefónica Deutschland Group in full without the Telefónica Deutschland Group resorting to measures such as the realisation of collateral (if any).
- The financial asset is 90 days or more past due.
- A debtor is in severe financial difficulty or is unwilling to pay.

The gross carrying amount of a financial asset is derecognised in full or in part unless there is a realistic prospect of recovery. This is generally the case if the Telefónica Deutschland Group determines that the debtor does not have any assets or sources of income that could generate sufficient cash to repay the amounts due. Write-downs of financial assets may continue to be subject to foreclosure proceedings.

Impairment losses on trade receivables and contract assets are generally recognised at the amount of the expected credit loss over the lifetime using the simplified approach. In estimating expected credit losses, the Telefónica Deutschland Group considers appropriate information that is relevant and reasonably available. This includes both quantitative and qualitative information and analyses based on the Telefónica Deutschland Group's historical experience and credit ratings, as well as forward-looking information. Credit losses are measured as the present value of all defaults and late payments (i.e. the difference between the cash flows due to the entity under the contract and the expected cash flows).

Financial liabilities

Financial liabilities include primarily trade payables, other liabilities, interest-bearing debt, payables – spectrum and lease liabilities. Depending on their maturity, they are reported as current or non-current liabilities. In addition, embedded derivatives are separated from financial liabilities if they are not closely related to the host contract.

Due to their particular significance as specified in IAS 1.55, the financial liabilities from the spectrum auction in the 2019 financial year are reported under a separate item called payables – spectrum.

Financial liabilities measured at amortised cost

After initial recognition, financial liabilities are subsequently remeasured at amortised cost using the effective interest method described above.

Financial liabilities at fair value through profit or loss

A financial liability is recognised at fair value through profit or loss if it does not follow the measurement category of amortised cost. In the case of the Telefónica Deutschland Group, derivative liabilities are included here unless they are accounted for as hedging relationships. They are presented as current or non-current liabilities or debt depending on their maturity.

Financial instruments included in this category are measured at fair value on initial recognition and on every subsequent reporting date. In addition, financial liabilities may be measured using the fair value option of this category. However, this option is not exercised.

Derecognition of financial assets and liabilities

Financial assets are derecognised when the rights to receive cash flows from the assets expire or when the financial assets have been transferred and the Telefónica Deutschland Group has transferred substantially all the risks and rewards incidental to ownership of the financial asset.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of consideration received including the cumulative gains or losses that had been recognised directly in equity, is recognised in the Consolidated Statements of Comprehensive Income. If the Telefónica Deutschland Group does not retain or transfer substantially all risks and rewards, and retains control, it continues to recognise the transferred asset to the extent of its continuing involvement.

Financial liabilities are derecognised when the underlying obligation is settled, cancelled, or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss. A financial instrument must also be derecognised if a substantial modification of the contractual conditions has been made.

Offsetting

Financial assets and financial liabilities are offset, and the net amount is reported in the Consolidated Statement of Financial Position, when the Telefónica Deutschland Group currently has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Derivative financial instruments

Derivatives are presented as assets if their fair value is positive and as liabilities if their fair value is negative. Changes in the fair value of derivative financial instruments are recognised periodically in the Consolidated Income Statement. In the last financial year, the Telefónica Deutschland Group held an interest rate swap (derivative financial instrument) to hedge interest-rate risks.

Hedging relationships are designated in hedge accounting in the Telefónica Deutschland Group if all of the following criteria are met: a) there is an economic relationship between the hedged item and the hedging instrument, b) the credit risk does not dominate the value changes from that economic relationship, c) the actual hedging ratio corresponds to the hedging ratio defined in the risk strategy. The Group documents its risk management objectives and strategies for undertaking these hedges, including whether changes in the cash flows of the hedging instruments are expected to offset changes in the cash flows of the hedged items. The effectiveness of the hedging accounting relationship is determined at the inception of the hedging accounting relationship and by regular prospective assessments.

If the company hedges a fair value (fair value hedges), the portion of profit or loss attributable to the hedged risk is allocated to the carrying amount of the hedged item. The carrying amount of the hedged item is increased or decreased by the profit or loss that is attributable to the hedged risk. For hedged items that are recorded at amortised cost, the increase or decrease of the carrying amount is completely amortised at maturity of the hedged item.

From the date the hedging instrument expires, or is sold, terminated, or exercised, the accounting of the hedging relationship also ends. The same applies if there is no longer a hedged item within the definition of IFRS 9.

j) Provisions

Pension obligations

The Telefónica Deutschland Group's obligations under defined benefit pension plans are determined using the projected unit credit method and are recognised as personnel expenses unless otherwise stated below.

The Telefónica Deutschland Group determines the net interest expense recognised in the financial result (net interest income) by multiplying the net defined benefit liability (asset) at the beginning of the period with the interest rate used to discount the defined benefit obligation at the beginning of the period.

The discount rate is determined using market yields at the end of the reporting period on fixed-interest high-quality corporate bonds.

The net defined benefit liability (asset) is determined at every reporting date on the basis of an actuary report based on assumptions that are explained below. If the plan assets less the defined benefit obligation result in a surplus, then the level of the reported net defined benefit asset is limited to the present value of economic benefits associated with the plan asset surplus in the form of refunds from the plan or on the basis of reduced future contributions. In addition, in the event of a surplus of the plan, the remeasurement component includes the change in the net defined benefit asset from the application of the asset ceiling, to the extent not taken into account in the net interest component.

Assets incurred by the Telefónica Deutschland Group to meet its pension obligations, which do not qualify as plan assets in accordance with IAS 19, are reported under other financial assets.

As part of the determination of the present value of economic benefits associated with the plan asset surplus, any existing minimum funding requirements are taken into account.

The remeasurement component includes, on the one hand, the actuarial gains and losses from the valuation of the defined benefit obligation and, on the other hand, the difference between the actual return on plan assets and the amounts contained in the net interest on net defined benefit liability (assets).

The company recognises all remeasurement effects in other comprehensive income, whereas the remaining components of the net pension expense (service cost and net interest) are recognised in the Consolidated Income Statement.

In the case of defined contribution plans, the relevant company pays contributions to special purpose pension institutions that are recognised in personnel expenses.

Other provisions including termination benefits

Provisions are recognised when the Telefónica Deutschland Group has a present (legal or constructive) obligation, as a result of a past event that can be estimated reliably and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. If the effect of the time value of money is material, provisions are discounted and the corresponding increase in the provision due to the passage of time is recognised as interest expense. For the purpose of discounting, the Group applies non-risk market interest rates before tax which are matched to the duration. This does not apply to other long-term employee benefits (partial retirement obligations), for which the discount rate is determined on the same basis used for the measurement of pension obligations. Potential risks are fully taken into account in determining the settlement amount. If the Telefónica Deutschland Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset, but only if the reimbursement is virtually certain. The expense relating to any provision is presented, if applicable, net of any reimbursement, in the Consolidated Income Statement.

Other provisions also include partial retirement obligations, to which the block model applies. Under this model, an outstanding settlement amount is incurred on the part of the employer during the employment phase that equates to the as yet uncompensated portion of work. After the end of the employment phase and during the reporting periods of the second block of the model (time-off phase), in which the employee receives part-time consideration without performing work, the liability is amortised accordingly.

Top-up amounts are accumulated in the amount of the present value of all future payments over a certain time period. The period over which the top-ups are earned extends to the end of the employment phase for all payments. The provision for partial retirement is allocated to other long-term employee benefits.

Provisions for death benefit obligations are recognised on the basis of actuarial reports based on the same parameters as those for pension obligations.

Provisions for restructuring measures, including termination benefits, are recognised if a detailed formal plan for the measures to be taken is available, has been approved by the responsible management bodies and a justified expectation has been raised in those affected that the restructuring measures will be implemented. This is done by beginning the implementation of the measures or communicating the essential elements of the program to those affected.

The provisions for restructuring include only those expenses necessary and directly attributable to the respective measures.

Provisions for the costs of decommissioning and retirement are recognised if the Telefónica Deutschland Group has a legal or constructive obligation to carry out the measures.

Asset retirement obligation

Dismantling obligations arise from the contractual obligation to return the leased in the original condition at contract commencement date. Since the costs for the future dismantling have not yet been determined at the time the contract is concluded, these costs are estimated. The estimated costs are recognised as an asset and a provision.

The estimated costs of dismantling the network as well as shops and office locations, and interest rate movements are evaluated annually.

k) Non-current assets and disposal groups held for sale

The Telefónica Deutschland Group classifies non-current assets or disposal groups as held for sale if the relevant carrying amount will be recovered principally through its continuing use in the business. Non-current assets and disposal groups classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Costs to sell are the additional costs directly attributable to the sale of an asset (disposal group).

The criteria for an asset or disposal group to be classified as held for sale are only met if the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition.

Property, plant and equipment and intangible assets classified as held for sale cease to be depreciated from the date of classification under IFRS 5. The same applies to capitalised right-of-use assets resulting from leases.

Assets and liabilities classified as held for sale are recognised separately as current items in the Statement of Financial Position.

l) Revenues from contracts with customers

The Telefónica Deutschland Group mainly generates revenues from service contracts and sales of mobile devices.

In accordance with IFRS 15, revenue is recognised in an amount that reflects the consideration for the performance obligations. To implement this principle, a five-step model is used to determine the amount and timing of revenues:

- Identification of the contract
- Identification of the distinct performance obligations

- Determination of the transaction price
- Allocation of the transaction price
- Revenue recognition with satisfaction of the performance obligation

Revenues from service and multi-component arrangements
The Telefónica Deutschland Group provides both mobile and fixed-line services that are satisfied over a specified period of time. The progress of the performance obligation is determined using output-based methods. Applying output-based methods, revenue is recognised on the basis of the value of services transferred to date relative to the remaining services promised under the contract. Accordingly, unsteady discounts on this service are recognised over the term of the contract. When the entitlement to consideration from a customer corresponds directly to the value of the services already provided, the Telefónica Deutschland Group makes use of the practical expedient under IFRS 15.B16 and recognises revenue based on the amount invoiced.

In addition to standalone service contracts, the Telefónica Deutschland Group offers its customers products under multi-component arrangements. In particular, discounts are granted on mobile services if a mobile device is purchased together with the mobile services. There is no discount on the mobile device.

The discounts are allocated, whereby all the contractual components which affect the transaction price of a contract are considered when calculating the allocation factor.

Connection fees to be paid by the end customer are included in the allocation of contractual components as part of the overall assessment and are recognised as revenue accordingly over the underlying contract term. Discounts granted for the simultaneous usage of a mobile contract and a DSL contract are reported as a reduction of mobile service revenue and fixed line/DSL revenue based on the relative stand-alone selling price of the respective tariffs.

In determining the date of satisfaction of the performance obligations (e.g. in the case of mobile device sales), the transfer of control to the end customer was defined as the relevant assessment factor.

When determining the transaction price, significant financing components must be taken into account. In accordance with the Standard, the Telefónica Deutschland Group does not consider these financing components because the analysis of the relevant contracts showed that they are insignificant.

In accordance with IFRS 15, it is generally possible to apply the accounting rules to a portfolio of similarly structured contracts if no material effects are expected compared with the accounting of the individual contract consideration. The Telefónica Deutschland Group analysed the existing contracts and aggregated them into portfolios. The Group applies the revenue regulations at the level of these defined portfolios.

Capitalisation of costs of obtaining a contract
The Telefónica Deutschland Group pays commissions to dealers and agents for the acquisition of customers. These costs are capitalised as costs of obtaining a contract if they are incurred in connection with the obtaining of a contract and can be directly allocated to a customer.

Amortisation will depend on how the performance obligations to which the costs relate are transferred to the customer under the relevant contract. Under this method, the costs of obtaining a contract will be recognised in other expenses on a straight-line basis over the underlying amortisation period.

Within the capitalisation of costs of obtaining a contract, the Telefónica Deutschland Group makes use of the practical expedient defined in the standard and only capitalises costs of obtaining a contract with an underlying amortisation period of more than one year. With an amortisation period of up to one year, the costs are expensed as incurred.

In addition to the capitalisation of costs of obtaining a contract, the standard also regulates the capitalisation of costs to fulfil a contract. The analysis of the underlying contracts showed that there are no costs to fulfil a contract.

Accounting for contract modifications
According to IFRS 15, there are more complex requirements with regard to the reporting of contract modifications compared to the regulations contained in IAS 18. In some cases, contract modifications are accounted for prospectively, forming a separate contract. In other cases, the contract modifications result in a modification of the existing contract. As a result, cumulative catch up adjustments of revenues may occur.

Principal versus agent considerations
According to IFRS 15, the assessment whether the Telefónica Deutschland Group is the principal or the agent is based on whether the Group has control of particular goods or services before they are transferred to the customer.

m) Income taxes

Income taxes include both current and deferred taxes. Current and deferred taxes are recognised in the Consolidated Income Statement unless they relate to business combinations or items directly recognised in equity or in other comprehensive income. To the extent that deferred taxes relate to items recognised directly in equity or in other comprehensive income, these are also recognised in equity or in other comprehensive income.

Current tax assets and liabilities for the current period and prior periods are measured at the amount expected to be recovered from, or paid to, the tax authorities. To calculate the amount, tax rates and tax laws applicable or enacted on the reporting date are used.

Deductible temporary differences and tax losses carried forward result in deferred tax assets in the Consolidated Statement of Financial Position. Taxable temporary differences give rise to deferred tax liabilities in the Consolidated Statement of Financial Position. Temporary differences arise due to the difference between the tax bases of the assets and debts and their respective carrying amounts.

The Telefónica Deutschland Group determines deferred tax assets and liabilities by applying the tax rates that will be effective when the corresponding asset is received or the liability is settled. Tax rates and tax laws that are enacted (or substantively enacted) at the reporting date are used.

Deferred tax assets and liabilities are not discounted to present value and are classified as non-current, irrespective of the date of their reversal.

The carrying amount of deferred tax assets is reviewed at each reporting date and recognised to the extent that it is probable that a sufficient taxable income will be available to utilise the deferred tax asset in the future. Unrecognised deferred tax assets are included in this review.

Deferred tax liabilities on investments in subsidiaries, branches, associates and joint operations are not recognised if the parent company is in a position to control the timing of the reversal and if the reversal is unlikely to take place in the foreseeable future. Cases in which no deferred tax liabilities were recognised for subsidiaries are of minor significance in terms of amount.

Deferred tax assets and liabilities arising from the initial recognition of the purchase price allocation of business combinations impact the amount of goodwill. However, subsequent changes in tax assets acquired in a business combination are recognised as an adjustment to profit or loss.

Deferred tax assets and liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same tax authority.

Uncertain income tax items are accounted at the estimated amount of corresponding tax payments.

5. Selected Notes to the Consolidated Statement of Financial Position

5.1 Goodwill

(in EUR million)	**2021**	2020
Carrying amount of goodwill at 1 January	**1,616**	**1,964**
Disposal due to sale of major parts of the business operations of the rooftop sites to Telxius	(256)	(347)
Carrying amount of goodwill at 31 December	**1,360**	**1,616**

Goodwill is allocated to the Telecommunications cash-generating unit. The Telefónica Deutschland Group regularly evaluates the recoverable amount of this cash-generating unit to identify potential impairment of goodwill. Determining the recoverable amount may entail the use of assumptions and estimates and requires a significant element of judgement. The fair value of goodwill is determined based on the market capitalisation of Telefónica Deutschland Holding AG as of the reporting date.

The decrease compared to the previous year results from the disposal of the pro rata goodwill and is related to the second transaction step of the sale of major parts of the business operations of the rooftop sites to Telxius (>Note 7 DISPOSAL GROUPS<) .

The impairment test carried out at the level of the Telecommunications cash-generating unit did not result in an impairment for goodwill at the end of 2021, as the recoverable amount of EUR 7,182 million (2020: EUR 6,629 million), based on fair value less costs to sell, was higher than the carrying amount of the cash-generating unit. An impairment test was carried out on the basis of a share price of EUR 2.44 as of 31 December 2021. The Group again did not recognise an impairment charge in financial year 2020.

The impairment test is described in >Note 4 GENERAL ACCOUNTING POLICIES - SIGNIFICANT ACCOUNTING POLICIES< .

5.2. Other intangible assets

Other intangible assets are depreciated on a straight-line basis over their useful lives, primarily within the following ranges:

	Estimated useful life (in years)
Licences	8-21
Customer bases	7-15
Software	1-5
Brand names	5-19

Determining the useful lives underlying amortised cost is essentially based on the assessment of future technological developments or the alternative use of the assets and is therefore subject to certain discretionary estimates.

(in EUR million)	Licences and other licences for use	Customer bases	Software	Thereof own work capitalised	Brand names	Others	Construction in progress/ prepayments on intangible assets	**Other intangible assets**
Cost								
As of 1 January 2020	**11,574**	**2,988**	**1,769**	**229**	**101**	**42**	**1,770**	**18,244**
Additions	–	–	266	27	–	0	14	**280**
Disposals	(8,638)	(1)	(92)	–	–	(0)	–	**(8,732)**
Reclassifications	1,381	–	5	–	–	0	(1,386)	**–**
As of 31 December 2020	**4,316**	**2,987**	**1,948**	**256**	**101**	**42**	**398**	**9,792**
As of 1 January 2021	**4,316**	**2,987**	**1,948**	**256**	**101**	**42**	**398**	**9,792**
Additions	–	–	294	25	–	0	77	**372**
Disposals	(11)	(267)	(276)	–	(0)	(38)	–	**(593)**
Reclassifications	211	–	14	–	–	0	(225)	**(0)**
As of 31 December 2021	**4,516**	**2,720**	**1,980**	**281**	**101**	**4**	**249**	**9,571**
Accumulated depreciation								
As of 1 January 2020	**(9,702)**	**(1,745)**	**(1,313)**	**(174)**	**(59)**	**(41)**	**–**	**(12,860)**
Additions	(449)	(285)	(280)	(27)	(3)	(1)	–	**(1,017)**
Disposals	8,610	1	91	–	–	0	–	**8,702**
As of 31 December 2020	**(1,541)**	**(2,028)**	**(1,501)**	**(201)**	**(62)**	**(42)**	**–**	**(5,175)**
As of 1 January 2021	**(1,541)**	**(2,028)**	**(1,501)**	**(201)**	**(62)**	**(42)**	**–**	**(5,175)**
Additions	(293)	(282)	(270)	(36)	(3)	(1)	–	**(849)**
Disposals	8	267	276	–	0	38	–	**590**
As of 31 December 2021	**(1,826)**	**(2,044,)**	**(1,495)**	**(236)**	**(65)**	**(4)**	**–**	**(5,434)**
Net book value								
As of 31 December 2020	**2,775**	**958**	**447**	**55**	**39**	**1**	**398**	**4,617**
As of 31 December 2021	**2,690**	**676**	**484**	**45**	**36**	**0**	**249**	**4,137**

Licences

As of 31 December 2021, licences consist primarily of the spectrum licences listed below:

In June 2019, Telefónica Germany GmbH & Co. OHG successfully bid for a total of 70 MHz in the **3.6 GHz range**. The frequencies in the 3.6 GHz frequency range have been used since June 2020 and have a term until December 2040. The frequencies are currently used for 5G. The carrying amount of the frequency usage rights as of 31 December 2021 is EUR 963 million (2020: EUR 1,014 million). The remaining useful life is 19 years.

In May 2010, Telefónica Germany GmbH & Co. OHG acquired frequency usage rights for 2x10 MHz in the **800 MHz band** that will expire in December 2025. The frequencies are currently used for 4G. The carrying amount as of 31 December 2021 is EUR 334 million (2020: EUR 418 million). The remaining useful life is four years.

In June 2015, Telefónica Germany GmbH & Co. OHG successfully bid for frequency usage rights for 2x10 MHz in the **1.8 GHz range**, which have been used since 1 January 2017 and will expire in December 2033. The carrying amount of the frequency usage rights as of 31 December 2021 is EUR 340 million (2020: EUR 369 million). The remaining useful life is 12 years.

In June 2015, Telefónica Germany GmbH & Co. OHG successfully bid for frequency usage rights for 2x10 MHz in the **700 MHz range**, which have been used since March 2020 and have a term until December 2033. The frequencies are currently used for 4G and 5G. The carrying amount of the frequency usage rights as of 31 December 2021 is EUR 292 million. EUR (2020: EUR 317 million). The remaining useful life is 12 years.

In June 2015, Telefónica Germany GmbH & Co. OHG successfully bid for frequency usage rights for 2x10 MHz in the **900 MHz range**, which have been used since 1 January 2017 and have a term until December 2033. The frequencies are currently used for 4G and 2G. The carrying amount of the frequency usage rights as of 31 December 2021 is EUR 272 million (2020: EUR 295 million). The remaining useful life is 12 years.

In June 2019, Telefónica Germany GmbH & Co. OHG successfully bid for a total of 10 MHz in the 2.0 GHz range. The frequencies in the **2.0 GHz band** have been used since January 2021 and have a term until December 2040. The frequencies are currently used for 4G. The carrying amount of the frequency usage rights as of 31 December 2021 is EUR 201 million. The remaining useful life is 19 years.

In May 2010, Telefónica Germany GmbH & Co. OHG acquired frequency usage rights for approximately 2x5 MHz in the **2.0 GHz band** that will expire in December 2025. As part of the acquisition of the E-Plus Group on 1 October 2014, further frequency usage rights were acquired in the amount of approximately 2x10 MHz in the 2.0 GHz band with terms until December 2025. The frequencies are currently used for 4G. The carrying amount as of 31 December 2021 is EUR 135 million. EUR (2020: EUR 173 million). The remaining useful lives are four years.

With the acquisition of the E-Plus Group on 1 October 2014, Telefónica Germany GmbH & Co OHG acquired 2x10 MHz in the 1.8 GHz range, which are used for DSS (Dynamic Spectrum Sharing), 4G and 2G, and run until December 2025. The carrying amount of the frequency usage rights as of 31 December 2021 is EUR 117 million (2020: EUR 147 million). The remaining useful life is four years.

In May 2010, Telefónica Germany GmbH & Co. OHG acquired paired and unpaired frequency usage rights totalling 50 MHz in the **2.6 GHz band** that will expire in December 2025. As part of the E-Plus Group acquisition on 1 October 2014, additional paired and unpaired frequency usage rights totalling 30 MHz in the 2.6 GHz band with terms until December 2025 were acquired, of which frequency usage rights totalling 2x10 MHz were transferred in the 2020 financial year. The carrying amount as of 31 December 2021 is EUR 35 million (2020: EUR 43 million). The remaining useful lives are four years.

All frequency usage rights are allocated on a technology-neutral basis. All frequency usage rights are amortised on a straight-line basis over their useful lives.

Customer bases

The customer bases are primarily a result of the acquisition of the E-Plus Group by Telefónica Deutschland Group. The customer bases acquired in the E-Plus acquisition on 1 October 2014 are amortised mainly over a remaining useful lives of two and three years.

Software

Software mainly includes developments and licences for IT and office applications. In the financial year 2021, additions mainly related to CRM and billing systems as well as portal systems. Software disposals primarily relate to software that reached the end of its useful life.

Brand names

Brand names acquired in the E-Plus Group acquisition on 1 October 2014 are amortised over a remaining useful life of 13 years.

Construction in progress/ prepayments on intangible assets

Construction in progress/prepayments on intangible assets mainly comprise the frequency blocks in the 2 GHz bands purchased at auction by the Telefónica Deutschland Group in June 2019. The German Federal Network Agency assigned the frequency blocks in August 2019. The carrying amount of the frequencies as of 31 December 2021 is EUR 170 million (2020: EUR 381 million). 2 x 5 MHz capacity in the 2 GHz spectrum will be available from 2026. The use of the frequencies is limited until the end of 2040.

5.3. Property, plant and equipment

Accounting for investments in property, plant and equipment involves the use of estimates to determine the useful life for depreciation and amortisation purposes. The useful lives are reviewed periodically and, where appropriate, updated based on technological progress. The following bandwidths are chiefly used at present in the Telefónica Deutschland Group:

	Estimated useful life (in years)
Buildings	5 - 20
Plant and machinery (incl. telephone installations, networks and subscriber equipment)	1 - 20
Furniture, office equipment, tools and other items	2 - 13

The implementation of the growth-oriented investment programme in the areas of mobile access and core networks as well as the transport network resulted in a shortening of useful lives due to the planned early decommissioning of technology with an impact on the amount of depreciation and amortisation of an additional approximately EUR 120 million in the 2021 financial year. In addition, the shutdown of the 3G network at the end of 2021 resulted in an adjustment of the useful lives of the 3G assets in the 2020 financial year; this also resulted in an impact on depreciation of approximately EUR 76 million for the 2021 financial year, in line with the level of the previous year.

Property, plant and equipment are comprised of the following:

(in EUR million)	Land and buildings	Plant and machinery	Furniture, office equipment, tools and other items	PP&E in progress	**Property, plant and equipment**
Cost					
As of 1 January 2020	**370**	**9,204**	**245**	**73**	**9,891**
Additions	3	631	24	157	814
Disposals	(39)	(886)	(22)	(0)	(946)
Reclassifications	0	17	2	(19)	–
Other	16	159	–	–	176
As of 31 December 2020	**351**	**9,126**	**249**	**210**	**9,935**
As of 1 January 2021	**351**	**9,126**	**249**	**210**	**9,935**
Additions	4	823	27	59	913
Disposals	(195)	(949)	(44)	(13)	(1,201)
Reclassifications	1	36	7	(43)	(0)
Other	6	(46)	–	–	(40)
As of 31 December 2021	**167**	**8,989**	**239**	**212**	**9,607**
Accumulated depreciation					
As of 1 January 2020	**(323)**	**(5,637)**	**(181)**	**–**	**(6,142)**
Additions	(15)	(782)	(30)	–	(827)
Disposals	38	679	22	–	739
Reclassifications	0	0	–	–	–
As of 31 December 2020	**(300)**	**(5,740)**	**(189)**	**–**	**(6,229)**
As of 1 January 2021	**(300)**	**(5,740)**	**(189)**	**–**	**(6,229)**
Additions	(13)	(907)	(28)	–	**(948)**
Disposals	194	822	44	–	**1,060**
As of 31 December 2021	**(118)**	**(5,825)**	**(173)**	**–**	**(6,117)**
Net book value					
As of 31 December 2020	**51**	**3,386**	**60**	**210**	**3,706**
As of 31 December 2021	**49**	**3,164**	**66**	**212**	**3,491**

As of 31 December 2021, the Telefónica Deutschland Group mainly capitalised leasehold improvements under land and buildings.

Plant and machinery mainly relates to network equipment.

Furniture, office equipment, tools and other items primarily consists of IT equipment.

Construction in progress resulted mainly from the expansion of the network.

Other movements in property, plant and equipment, which mainly relate to technical equipment and machinery and are connected with assets relating to dismantling or retirement obligations, amounted to EUR -40 million (2020: EUR 176 million). These are mainly due to the development of interest rates and higher cost estimates.

Disposals of property, plant and equipment primarily relate to passive infrastructure for rooftop and tower sites and, with a net carrying amount of EUR 126 million, are attributable to the second transaction step of the sale of major parts of the business operations of the rooftop sites to Telxius (>Note 7 DISPOSAL GROUPS<) .

5.4. Right-of-use assets

(in EUR million)	Land and buildings	Plant and machinery	Other	**Right-of-use assets**
Cost				
As of 1 January 2020	1,035	1,825	179	3,039
Additions	198	936	24	1,159
Disposals	(305)	(131)	(8)	(444)
As of 31 December 2020	**929**	**2,630**	**195**	**3,755**
As of 1 January 2021	**929**	**2,630**	**195**	**3,755**
Additions	112	1,177	41	1,329
Disposals	(230)	(155)	(10)	(395)
As of 31 December 2021	**811**	**3,652**	**226**	**4,689**
Accumulated depreciation				
As of 1 January 2020	**(181)**	**(320)**	**(40)**	**(540)**
Additions	(162)	(318)	(45)	(525)
Disposals	71	89	3	163
As of 31 December 2020	**(272)**	**(548)**	**(82)**	**(902)**
As of 1 January 2021	**(272)**	**(548)**	**(82)**	**(902)**
Additions	(138)	(406)	(41)	(585)
Disposals	92	47	8	147
As of 31 December 2021	**(317)**	**(907)**	**(116)**	**(1,340)**
Net book value				
As of 31 December 2020	**657**	**2,082**	**113**	**2,852**
As of 31 December 2021	**493**	**2,745**	**110**	**3,348**

As of 31 December 2021, the Telefónica Deutschland Group capitalised right-of-use assets for land and buildings mainly for roof areas, office and shop areas.

Plant and machinery mainly includes right-of-use assets for radio masts, dark fibre, leased lines and the leasing of space on passive infrastructure including antenna towers.

Lease agreements may contain extension and termination options and have individual terms and conditions, as these are negotiated with the individual lessors, especially in the case of radio masts and rooftop sites.

The right-of-use asset is determined on the basis of the discounted lease liability. Please refer to the remarks under >Note 5.12 LEASE LIABILITIES< for information on the assumptions made for the contract term and the incremental borrowing rate used.

Additions to right-of-use assets for plant and machinery amounting to EUR 496 million were due to the leasing of space on the transferred passive infrastructure for the installation and operation of active radio technology following the completion of the second transaction step of the sale of major parts of the business operations of the rooftop sites to Telxius.

This was offset by the disposals of right-of-use assets from the transfer of lease agreements with third parties to Telxius with a net carrying amount of EUR 133 million due to the sale of major parts of the business operations of the rooftop sites (>Note 7 DISPOSAL GROUPS<) .

5.5. Trade and other receivables

(in EUR million)	As of 31 December 2021 Non-current	As of 31 December 2021 Current	As of 31 December 2020 Non-current	As of 31 December 2020 Current
Trade receivables	269	1,307	157	1,131
Continuing involvement from the sale of receivables	–	132	–	137
Receivables from related parties (> Note 13 RELATED PARTIES<)	–	25	–	26
Other receivables	–	78	–	60
Loss allowance	–	(44)	–	(57)
Trade and other receivables	**269**	**1,498**	**157**	**1,297**

Current trade receivables, which are measured at fair value through other comprehensive income (including O_2 My Handy receivables), have a carrying amount of EUR 785 million (2020: EUR 587 million) and the non-current trade receivables of EUR 269 million (2020: EUR 157 million).

Trade receivables, which are measured at amortised cost, have a gross carrying amount of EUR 521 million (2020: EUR 544 million).

No separate loss allowances have been recorded for the category of receivables measured at fair value through other comprehensive income, as the credit default risk of EUR 136 million (2020: EUR 112 million) is implicitly included in the fair value. The loss allowance of EUR 44 million (2020: EUR 57 million) relate mainly to loss allowance in the amount of EUR 44 million (2020: EUR 50 million).

In order to measure the expected credit loss, trade receivables and contract assets were grouped into homogeneous customer segments. The allowance rate is calculated for each segment based on days past due and actual credit losses incurred in prior years. The value also reflects current and forward-looking information and analysis of the expected economic situation during the term of the financial assets from the point of view of the Group. Observable forward-looking information may include disposable income, gross domestic product and inflation indices.

The following tables provide information on exposure to credit risk and on expected credit losses for trade receivables (excluding O_2 My Handy) per days past due as of 31 December 2021. Separate consideration is applied to trade receivables measured at fair value through other comprehensive income and trade receivables measured at amortised cost.

Trade and other receivables at amortised cost

As of 31 December 2021

(in EUR million)	Gross carrying amount	Loss allowance	Average expected default rate
This presentation follows the simplified approach:			
Not due	439	9	2.1%
Overdue for 1-30 days	24	3	11.6%
Overdue for 31-60 days	10	2	17.3%
Overdue for 61-90 days	4	2	36.5%
Doubtful accounts			
Overdue for 91-180 days	9	5	55.0%
Overdue for 181-360 days	11	7	65.5%
Overdue for more than 360 days	26	18	70.2%
Total	**521**	**45**	

As of 31 December 2020

(in EUR million)	Gross carrying amount	Loss allowance	Average expected default rate
This presentation follows the simplified approach:			
Not due	455	12	3.0%
Overdue for 1-30 days	21	2	9.2%
Overdue for 31-60 days	6	1	20.1%
Overdue for 61-90 days	4	1	36.8%
Doubtful accounts			
Overdue for 91-180 days	12	5	37.6%
Overdue for 181-360 days	17	9	52.4%
Overdue for more than 360 days	29	20	70.6%
Total	**543**	**50**	

Trade and other receivables at fair value through other comprehensive income

As of 31 December 2021

(in EUR million)	Gross carrying amount	Loss allowance	Average expected default rate
This presentation follows the simplified approach:			
Not due	292	0	0.1%
Overdue for 1-30 days	8	0	0.1%
Overdue for 31-60 days	0	0	0.1%
Overdue for 61-90 days	0	0	25.0%
Doubtful accounts			
Overdue for 91-180 days	0	0	0.0%
Overdue for 181-360 days	0	0	0.0%
Overdue for more than 360 days	1	0	84.0%
Total	**301**	**1**	

As of 31 December 2020

(in EUR million)	Gross carrying amount	Loss allowance	Average expected default rate
This presentation follows the simplified approach:			
Not due	134	0	0.1%
Overdue for 1-30 days	2	0	0.1%
Overdue for 31-60 days	0	0	0.1%
Overdue for 61-90 days	0	0	1.4%
Doubtful accounts			
Overdue for 91-180 days	1	1	84.0%
Overdue for 181-360 days	4	3	84.0%
Overdue for more than 360 days	1	0	84.0%
Total	**143**	**5**	

In addition, there are O_2 My Handy receivables with a nominal value of EUR 888 million (2020: EUR 712 million) which are measured at fair value through other comprehensive income. A separate valuation allowance of EUR 136 million EUR (2020: EUR 107 million) is made for these items, which were recognised directly in equity and not separately at fair value on the balance sheet.

Overall, this results in gross receivables of EUR 1,712 million (2020: EUR 1,399 million), for which an impairment adjustment of EUR 182 million (2020: EUR 162 million) has been recorded.

Receivables older than 90 days are classified by the Telefónica Deutschland Group as being at risk of default and are forwarded to collection service providers for processing as part of receivables management. A success rate dependent on the customer segment and the products is achieved, which is taken into account in the impairment. The impairment of these receivables is further subdivided on the basis of this maturity.

Compared to the previous year, the loss allowances for the 2021 financial year ncreases by 12%, resulting from the higher gross receivables.

When calculating the expected loss allowance, a collection rate of 29% is taken into account in 2021 (2020: 26%).

For trade receivables with a contractual volume of EUR 58 million (2020: EUR 60 million), which were transferred to collection agencies during financial year 2021 and have not yet been paid, collection measures are still ongoing.

The breakdown of trade receivables is as follows:

	As of 31 December 2021		As of 31 December 2020	
(in EUR million)	**Non-current**	**Current**	Non-current	Current
Trade receivables billed	269	896	157	704
Trade receivables unbilled	–	412	–	427
Trade receivables	**269**	**1,307**	**157**	**1,131**

The following table shows the development of the allowances for the years ending as of 31 December 2021 and 2020.

	2021			
	Trade receivables measured at amortised cost		**Trade receivables measured at fair value through other comprehensive income**	
(in EUR million)	**Non-current**	**Current**	**Non-current**	**Current**
As of 1 January 2021	**–**	**(57)**	**(29)**	**(83)**
Addition	–	(18)		(54)
Release	–	7		
Utilisation	–	24		30
Reclassifications	–		(10)	10
As of 31 December 2021	**–**	**(44)**	**(39)**	**(97)**

	2020			
	Trade receivables measured at amortised cost		Trade receivables measured at fair value through other comprehensive income	
(in EUR million)	Non-current	Current	Non-current	Current
As of 1 January 2020	**–**	**(65)**	**(21)**	**(73)**
Addition	–	(22)		(49)
Release	–			
Utilisation	–	29		31
Reclassifications	–		(7)	7
As of 31 December 2020	**–**	**(57)**	**(29)**	**(83)**

In 2021 and 2020, the Telefónica Deutschland Group sold instalment receivables in order to optimise the working capital. The nominal value of transactions concluded in 2021 amounts to EUR 484 million (2020: EUR 617 million), and the carrying amount is EUR 491 million (2020: EUR 610 million). The buyers of the receivables assume a large part of the risk of these receivables. The receivables sold were fully derecognised at the time of sale, with the exception of the continuing involvement of EUR 132 million (2020: EUR 137 million). The utilisation is expected to result in a loss of EUR 7 million (2020: EUR 7 million).

The Telefónica Deutschland Group recognises trade receivables sold in the amount of its continuing involvement. This corresponds to the maximum amount with which the Telefónica Deutschland Group remains liable for the associated maximum risk and recognises a corresponding other liability. The maximum risk comprises the credit risk and the late payment risk. The receivables and the associated liability are subsequently derecognised in the amount in which the continuing involvement of the Telefónica Deutschland Group is reduced. The Telefónica Deutschland Group bears the entire late payment risk in all transactions and continues to bear a portion of the credit risk. The remaining credit risk is transferred to the purchasers of the receivables in the course of the transactions. Consequently, the opportunities and risks associated with the receivables sold were neither transferred nor retained.

All other receivables are subject to the impairment requirements of IFRS 9 and are recognised as impaired using the general approach (>Note 16 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT<)

5.6. Other financial assets

(in EUR million)	As of 31 December 2021 Non-current	As of 31 December 2021 Current	As of 31 December 2020 Non-current	As of 31 December 2020 Current
Investments in start-ups	3	0	1	–
Interest rate swaps	–	–	–	2
Reimbursement rights from insurance contracts	94	–	77	–
Silent factoring deposit	24	47	38	26
Deposits	0	–	0	–
Purchase price receivable from the sale of major parts of the business operations of the rooftop sites	246	15	145	33
Loans	16	0	26	0
Net investment in the lease	14	6	14	5
Other financial assets	**396**	**70**	**301**	**67**

For further information on the investments in start-up companies, see >Note 9 FURTHER INFORMATION ON FINANCIAL ASSETS AND FINANCIAL LIABILITIES< .

The reimbursement rights in 2021 were accrued to cover the pension and partial benefit obligations, and do not represent plan assets in accordance with IAS 19. This item still includes surpluses from the offsetting of the net defined benefit liability against plan assets of EUR 8 million (2020: EUR 7 million). The recognised fair values are based on the values received from the insurance company, which are based on the insurance company's internal calculation models.

In addition, other financial assets include current and non-current portions of a deposit that serves as collateral for silent factoring and corresponds to the maximum risk (credit and late payment risk) to be borne by the Telefónica Deutschland Group in the individual transactions. The collateral is paid into a Telefónica Deutschland Group bank account pledged to the purchaser of the receivables. The deposit provides security for the bank's losses on the sale of receivables.

Other financial assets include EUR 149 million of the non-current portion of the purchase price receivable from the first transaction step, which is not yet due, and EUR 97 million of the non-current portion of the purchase price receivable from the second transaction step of the sale of major parts of the business operations of the rooftop sites to Telxius. Other financial assets of EUR 15 million also include the current portion of the share of the purchase price receivable that is not yet due as a result of the second transaction step of the sale of major parts of the business operations of the rooftop sites to Telxius (>Note 7 DISPOSAL GROUPS<).

The non-current share of the purchase price receivable depends on the development of the inflation rate over the next few years. The receivable is valued using the effective interest method. The expected loss within the next 12 months is recognised as an impairment loss.

As of 31 December 2021, loan receivables mainly include a loan from the sale of network equipment.

The net investment in the lease results from leasing receivables from finance leases for subleases for shops and locations with cell sites. These receivables follow the simplified impairment approach. The impairment losses are not material. For further information on net investment in the lease, see >Note 20 LEASES< .

All financial assets measured at amortised cost are subject to the impairment requirements of IFRS 9 and are recognised as impaired using the general approach. There were no material increases in credit risk in the current and previous financial year. Consequently, the expected credit loss for 12 months is determined for all instruments. With regard to other financial assets, there were no indications of material impairment as at 31 December 2021 (>Note 16 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT<).

5.7. Other non-financial assets and other non-financial liabilities

Other non-financial assets were comprised as follows as of 31 December 2021:

(in EUR million)	As of 31 December 2021 Non-current	As of 31 December 2021 Current	As of 31 December 2020 Non-current	As of 31 December 2020 Current
Prepayments	92	54	72	67
Prepayments to related parties	–	1	–	1
Capitalised costs of obtaining contracts	127	364	115	363
Contract asset	1	18	2	20
Other tax receivables	–	0	–	0
Other non-financial assets	**221**	**436**	**188**	**451**

The prepayments mainly relate to prepayments for incidental rental costs for lines, antenna sites, service and IT support agreements.

The capitalised costs of obtaining contracts include costs for commissions that can be directly allocated to contracts with customers.

They are amortised on a straight-line basis in profit or loss over the underlying amortisation period, which is generally 24 months. In the 2021 financial year, an amortisation amount of EUR 486 million as in the previous year (2020: EUR 486 million) was recognised in this connection.

The contract asset contains contracts for which Telefónica Deutschland Group satisfied its performance obligations by transferring mobile devices and performing mobile services or fixed line/DSL services before consideration was paid or became due.

For contract assets, a loss allowance of EUR 1 million (2020: EUR 1 million) is already recognised directly in the carrying amount. Contract assets exist primarily with private customers.

Other non-financial liabilities were comprised as follows as of 31 December 2021:

(in EUR million)	**As of 31 December 2021 Current**	As of 31 December 2020 Current
Payroll taxes and social security	9	10
Current tax payables for indirect taxes	43	40
Other taxes	1	0
Other non-financial liabilities	**53**	**50**

5.8. Inventories

(in EUR million)	**As of 31 December 2021**	As of 31 December 2020
Merchandise	140	131
Allowances	(3)	(2)
Inventories	**138**	**129**

Inventories comprise smartphones and accessories in particular.

The total amount of inventories recognised as an expense in financial year 2021 is EUR 1,349 million (2020: EUR 1,363 million).

Consistent with common industry practices, the suppliers of inventories retain the title until the items are paid for in full.

5.9. Cash and cash equivalents

Cash and cash equivalents mainly includes deposits in connection with cash pooling agreements with Telfisa Global B.V., Amsterdam, Netherlands (Telfisa Global B.V.), receivables from banks with an original term of up to three months and cash in hand.

(in EUR million)	**As of 31 December 2021**	As of 31 December 2020
Cash at bank and in hand	9	12
Cash pooling	1.012	1.325
Cash and cash equivalents	**1.020**	**1.337**

Telefónica Deutschland Group has entered into cash pooling and deposit agreements with Telfisa Global B.V., a subsidiary of Telefónica, S.A. Group, and deposits its cash surpluses there. Telefónica, S.A. has guaranteed the performance of Telfisa Global B.V.'s obligations arising from the cash pooling agreements. Telefónica, S.A. is rated by international rating agencies with an investment grade rating of BBB. Therefore, no significant credit losses are expected (see also >Note 16 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT<).

The Telefónica Deutschland Group assumes that Telfisa Global B.V. will have sufficient financial resources to meet its obligations, in particular those towards the Telefónica Deutschland Group, at all times.

5.10. Equity

Subscribed capital
As of 31 December 2021, Telefónica Deutschland Holding AG had share capital of EUR 2,975 million, which is consistent with the prior year and is divided into 2,974,554,993 no par value registered shares, unchanged as of 31 December 2020, each accounting for a pro rata amount of share capital of EUR 1.00. Each no par value share grants one vote at the Annual General Meeting. The registered share capital is fully paid.

As of 31 December 2021, Telefónica Deutschland Holding AG did not hold any of its own shares.

In accordance with section 6 (2) of the articles of association, the shareholders do not have the right to securitise shares. Each no par value share grants one vote at the Annual General Meeting. The shares are freely transferable.

Authorised capital
The Annual General Meeting of 20 May 2021 resolved the cancellation of the existing authorised capital and the creation of new authorised capital (AUTHORISED CAPITAL 2021/I) in the amount of EUR 1,487,277,496.00, which is the amount Telefónica Deutschland Holding AG reported as of 31 December 2021.

Conditional capital
The share capital of Telefónica Deutschland Holding AG is conditionally increased by up to EUR 558,472,700 by issuing up to 558,472,700 new non-par value registered shares (Conditional Capital 2019/I). Conditional Capital 2019/I was resolved by resolution of the Annual General Meeting on 21 May 2019 – with Conditional Capital 2014/I being cancelled.

Additional paid-in capital
As a result of cash and non-cash capital increases in connection with the acquisition of the E-Plus Group, which were entered in the commercial register on 18 September and 7 October 2014,

additional paid-in capital increased in 2014 by EUR 3,929 million.

With the entry in the commercial register on 4 June 2018, the part of the tied capital reserve of EUR 4,535,097,828.00 was converted into a free capital reserve (section 272 (2) no. 4 HGB).

In the financial year, a withdrawal of EUR 583 million was made from the (free) additional paid-in capital to retained earnings. As of 31 December 2021, additional paid-in capital amounts to EUR 3,929 million (2020: EUR 4,512 million).

Retained earnings

In addition to the above mentioned reallocation from the additional paid-in capital, retained earnings primarily consist of accumulated results from previous years and actuarial adjustments to the pension provisions, which lead to the remeasurement of post-employment benefits, as well as income tax effects from these adjustments. Adjustments from the fair value measurement of trade receivables are offset by impairments. In total, this does not result in any material effects that would require separate recognition in retained earnings.

Retained earnings also contain a legal reserve in accordance with section 150 (2) of the German Stock Corporation Act (Aktiengesetz – AktG) of EUR 0.014 million (2020: EUR 0.014 million).

Dividend distribution in the financial year

On 20 May 2021, the virtual Annual General Meeting of Telefónica Deutschland resolved to distribute a dividend of EUR 0.18 for each no par value share for financial year 2020, in total around EUR 535 million. For this purpose, EUR 288 million were withdrawn from the (free) additional paid-in capital and transferred to retained earnings in 2020. The dividend was paid to shareholders by 26 May 2021.

Dividend distribution in the previous year

On 20 May 2020, the virtual Annual General Meeting of Telefónica Deutschland resolved to distribute a dividend of EUR 0.17 for each no par value share for financial year 2019, in total around EUR 506 million. The dividend was paid to shareholders by 26 May 2020.

5.11. Interest-bearing debt

	As of 31 December 2021		As of 31 December 2020	
(in EUR million)	**Non-current**	**Current**	Non-current	Current
Bonds	598	5	597	516
Promissory notes and registered bonds	396	5	721	5
Loans payable	633	79	258	194
Interest-bearing debt	**1,627**	**89**	**1,577**	**715**

For the maturity profile of the listed liabilities, please refer to >Note 16 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT< . Long-term interest-bearing debt with a remaining term greater than five years remains in the amount of EUR 407 million (2020: EUR 271 million).

Bonds

In February 2014, O2 Telefónica Deutschland Finanzierungs GmbH placed a bond with a nominal value of EUR 500 million. The bond was repaid at the end of the term on 10 February 2021 as scheduled. Another bond of the Telefónica Deutschland Group was issued on 5 July 2018 with a nominal value of EUR 600 million. The fixed interest rate is 1.75% and the bond matures on 5 July 2025. The senior unsecured seven-year bond was also issued by O2 Telefónica Deutschland Finanzierungs GmbH, Munich, and is guaranteed by Telefónica Deutschland Holding AG. The bond was used to refinance the bond due in November 2018, which has been meanwhile repaid, and for general business purposes. O2 Telefónica Deutschland Finanzierungs GmbH, Munich, has made the net proceeds of the bond issue available to Telefónica Germany GmbH & Co. OHG in the form of a loan.

The bond is recognised at amortised cost using the effective interest method.

Hedge accounting disclosures

An interest rate swap in the amount of EUR 150 million was concluded on part of the nominal value of the aforementioned bond of February 2014, which was recognised as a fair value hedge as of 31 December 2020. On 10 February 2021 this bond was repaid, and the hedge was ended. No additional interest rate hedges were concluded.

On the basis of this interest rate swap contract, the Telefónica Deutschland Group paid a variable interest rate based on the three-month Euribor on a nominal amount of EUR 150 million and received a fixed interest rate of 1.268% on the same amount in return. The relationship between the hedge instrument and the underlying transaction as well as the goal and strategy of the hedge were documented at the inception of each hedge. A specific allocation of the hedging instrument to the corresponding liability was made. The existing hedge was continuously monitored for effectiveness. The hypothetical derivative method was used to measure effectiveness. Since there was always an economic relationship between the underlying and hedging transactions (same term or same payment dates, same hedged nominal volume etc.), there was no significant ineffectiveness. The only driver of possible ineffectiveness was the credit risk adjustment of the derivatives. The following table summarises the parameters of the transaction.

(in EUR million)		Nominal amount	Maturity	Hedging interest	Carrying amount	Non-current balance sheet item	Current balance sheet item	Cumulative change in the value of hedging instruments for determining effectiveness
As of 31 December 2021	**Interest rate swap**	**N/A**	**10/2/2021 r.**	**3-month EURIBOR**	**N/A**	**N/A**	**N/A**	**N/A**
As of 31 December 2020	Interest rate swap	150	10/2/2021 r.	3-month EURIBOR	2	N/A	Other financial assets	0

The fair value of the swap, changes in its fair value and the amortisation of the fair value were recognised in the financial result.

The hedged nominal value of the financial liabilities amounted to EUR 150 million. This means that 14% of the company's bond portfolio was switched from fixed interest to variable interest. No material ineffectiveness was recognised in the 2021 financial year.

The adjustment of the carrying amount of the bonds was determined by discounting the contractual future cash flows at currently applicable interest rates with comparable conditions and residual terms. The following table summarises the carrying amount, adjustments to the carrying amount and changes in value of the bond.

(in EUR million)		Carrying amount	Non-current balance sheet item	Current balance sheet item	Cumulative change in the value of the hedged items for determining effectiveness	Accumulated amount of the adjustments of the underlying transaction (hedged item)
As of 31 December 2021	**Bond**	**N/A**	**N/A**	**Interest-bearing debt**	**N/A**	**N/A**
As of 31 December 2020	Bond	511	N/A	Interest-bearing debt	(0.31290)	(0.29352)

All factors that market participants would normally consider are included in the measurement of the fair value of the interest rate swaps, including the credit risks of the contract parties. The fair value of the interest swaps results from discounting the expected future payments over the remaining term of the contract using current market interest rates and yield curves.

Promissory notes/registered bonds

On 13 March 2015, the Telefónica Deutschland Group completed an initial placement of promissory notes and registered bonds with a volume of EUR 300 million.

The promissory notes placed with a volume of EUR 172 million have unsecured tranches with terms of five, eight and ten years, with both fixed and floating interest rates. The first tranche of EUR 113 million was repaid on schedule in March 2020. The variable-rate tranches of the promissory note loan in the amount of EUR 10.5 million were repaid ahead of schedule in September 2021. The average interest rate of the tranches with fixed interest rates is 1.38% p.a. The interest on the floating tranches is based on Euribor money market conditions plus an agreed margin.

The registered bonds placed have terms of 12, 15 and 17 years and a fixed interest rate. The tranches amount to EUR 3 million, EUR 33 million and EUR 92 million, respectively, and bear interest at 2.000%, 2.250% and 2.375%. All tranches were issued at par. The Telefonica Deutschland Group also placed promissory note loans in various tranches and a registered bond with a total volume of EUR 250 million in February 2018. The promissory note loans placed have tranches with terms of 1 year with fixed interest, which have already been repaid, as well as terms of 5 and 7 years with variable and fixed interest rates and a 10-year tranche with a fixed interest rate. The respective interest rates for the fixed tranches with terms of 1, 5, 7 and 10 years are 0.03%, 1.051%, 1.468% and 1.962% p.a., respectively. The registered bond has a term of 15 years and a fixed interest rate of 2.506% p.a. The interest on the floating tranches is based on Euribor money market conditions plus an agreed margin. All tranches were issued at par. The variable-rate tranches of the promissory note loan in the amount of EUR 103.5 million were repaid in September 2021.

On 25 April 2019, the Telefónica Deutschland Group placed additional promissory notes in various tranches with a total volume of EUR 360 million. These promissory notes have tranches with terms of five and seven years with floating and fixed interest rates, respectively, and a 10-year fixed-interest tranche. The interest rates for the fixed tranches with five, seven and 10 years are 0.893%, 1.293% and 1.786% p.a., respectively. The variable-rate tranches of the promissory note loan in the amount of EUR 211.5 million were repaid 25 October 2021. All tranches were issued at par.

Loans payable

The Group signed a EUR 750 million revolving credit facility (RCF) on 22 March 2016. This syndicated credit facility was terminated on 18 December 2019 and replaced by a new revolving syndicated credit facility in the same amount, with a maturity date of 17 December 2024 and two extension options through the end of 2026. The first extension option was exercised in 2020 and the term of the credit facility was extended to 17 December 2025. The second extension option was exercised in 2021 and the credit facility was extended to 17 December 2026. The RCF bears a variable interest rate at Euribor money market conditions plus an agreed margin. The margin is also linked, among other factors, to the development of an ESG sustainability rating of Telefónica Germany GmbH & Co. OHG. As of 31 December 2021, the credit facility had not been used.

In addition, as of 31 December 2021, there are unused bilateral revolving credit facilities with various banks in the amount of EUR 250 million.

On 13 June 2016, the Group signed a financing agreement with the European Investment Bank (EIB) to the value of EUR 450 million. As of 31 December 2021, the Telefónica Deutschland Group has fully drawn down this fixed-interest amortising loan in the form of two tranches. The funds provided by the EIB are due by December 2024 and May 2025 and are being repaid in equal instalments since December 2019 and May 2020, respectively. , Telefónica Deutschland Group has drawn down this amortizing loan with a fixed interest rate in the form of two tranches for the remaining amount of EUR 258 million.

Telefónica Germany GmbH & Co. OHG and the EIB also concluded additional loan agreements on 18 December 2019 for EUR 300 million and on 14 January 2020 for EUR 150 million. Both loans were fully drawn down as of 31 December 2021.

The EIB loan will also have a maturity of 8 years as of drawdown and will be repaid in equal instalments. For these financing transactions, the benchmark interest rate for the fixed-interest tranches is determined according to the principles defined by the bodies of the EIB for loans of the same type.

Overdraft lines of EUR 454 million remain in place as part of the cash pooling agreements between the Telefónica Deutschland Group and Telfisa Global B.V. As of 31 December 2021, the credit facility was not used.

Reconciliation of debt movements to cash flow from financing activities

(in EUR million)	As of 1 January 2021	**Cash flow from financing activities ***	**Additions/ Disposals**	**Adjustment of the carrying amount from fair value hedges**	**Other movements**	As of 31 December 2021
Bonds	1,113	(500)		–	(10)	603
Promissory notes and registered bonds	727	(326)		–	1	401
Loans payable	*452*	260		–	1	712
Interest-bearing debt	**2,292**	**(566)**		**–**	**(8)**	**1,717**
Lease liabilities	**2,841**	**(602)**	**1,084**	**–**	**7**	**3,330**
Payables – Spectrum	**1,196**	**(108)**	**–**	**–**	**10**	**1,097**

(in EUR million)	As of 1 January 2020	**Cash flow from financing activities ***	**Additions/ Disposals**	**Adjustment of the carrying amount from fair value hedges**	**Other movements**	As of 31 December 2020
Bonds	1,114	–		(2)	1	1,113
Promissory notes and registered bonds	839	(113)		–	(0)	727
Loans payable	*538*	(87)		–		452
Interest-bearing debt	**2,492**	**(199)**	**–**	**(2)**	**1**	**2,292**
Lease liabilities	**2,489**	**(547)**	**888**	**–**	**11**	**2,841**
Payables – Spectrum	**1,272**	**(87)**	**–**	**–**	**10**	**1,196**

* The related interest paid from interest-bearing debt and on lease liabilities is reported under Cash flow from operating activities and not included in the reconciliation.

5.12. Lease liabilities

	As of 31 December 2021		As of 31 December 2020	
(in EUR million)	**Non-current**	**Current**	Non-current	Current
Lease liabilities to third parties	2,781	548	1,429	405
Lease liabilities to related parties (>Note 13 RELATED PARTIES<)	–	–	897	110
Lease liabilities	**2,781**	**548**	**2,326**	**514**

As a result of the agreement between Telxius Telecom S.A. and American Tower International, Inc. concerning the sale of the Telxius Towers Division, which became effective on 1 June, the lease liabilities in place between Telefónica Deutschland Holding AG and the former Telxius are reported as "to third parties" from the date on which the sale became effective.

The increase in lease liabilities is due amongst other things to additions of lease liabilities amounting to EUR 496 million from the leasing of space on the transferred passive infrastructure for the installation and operation of active radio technology of ATC Germany Munich GmbH from 1 August 2021.

This was offset by the disposals of right-of-use assets from the transfer of lease agreements with third parties to Telxius in the amount of EUR 125 million due to of the second transaction step the sale of major parts of the business operations of the rooftop sites (>Note 7 DISPOSAL GROUPS<) .

The maturity analysis of lease liabilities according to IFRS 7 based on cash flows is as follows:

As of 31 December 2021

(in EUR million)	**Present value of future minimum lease payment obligations**	**Unamortised interest expense**	**Future minimum lease payment obligations**
Due within 1 year	548	11	538
Due between 1 and 5 years	1,689	20	1,669
Due in more than 5 years	1,092	8	1,084
Total	**3,330**	**39**	**3,291**

As of 31 December 2020

(in EUR million)	Present value of future minimum lease payment obligations	Unamortised interest expense	Future minimum lease payment obligations
Due within 1 year	514	12	503
Due between 1 and 5 years	1,452	31	1,421
Due in more than 5 years	874	10	864
Total	**2,841**	**53**	**2,788**

The amount of the lease liabilities is primarily influenced by the largely recurring payments during the term of the contract and the discount rate. In this respect, the assessment of if and when potential extension options will be exercised plays a significant role in the measurement of the lease liability.

When determining the incremental borrowing rate that may be used for discounting, various contributing factors such as term, subject matter of the contract and the economic environment are taken into account and are subject to certain discretionary decisions.

5.13. Trade and other payables and deferred income

	As of 31 December 2021		As of 31 December 2020	
(in EUR million)	**Non-current**	**Current**	Non-current	Current
Trade payables to third parties	–	1,642	–	1,358
Accruals	7	795	10	772
Payables to related parties (>Note 13 RELATED PARTIES<)	–	11	–	34
Trade payables	**7**	**2,448**	**10**	**2,163**
Other non-trade payables	–	245	–	223
Other payables to related parties (>Note 13 RELATED PARTIES<)	1	49	2	45
Miscellaneous payables	–	38	–	45
Other payables	**1**	**331**	**2**	**312**
Trade and other payables	**8**	**2,779**	**12**	**2,475**
Deferred income	**187**	**552**	**219**	**548**

Accruals relate mainly to outstanding invoices for goods and services and for non-current assets.
The other, non-trade payables mainly comprise liabilities from silent factoring and liabilities to personnel.
Miscellaneous payables mainly comprise debtors with credit balances.
For the maturity profile of the listed liabilities, please refer to the disclosures in >Note 16 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT< .
Deferred income primarily contains contract liabilities from customer payments already made on prepaid credit and other advance payments received for future services. Deferred income also includes the contract liability relating to payments that were made by customers before the contractual services have been fully performed.

Furthermore, deferred income includes the obligation arising from customer payments received in connection with the agreement with a Mobile Virtual Network Operator (MVNO). This obligation also constitutes a contract liability.

Contract liabilities are broken down by maturity according to their expected utilisation. Contract liabilities arising from advance payments received for prepaid credits are classified exclusively as current.

5.14 Payables - Spectrum

	As of 31 December 2021		As of 31 December 2020	
(in EUR million)	**Non-current**	**Current**	Non-current	Current
Payables - Spectrum	**990**	**107**	**1,089**	**107**

In financial year 2019, payment obligations in the amount of EUR 1,425 million were incurred in connection with the acquisition of 5G mobile frequency licences. On the basis of the Agreement for the Implementation of the Mobile Communications Summit 2018 concluded with the representatives of the Federal Republic of Germany, it was agreed that the payment obligations from the 2019 frequency auction are deferred until the respective commencement of the frequency allocation periods and paid in annual instalments until 2030, beginning in 2019, instead of one-time payments.

After discounting and taking into account the instalments of EUR 282 million already paid by the end of 2021 (2020: EUR 174 million), the carrying amount of the liabilities as of 31 December 2021 is EUR 1,097 million (31 December 2020: EUR 1,196 million). Under IAS 20.24, the interest advantage was deducted from the investments already made in expansion to reduce acquisition costs. Postponing the payment commencement dates and payment in instalments provided the framework for additional investments in network expansion, which the Group has undertaken to assume.

Non-current payables with a remaining term of more than five years amount to EUR 568 million (2020: EUR 710 million).

5.15. Provisions

	As of 31 December 2021		As of 31 December 2020	
(in EUR million)	**Non-current**	**Current**	Non-current	Current
Pension obligations	230	–	261	–
Restructuring	10	23	9	27
Asset retirement obligations	379	17	480	24
Other provisions	28	26	34	16
Provisions	**647**	**66**	**784**	**66**

Pension obligations

The Telefónica Deutschland Group has defined benefit plans. These primarily include defined benefit rights against an external provident fund (Gruppen-Unterstützungskasse), which is managed in accordance with its articles of association, and direct commitments.

The overriding investment policy and strategy for the defined benefit plans are based on the goal of generating returns from the plan assets as well as from the reimbursement rights deriving from insurance policies which, together with the contributions, are sufficient to meet the pension obligations.

The plan assets are invested in reinsurance policies that are taken out directly by the Telefónica Deutschland Group or indirectly by the provident fund. The reimbursement rights from insurance policies result from those reinsurance policies, which were not pledged to the employees.

The requirements for the financing of pension obligations arise from the financing strategy of the provident fund and are anchored in its guidelines. The guidelines define that the expected defined benefit obligation will be settled by the provident fund. They are fully financed by the Telefónica Deutschland Group. The Telefónica Deutschland Group provides the provident fund with the necessary financial resources.

However, under its articles of association, the fund must cease or reduce its payments if the company does not make, or no longer makes, the necessary financial resources available to the fund. In this case, the employees can assert their legal right to post-employment benefits against the Telefónica Deutschland Group.

The amount of the committed benefits for the defined benefit pension plans essentially depends on the basic salary of the individual employee during the period of employment. The benefits paid include old age pensions, payments for the inability to work and benefits in the event of death to surviving dependants.

In order to minimise the biometric risks of the committed benefits (such as an early benefits claim through invalidity or death of the beneficiary), the pension or promised retirement capital is covered to the full extent (congruent) or in part by reinsurance policies. In addition, the pledging of the reinsurance policies to the pension beneficiary acts as security for the claims of the beneficiary in the event of the insolvency of the sponsoring company.

This defined benefit plan is subject to actuarial and financial risks such as life expectancy and interest rate risk as well as inflation risk. In addition, all reinsurance policies are essentially concluded with an insurance company.

In financial year 2021, the employer's contribution to the statutory pension insurance amounts to EUR 37 million (2020: EUR 38 million).

Telefónica Deutschland Group concludes additional defined contribution plans. The contribution recorded for the defined contribution plan amounts to EUR 2 million (2020: EUR 2 million).

The following table contains the key data for the defined benefit plans:

(in EUR million)	**As of 31 December 2021**	As of 31 December 2020
Present value of defined benefit obligation from funded plans	(150)	(158)
Present value of defined benefit obligation from unfunded plans	(172)	(192)
Present value of the defined benefit obligation	**(322)**	**(350)**
Fair value of plan assets	99	95
Surplus	**8**	**7**
Pension provisions	**(230)**	**(261)**
Reimbursement rights from insurance contracts	**81**	**69**

The development of the present value of the defined benefit obligations in and was as follows:

(in EUR million)	**2021**	2020
Present value of the defined benefit obligation as of 1 January	**(350)**	**(304)**
Current service costs (personnel expenses)	(10)	(10)
Interest expense (financial result)	**(2)**	**(3)**
Remeasurement of the present value of the defined benefit obligation	**36**	**(37)**
thereof: adjustments for demographic assumptions	**–**	**–**
thereof: actuarial gains/(losses) arising from changes in financial assumptions	**37**	**(31)**
thereof: experience-based adjustments	**(1)**	**(6)**
Benefits paid	4	4
Other	**4**	**–**
Present value of the defined benefit obligation as of 31 December	**(322)**	**(350)**

The development of the present value of plan assets in financial years 2021 and 2020 was as follows:

(in EUR million)	**2021**	2020
Fair value of plan assets as of 1 January	**95**	**93**
Return on plan assets excluding amounts included in interest income/(expense)	3	1
Interest income (financial result)	–	1
Employer contributions	2	3
Benefits paid	(2)	(2)
Other	1	0
Fair value of plan assets as of 31 December	**99**	**95**

The fair value of the reimbursement rights from insurance contracts developed in and as follows:

(in EUR million)	**2021**	2020
Fair value of reimbursement rights from insurance contracts as of 1 January	**69**	**68**
Return on reimbursement rights excluding amounts included in interest income/(expense)	4	(5)
Interest income (financial result)	0	1
Employer contributions	9	6
Benefits paid	(1)	(0)
Other	(1)	(0)
Fair Value of reimbursement rights from insurance contracts as of 31 December	**81**	**69**

The amounts recognised under 'Other' for plan assets and for reimbursement rights are a result of the ban on setoffs of reimbursement rights that have not been pledged against plan assets.

In 2021, as in the previous year, there was no asset ceiling. A surplus cover of EUR 8 million results (2020: EUR million), which is reported under other financial assets.

The main actuarial assumptions on which the determination of the present value of the defined benefit obligation as of the reporting date is based are provided in the following table (factors represent averages).

(in EUR million)	**2021**	2020
Discount rate	1,02%	0,51%
Nominal rate of pension payment increase	1,00%/1,75%	1,00% / 1,75%
Fluctuation rate	6,1%	6,2%
Wage and salary trends	2.25%	2.25%

To determine the interest rate for the defined benefit pension plans, the "bond universe" is first established on the basis of the AA corporate bonds available on the reporting date. On the basis of these bonds a yield curve is calculated. Then a uniform average interest rate is calculated with a cash flow that corresponds to the duration of the Telefónica Deutschland Group's portfolio. This latter interest rate is the actuarial discount rate used.

The determination of the expected increase in pensions is aligned with the long-term inflation expectations in the euro area.

The mortality tables on which the actuarial calculation of the DBO as of the balance sheet dates is based for 2020 and for 2021 are the Heubeck 2018G mortality tables.

(in years)	**2021**	2020
Life expectancy at age 65 for a retiree currently	22	22
Life expectancy of a currently aged 40 deferred member at age 65	25	25

An increase or decrease in the main actuarial assumptions would have had the following effects on the present value of the defined benefit obligations as of 31 December 2021:

(in EUR million)	Increase in parameters	Decrease in parameters
Discount rate (+0.25%/-0.25%)	(17)	18
Pension change (+0.50%/-0.50%)	14	(13)
Turnover rate (+1.00%/-1.00%)	–	–
Life expectancy (+1 year)	12	–

Increases and reductions in the discount rate and increases to pension payments do not have the same impact on the determination of the DBO due to the interest rate effects. If several assumptions are changed at the same time, the overall effect will not necessarily correspond to the sum of the individual effects due to the changes in the assumptions. In addition, the sensitivity of a change in the DBO only reflects each specific order of magnitude in the change of assumptions (for example 0.25%).

If the assumptions change by a different order of magnitude, the effect on the DBO does not necessarily have to be linear.

The following table contains information regarding the analysis of the due date of expected payments:

(in EUR million)	**1 January to 31 December 2021**	1 January to 31 December 2020
Benefits expected to be paid within year 1	4	3
Benefits expected to be paid within year 2	4	4
Benefits expected to be paid within year 3	4	4
Benefits expected to be paid within year 4	5	5
Benefits expected to be paid within year 5	5	5
Benefits expected to be paid within 6 to 10 years	39	35

The average expected term of the defined benefit obligations is 21.7 years in financial year 2021 (2020: 21.2 years).

The best estimate of the contributions paid into the plans in the financial year ending 31 December 2021 is EUR 10 million (2020: EUR 10 million).

Other provisions

(in EUR million)	Restructuring	Asset retirement obligations	Others	Total
As of 1 January 2021	**36**	**503**	**50**	**589**
Additions	7	13	11	32
Utilisation	(9)	(21)	(6)	(36)
Release	(1)	(54)	(1)	(56)
Derecognition	–	(46)	0	(46)
As of 31 December 2021	**33**	**396**	**54**	**483**
thereof: non-current	10	379	28	417
thereof: current	23	17	26	66

The provisions for restructuring as of 31 December 2021 primarily relate to obligations from severance agreements.

As in the previous year, these additions are recognised in personnel expenses and other expenses (for further information see >Note 6.3 PERSONNEL EXPENSES< and >6.4 OTHER EXPENSES<).

The provisions for asset retirement obligations include the calculated costs for the dismantling and removal of assets (e.g. active and passive mobile equipment such as operating facilities and technology). Since neither the costs for the future dismantling nor the future payment date have been determined at the time the contract is concluded, these parameters are estimated. The estimate is largely based on contracts with service providers.

Additions of EUR 13 million are mainly attributable to cost adjustments. The release of EUR 54 million mainly relates to the effects of interest rate adjustments.

The derecognition of the asset retirement obligations in the amount of EUR 46 million chiefly results from the transfer of the passive infrastructure as well as the associated asset retirement obligations in connection with the second transaction step of the sale of major parts of the business operations of the rooftop sites to Telxius (>Note 7 DISPOSAL GROUPS<).

Decisions on the recognition and valuation of provisions generally involve a high degree of discretion. The amount of the provision is determined based on the best estimate of the outflow of resources required to settle the obligation, bearing in mind all available information at the reporting date, including the opinions of independent experts such as legal counsel or consultants. In addition, assumptions are made about the probabilities of future outflows of resources.

In principle, this also applies to employee termination benefits. If employees are offered voluntary severance, the benefits are measured on the basis of the number of employees expected to accept the offer. These benefits are recognised at the amount of the obligation regardless of its term.

The amount for termination benefits is determined on the basis of various assumptions, which also require judgements and estimates and can therefore entail uncertainties. These primarily include the assumed salary, length of employment and gardening leave period until the date of departure.

6. Selected Explanatory Notes to the Consolidated Income Statement

The COVID-19 pandemic continued to have a strongly negative impact on the global economy in the financial year 2021. Due to restrictions imposed by the German government, the Telefónica Deutschland Group was not entirely immune to the repercussions of COVID-19. In particular, ongoing worldwide travel restrictions led to a continuing reduction in roaming revenues and lower demand for prepaid services. The closure of O_2 shops throughout Germany between January and May resulted in weaker new customer acquisition. Overall, however, the business model has proved its resilience.

Since the beginning of the pandemic, the management team has continuously been monitoring and analysing the development of the COVID-19 related restrictions and their impact on the Telefónica Deutschland Group.

Against the backdrop of COVID-19 and a potentially elevated risk of default, the Telefónica Deutschland Group stepped up its risk monitoring activities. However, no material changes were identified in bad debts and in our assessment of the default risk.

The impact of the COVID-19 pandemic on the 2021 financial figures of the Telefónica Deutschland Group are largely in line with the expectations stated in the outlook provided in the 2020 Annual Report and the interim restatements published during the year.

6.1. Revenues

1 January to 31 December

(in EUR million)	**2021**	2020
Rendering of services	6,306	6,092
Other revenues	1,460	1,440
Revenues	**7,765**	**7,532**

Revenues from the rendering of services include mobile service revenues as well as revenues from fixed line/DSL business. Other revenues include hardware revenues and miscellaneous other revenues.

None of the Telefónica Deutschland Group's customers accounts for more than 10% of total revenues.

The breakdown of revenues according to mobile business and fixed line/DSL business is shown in the following table:

1 January to 31 December

(in EUR million)	**2021**	2020
Mobile business revenues	6,942	6,730
Mobile service revenues	5,492	5,307
Hardware revenues	1,450	1,423
Fixed line/DSL business revenues	814	785
Other revenues	10	17
Revenues	**7,765**	**7,532**

Mobile service revenues

The mobile service revenues are largely based on basic fees and the fees levied for voice (including incoming and outgoing calls), messaging (including SMS and MMS) and mobile data services as well as service contracts. Alongside roaming revenues, mobile service revenues include access and interconnection fees that are paid for by other service providers for calls and SMS messages delivered via our network. In addition, one-time connection charges are included insofar as these have been allocated to mobile communications services.

Hardware revenues

Hardware revenues include the income from the sale of mobile phones as part of the "O_2 My Handy" model, and revenue from cash sales. Also included are revenues from the sale of mobile devices to distributors and partners and from the sale of accessories.

With the "O_2 My Handy" model, the customer can choose whether to pay the entire price of the mobile phone up front or to make an initial payment to start with and pay the remaining purchase price in 6, 12, 24, 36 or 48 monthly instalments.

Fixed line/DSL business revenues

Fixed line/DSL business revenues comprise mainly revenues from DSL services for private customers, DSL activation fees for private customers, revenues from DSL mobile devices and non-recurring items (e.g. fees for change of address, number transfers etc.), data traffic revenues from telecommunications service providers in connection with the sale and trade of minutes between telecommunications service providers to connect their customer calls via the networks of other operators.

Other revenues

Other revenues relate to income from operating leases, new business, such as advertising and financial services, and revenues earned by doing business with the associate company UGG (Unsere Grüne Glasfaser).

Contract assets and Contract liabilities from customer contracts

(in EUR million)	31 December 2021	31 December 2020
Contract asset	19	22
Contract liabilities	653	654

(in EUR million)	2021	2020
Amounts recognised in contract liabilities at the beginning of the period that resulted in revenue in the reporting period.	513	460

The Telefónica Deutschland Group receives payments from customers on the basis of a billing schedule which is part of the individual contracts. The contract asset refers to the entitlement to consideration for the performance of the contractual services to be rendered. The contract asset contains contracts for which Telefónica Deutschland Group satisfied its performance obligations by transferring mobile devices and performing mobile services or fixed line/DSL services before consideration was paid or became due. Amounts already reported as receivables are not taken into account in the recognition of the contract asset.

Receivables are recognised when the right to receive the consideration becomes unconditional, as the payment due date is dependent only on the course of time.
The contract liability relates to payments received prematurely, i.e. before the contractual services have been fully performed. Contract liabilities are recognised as revenue as soon as (or when) the Telefónica Deutschland Group provides the contractual services.
The changes in the contract assets or contract liabilities mainly result from the (not yet effected) satisfaction of the respective performance obligations.

Future revenues from (partially) unsatisfied performance obligations

As of 31 December

(in EUR million)	2021		2020	
	Of which expected to be fulfilled in ≤ 12 months	**Of which expected to be fulfilled in > 12 months**	Of which expected to be fulfilled in ≤ 12 months	Of which expected to be fulfilled in > 12 months
Total amount of performance obligations contracted but not yet (fully) satisfied as of 31 December	1,138	318	1,099	293

Within the scope of the disclosures according to IFRS 15.120, the practical expedient in accordance with IFRS 15.121 was applied. In this context, performance obligations resulting from contracts with a maximum contract term of one year and performance obligations for which revenues were realised corresponding to the invoicing were not taken into account. Accordingly, the portion of the transaction price allocated to these partially unsatisfied performance obligations is not included in the disclosure.

The recognition of revenues is based on assumptions and estimates that can have a significant influence on the amount and timing of revenues:

Determining the stand-alone selling price of the performance obligation mobile service tariff postpaid:
Every mobile service tariff postpaid is classified as a distinct performance obligation as part of the identification of the distinct performance obligations in the five-step model of IFRS 15. To determine the stand-alone selling price of this performance obligation, the transaction price specified on the invoice is used first. Taking into account the average discounts granted to customers of the Telefónica Deutschland Group, this transaction price is then reduced by a lump sum rate in the second step. The reduced transaction price corresponds to the stand-alone selling price of the above-mentioned performance obligation.

Determination of the average term of the lease:
The Telefónica Deutschland Group offers customers the option of concluding contracts with a fixed minimum term. When concluding such a term contract, both the Telefónica Deutschland Group and the customer are initially bound by the respective contract term. However, the Telefónica Deutschland Group grants the customer the right to extend the contract prematurely. The contract extensions regularly exercised by customers within this framework lead to an overall reduction in the enforceable minimum contract term.

In the portfolio approach, the term is calculated on the basis of historical values and is taken into account accordingly when determining the transaction price.

Potential changes in estimates could lead to changes in both the amount and timing of future recognition of revenues.

6.2. Other income

1 January to 31 December

(in EUR million)	**2021**	2020
Own work capitalised	107	106
Net gain on disposal of assets	262	414
Others	33	22
Other income	**402**	**542**

Other income in the reporting period includes the net gain on disposal of EUR 262 million from the second transaction step of the contractually agreed sale of major parts of the business operations of the rooftop sites to Telxius (>Note 7 DISPOSAL GROUPS<) .

Own work capitalised represents the capitalisation costs for own employees in CapEx projects. In the financial year, 74% (previous year: 75%) of the capitalised own work relate to network expansion projects, and the remaining 26% (previous year: 25%) to IT projects.

As in the previous year, the item Others mainly includes claims for damages and penalties.

6.3. Personnel expenses

In the 2021 financial year, personnel expenses totalled EUR 585 million (2020: EUR 611 million). Thereof, EUR 495 million (2020: EUR 519 million) related to wages and salaries, social security EUR 78 million (2020: EUR 79 million) and EUR 12 million (2020: EUR 13 million) to pensions. Personnel expenses from share-based payments are presented in >Note 14 SHARE-BASED PAYMENTS< ; personnel expenses relating to pension plans are presented in >Note 5.15 PROVISIONS< .

In addition, restructuring expenses of EUR 8 million (2020: EUR 28 million) were recognised in personnel expenses. (>Note 5.15 PROVISIONS<) .

6.4. Other expenses

1 January to 31 December

(in EUR million)	**2021**	2020
Other third-party services	2,069	1,965
Other operating expenses	81	63
Allowance for current assets	8	9
Advertising	295	240
Other expenses	**2,454**	**2,276**

Other third-party services mainly include commissions, expenses for external services to maintain ongoing business operations and fees for consulting services, repair and maintenance expenses, as well as expenses for operating equipment.

Other expenses included restructuring expenses of EUR 8 million as of 31 December 2021 (2020: EUR 10 million) (>Note 5.15 PROVISIONS<) .

6.5. Depreciation and amortisation

1 January to 31 December

(in EUR million)	**2021**	2020
Amortisation of intangible assets	849	1,017
Depreciation of property, plant and equipment	948	827
Depreciation of right-of-use assets	585	525
Depreciation and amortisation	**2,382**	**2,369**

6.6. Financial result

1 January to 31 December

(in EUR million)	**2021**	2020
Interest expense/income from financial assets	3	(2)
Interest expenses on lease liabilities	(26)	(14)
Interest expenses from financial liabilities	(35)	(46)
Interest component from measurement of provisions and other liabilities	(4)	(5)
Other exchange (losses)/gains	(0)	0
Financial result	**(62)**	**(66)**

Interest expenses from financial liabilities primarily comprise the interest for the bond issued in July 2018, on the promissory notes and registered bonds issued in March 2015, February 2018 and April 2019, and on the financing agreements with the European Investment Bank (EIB) signed on 13 June 2016, 18 December 2019 and 14 January 2020, and on the spectrum liabilities.

6.7. Income tax

Consolidated income tax group

As of 31 December 2021, the consolidated income tax group of the Telefónica Deutschland Group comprised 13 (2020: 15) companies. A full tax rate of 32% (previous year 32%) is used as the Group tax rate in the deferred and current tax calculation, which consists of the corporate income tax rate and solidarity surcharge of 15.825% (previous year 15.825%) and the weighted trade tax rate of 16.175% (previous year 16.175%).

After proportionate offsetting against tax losses carried forward, the Telefónica Deutschland Group again posted positive taxable income in 2021. Tax liabilities consequently increased to EUR 93 million in 2021. Taxable income is significantly affected by the second transaction step of the sale of major parts of the business operations of the rooftop sites. In the course of the spin-off, hidden reserves were realised for tax purposes and were subject to tax as regular taxable income within the scope of minimum taxation (taxation taking into account the pro-rata loss carryforward).

Current and deferred taxes

1 January to 31 December

(in EUR million)	**2021**	2020
Current tax expense	(79)	(15)
Deferred tax income/(expense)	84	95
Income tax	**5**	**80**

The movements in deferred tax assets are as follows:

(in EUR million)	**2021**	2020
As of 1 January	**108**	**–**
Deferred tax income/(expense)	84	95
Amount of deferred taxes recognised directly in equity as shown in the Consolidated Statement of Comprehensive Income or in Other comprehensive income	(14)	13
As of 31 December	**178**	**108**

Tax income of EUR 5 million reported in the 2021 financial year includes current tax expense of EUR 79 million for income tax liabilities recognised and, offsetting this, tax income of EUR 84 million from changes in deferred taxes. In addition to other effects, the deferred tax income reported in profit or loss includes primary the reversal of deferred tax liabilities due to the disclosure of silent tax reserves as a result of the transfer of assets and liabilities as part of the second step of the spin off of additional major parts of the business operations of the rooftop sites from Telefónica Germany GmbH & Co. OHG to Telefónica Germany Zweite Mobilfunk Standortgesellschaft mbH, which had been contractually agreed, as well as the additional capitalisation of deferred tax assets on tax loss carryforwards. This was offset by the decrease in deferred tax assets due to the aforementioned reversal of deferred tax liabilities that served as a source of value at the level of Telefónica Germany GmbH & Co. OHG, and the utilisation of tax loss carry forwards. In the previous year, there was a current tax expense of EUR 15 million and income from deferred taxes of EUR 95 million.

The tax effects from the second transaction step as part of the sale of major parts of the business operations of the rooftop sites were not attributable to the disposal group, as the tax effects were already realised in Telefónica Germany GmbH & Co. OHG and its shareholders as part of the spin-off in the run-up to the sale.

Tax loss carried forward and temporary differences

The tax losses carried forward for which no deferred tax assets are recognised as of 31 December 2021 amount to EUR 13,927 million for corporate tax and EUR 13,340 million for trade tax (2020: EUR 14,145 million and EUR 13,618 million).

The total deferred tax assets and liabilities amount to EUR 178 million (2020: EUR 108 million).

The breakdown of deferred tax assets and deferred tax liabilities from temporary differences and tax losses carried forward is as follows:

	As of 31 December 2021		As of 31 December 2020	
(in EUR million)	**Deferred tax assets**	**Deferred tax liabilities**	**Deferred tax assets**	**Deferred tax liabilities**
Goodwill and other intangible assets	118	(250)	112	(342)
Tangible assets	–	(107)	–	(151)
Right-of-use assets	–	(1,071)	–	(913)
Non-current amortisable costs of obtaining a contract	–	(41)	–	(37)
Other non-current financial assets	0	(32)	1	(28)
Current amortisable costs of obtaining a contract	–	(116)	–	(116)
Other current financial assets	–	(2)	–	(2)
Trade and other receivables	32	(6)	26	(12)
Financial liabilities, trade and other payables	3	(15)	2	(18)
Provisions including pension provisions	164	–	213	(6)
Non-current lease liabilities	890	–	744	–
Other non-current financial liabilities	–	(1)	4	–
Current lease liabilities	178	–	164	–
Other current financial liabilities	–	(0)	–	(7)
Tax losses carried forward	433	–	473	–
Deferred tax assets/(liabilities) gross	**1,819**	**(1,641)**	**1,740**	**(1,632)**
thereof: non-current	1,641	(1,522)	1,575	(1,508)
thereof: current	178	(119)	164	(124)
Offsetting	(1,386)	1,386	(1,266)	1,266
Deferred tax assets/(liabilities) after netting according to Consolidated Statement of Financial Position	**433**	**(255)**	**473**	**(365)**
Total deferred tax assets/(liabilities)	178	–	108	–

Taxable temporary differences recognised in previous years as part of the spin-off in anticipation of the second transaction step of the sale of parts of the business operations of the rooftop sites, whose carrying amounts were mainly recognised in non-current assets, had been realised as part of the sale.

The Telefónica Deutschland Group assesses the recoverability of deferred tax assets based on estimates of future results. The ability to recover these taxes depends ultimately on the Telefónica Deutschland Group's ability to generate taxable income over the period for which the deferred tax assets remain deductible. This analysis is based on the estimated schedule for reversing deferred tax liabilities, as well as estimates of the taxable income, which are based on internal projections and updated to reflect the latest trends and estimates. In the past, a time horizon of five to seven years was used for the recoverability of deferred tax assets. Currently, tax planning is based on a seven-year period.

The recognition of tax assets and liabilities depends on a series of factors, including estimates with respect to timing and the realisation of deferred tax assets and the projected tax payment schedule. Actual income tax receipts and payments of the Telefónica Deutschland Group could differ from the estimates made by the Telefónica Deutschland Group as a result of changes in tax legislation or unforeseen transactions that could affect the tax balance.

Reconciliation of earnings before tax to income tax expense recognised

1 January to 31 December

(in EUR million)	**2021**	2020
Profit/(loss) before tax	**205**	**248**
Tax expense at prevailing statutory rate (32%)	(66)	(79)
Use of tax losses carried forward for previously unrecognised deferred taxes	79	22
Non-deductible expenses	(18)	(13)
Change in unrecognised temporary differences and tax losses carried forward	7	150
Other	3	0
Income tax	**5**	**80**
Current tax income/(expense)	(79)	(15)
Deferred tax income/(expense)	84	95
Income tax	**5**	**80**
Effective overall tax rate	-2%	-32%

Taxable income is significantly affected by the second transaction step as part of the spin-off and the sale of major parts of the business operations of the rooftop sites. In the course of the spin-off, hidden reserves were realised for tax purposes and were subject to tax as regular taxable income within the scope of minimum taxation.

7. Disposal Groups

In the financial year 2021, two sales transactions were carried out in the Telefónica Deutschland Group:

Sale of major parts of the business operations of the rooftop sites

In the 2020 financial year, the Telefónica Deutschland Group signed a comprehensive conglomerate of agreements with Telxius Telecom, S.A. ("Telxius"), an affiliated company of the Telefónica, S.A. Group, for the sale of major parts of the business operations of the rooftop sites.

This includes the spin-off and sale of a large part of its passive infrastructure on 10,113 mobile communications sites, consisting of 10,037 rooftop sites and 76 tower sites, including the related lease agreements, associated assets and liabilities, know-how and other legal arrangements, at a nominal purchase price of EUR 1.5 billion. Due to the transfer of significant processes, this is the sale of a business within the meaning of IFRS 3. The sale of the business was recorded using IFRS 10.

The active radio technology at the transferred stations remains the property of the Telefónica Deutschland Group and will continue to be used by the company, unchanged, for operation of the mobile communications network.

The transaction took place in two steps: on 19 August 2020, around 60% of the sites (5,975 rooftop sites and 58 tower sites) were spun off to Telefónica Germany Mobilfunk Standortgesellschaft mbH ("TGMS"), a company newly established in the first half of 2020. The shares in this company were transferred to Telxius on 1 September 2020. TGMS was then renamed Telxius Towers Erste GmbH. In December 2020, this company was merged into Telxius Towers Germany GmbH ("Telxius Germany").

With effect from 1 June 2021, ATC Germany Holdings GmbH has acquired all the shares in Telxius Germany; as a result, the latter was renamed ATC Germany Munich GmbH.

On 22 July 2021, a further approximately 40% of the sites (4,062 rooftop sites and 18 tower sites) were spun off to Telefónica Germany Zweite Mobilfunk Standortgesellschaft mbH ("TGZMS"), a company that was established in financial year 2020. The shares in this company were also transferred to Telxius with effect from 1 August 2021 (>Note 7 DISPOSAL GROUPS<) . Telxius then transferred all the shares in TGZMS to ATC Germany Holdings GmbH and the company was renamed ATC Germany Munich Zweite GmbH. ATC Germany Munich Zweite GmbH was merged into ATC Germany Munich GmbH with effect from 19 November 2021.

With the specific selection of the individual transmission sites that took place in June 2021, the associated assets and liabilities were identified individually. During the year, until the sale on

August 1, 2021, the assets and liabilities to be transferred were presented as "held for sale" in accordance with IFRS 5.

The purchase price receivable including purchase price allocation from the second transaction step amounts to EUR 632 million. The amount of EUR 519 million was already paid within the reporting period. The remaining purchase price receivable of EUR 113 million is due for payment in 2022 with a share of EUR 16 million. A further EUR 97 million will be due for payment in 2025.

The second transaction step in the sale of major parts of the business operations of the rooftop sites to Telxius had the following effects on the net assets and financial position of the Telefónica Deutschland Group in the reporting period:

(in EUR million)	As of 31 December 2021	As of 31 December 2020
Goodwill	(256)	(347)
Property, plant and equipment	(126)	(203)
Right-of-use assets	(133)	(189)
Other non-financial assets	(3)	(1)
Lease liabilities	125	180
Provisions	46	75
Deferred income	1	–
Net amount from assets and liabilities	**(346)**	**(486)**
Receivables from TGZMS	0	0
Liabilities to TGZMS	(16)	(34)
Purchase price receivable from Telxius Telecom, S.A.	113	179
Transaction costs	(8)	(20)
Effect on net assets without cash	**(257)**	**(360)**
Remuneration received in cash	519	766
Cash and cash equivalents disposed of	(0)	(0)
Net inflow of cash and cash equivalents	**519**	**766**
Net gain on disposal (before tax)	**262**	**407**

The disposal of the pro rata goodwill is related to the second transaction step. For the calculation of the proportional goodwill, an approach was selected that is based on the relative ratio of notional goodwill for the sold part of the business operations of the rooftop sites of the Telefónica Deutschland Group.

With the transfer of the TGZMS to Telxius, the Telefónica Deutschland Group will lease areas of the transferred passive infrastructure from ATC Germany Munich Zweite GmbH for the installation and operation of its active radio technology.

Furthermore, the processing and charging of services between Telefónica Germany GmbH & Co. OHG and TGZMS was agreed for a transitional phase.

Sale of two customer service companies

The company TGCS Essen & Potsdam GmbH consisted of one operational site in Essen and one in Potsdam. The operational site in Potsdam was spun off to TFS Potsdam GmbH with retroactive effect from 1 January 2021. Subsequently, TGCS Essen & Potsdam GmbH and TGCS Berlin GmbH were sold to an external buyer – Transcom Worldwide GmbH – with the sale, the Telefónica Deutschland Group has reduced the number of its own call centres from seven to five. Approximately 600 employees transferred to the buyer as a result of the transaction.

The disposal of the two entities has the following effects on the net assets and financial position:

(in EUR million)	As of 31 December 2021
Trade and other receivables	**(0)**
Cash and cash equivalents	(8)
Deferred income	(0)
Provisions	0
Trade and other payables	2
Net amount from sold assets and liabilities	**(6)**
Receivables from TGCS Berlin	0
Receivables from TGCS Essen & Potsdam	2
Purchase price liability to buyer	(4)
Effect on net assets	**(9)**
Remuneration paid in cash	(2)
Cash and cash equivalents disposed of	(8)
Net outflow of cash and cash equivalents	**(11)**
Net loss on disposal (before tax)	**(9)**

8. Earnings per Share

Basic earnings per share are calculated by dividing the profit for the year after tax attributable to the ordinary shareholders of the parent company by the weighted average number of ordinary shares outstanding during the reporting period.

Diluted earnings per share are calculated by adjusting the profit after tax attributable to the ordinary shareholders of the parent company and the weighted average number of ordinary shares outstanding in the reporting period for the effects of any dilutive effects inherent in converting potential ordinary shares.

Both basic as well as diluted earnings per share attributable to the ordinary shareholders of the parent company are calculated based on the following data in accordance with IAS 33.

1 January to 31 December

(in EUR million)	2021	2020
Total profit/(loss) attributable to equity holders of the parent for basic = diluted earnings	211	328
Weighted average number of ordinary shares issued (in million units)	2,975	2.975
Earnings per share in EUR (basic = diluted)	**0.07**	**0.11**

In addition, the share capital of Telefónica Deutschland Holding AG is conditionally increased (see >Note 5.10 EQUITY<). Shares from the conditional capital of a stock corporation are not part of the calculation of the earnings per share as they can be conditionally issued.

9. Further Information on Financial Assets and Financial Liabilities

In the following tables, the fair values of all financial assets and financial liabilities of the Telefónica Deutschland Group are disclosed in accordance with the measurement categories as determined by IFRS 9 with regard to the requirements of IFRS 13.

As of 31 December 2021, the carrying amount of current financial assets and financial liabilities represents an appropriate approximation of fair value.

In addition, the tables show the categorisation of the financial assets and financial liabilities in accordance with the importance of the input factors that were used for their respective measurement. The review is performed successively from level to level. The first stage is given priority and the subsequent stages are only used for evaluation if the requirements for the input factors of the first stage could not be fulfilled. For this purpose, three levels or measurement hierarchies are defined:

— **Level 1:** Input factors at this level are quoted (unadjusted) prices for identical assets or liabilities in active markets accessible to the entity at the measurement date.

— **Level 2:** Second level input factors are market prices other than those quoted at level one that are observable either directly or indirectly for the asset or liability.

— **Level 3:** Input factors that are not observable for the asset or liability.

As of 31 December 2021
Financial assets
Measurement hierarchy

(in EUR million)	Hedging relationships (no measurement category according to the meaning of IFRS 9)	Financial assets measured at fair value through profit or loss	Financial assets measured at fair value through other comprehensive income	Financial assets measured at amortised cost	Not in the scope of IFRS 7	Total carrying amount	Level 1 (Quoted prices)	Level 2 (Significant other observable input parameters)	Level 3 (Significant unobservable input parameters)	Total fair value
Non-current trade and other receivables (Note 5.5)	–	–	269	–	–	269	–	269	–	269
Other non-current financial assets (Note 5.6)	–	3	–	286	108	396	–	304	3	306
thereof: investments in start-ups	–	*3*	–	–	–	*3*	–	–	*3*	*3*
thereof: net investment in the lease	–	–	–	–	*14*	*14*	–	*14*	–	*14*
thereof: other	–	–	–	*286*	*94*	*380*	–	*290*	–	*290*
Current trade and other receivables (Note 5.5)	–	–	785	579	133	1,498	–	785	–	n.a. (*)
Other current financial assets (Note 5.6)	–	0	–	63	6	70	0	–	–	n.a. (*)
thereof: investments in start-ups	–	*0*	–	–	–	*0*	*0*	–	–	*0*
thereof: net investment in the lease	–	–	–	–	*6*	*6*	–	–	–	-
thereof: other	–	–	–	*63*	–	*63*	–	–	–	*n.a. (*)*
Cash and cash equivalents (Note 5.9)	–	–	–	1.020	–	1.020	–	–	–	n.a. (*)
Total	**–**	**3**	**1,054**	**1,948**	**247**	**3,253**	**0**	**1,358**	**3**	**575**

As of 31 December 2020
Financial assets*

Measurement hierarchy

(in EUR million)	Hedging relationships (no measurement category according to the meaning of IFRS 9)	Financial assets measured at fair value through profit or loss	Financial assets measured at fair value through other comprehensive income	Financial assets measured at amortised cost	Not in the scope of IFRS 7 (**)	Total carrying amount	Level 1 (Quoted prices)	Level 2 (Significant other observable input parameters)	Level 3 (Significant unobservable input parameters)	Total fair value
Non-current trade and other receivables (Note 5.5)	–	–	157	–	–	157	–	157	–	157
Other non-current financial assets (Note 5.6)	–	1	–	209	92	302	–	226	1	227
thereof: derivatives	–	–	–	–	–	–	–	–	–	–
thereof: investments in start-ups	–	*1*	–	–	–	*1*	–	–	*1*	*1*
thereof: net investment in the lease	–	–	–	–	*14*	*14*	–	*14*	–	*14*
thereof: other	–	–	–	*209*	*77*	*286*	–	*212*	–	*212*
Current trade and other receivables (Note 5.5)	–	–	587	708	1	1297	–	587	–	n.a. (*)
Other current financial assets (Note 5.6)	2	–	–	60	5	67	–	2	–	n.a. (*)
thereof: derivatives	*2*	–	–	–	–	*2*	–	*2*	–	*n.a. (*)*
thereof: investments in start-ups	–	–	–	–	–	–	–	–	–	–
thereof: net investment in the lease	–	–	–	–	*5*	*5*	–	–	–	–
thereof: other	–	–	–	*60*	–	*60*	–	–	–	*n.a. (*)*
Cash and cash equivalents (Note 5.9)	–	–	–	1,337	–	1,337	–	–	–	n.a. (*)
Total	**2**	**1**	**744**	**2,314**	**99**	**3,160**	**–**	**972**	**1**	**384**

(*) The carrying amount of current financial assets corresponds to the fair value.
(**) These instruments are not included in the calculation of fair value.

As of 31 December 2021, none of the current financial assets are included in a hedging relationship. As of 31 December 2020, EUR 2 million of other current financial assets were included (for further information, see >Note 5.11 INTEREST-BEARING DEBT<).

The fair value of other non-current financial assets is determined by discounting future cash flows at current market interest rates.

In addition, EUR 3 million (2020: EUR 1 million) of other non-current financial assets and EUR 0 million (2020: EUR - million) of other current financial assets are classified as financial assets measured at fair value through profit or loss. These relate primarily to investments in start-ups. These assets were measured according to Level 3 for the investments reported in non-current other financial assets and Level 1 for the investments reported in current other financial assets. The fair value measurement according to Level 3 is based on existing business plans with numerous assumptions made regarding future business development. The measurement at fair value according to Level 1 is based on primary market values observed on equity markets.

Trade receivables were partly classified as financial assets measured at fair value through other comprehensive income. These are receivables that can be sold as part of factoring transactions. The main portion of the receivables is current so that the carrying amount approximates fair value. For non-current and current receivables, the fair value is essentially determined by a risk discount based on the credit risk.

All other financial assets as of 31 December 2021 were categorised as financial assets measured at amortised cost.

As of 31 December 2021
Financial liabilities

(in EUR million)	Financial liabilities measured at amortised cost	Not in the scope of IFRS 7 (**)	Total carrying amount	Level 1 (Quoted prices)	Level 2 (Significant other observable input parameters)	Level 3 (Significant unobservable input parameters)	Total fair value
				Measurement hierarchy			
Non-current interest-bearing debt (Note 5.11)	1,627	–	1,627	630	1,061	–	1,691
Non-current trade and other payables (Note 5.13)	7	1	8	–	7	–	7
Non-current payables – Spectrum (Note 5.14)	990	–	990	–	997	–	997
Current interest-bearing debt (Note 5.11)	89	–	89	–	–	–	n.a. (*)
Current trade and other payables (Note 5.13)	2,738	225	2,779	–	–	–	n.a. (*)
Current payables – Spectrum (Note 5.14)	107	–	107	–	–	–	n.a. (*)
Total	**5,375**	**227**	**5,601**	**630**	**2.064**	**–**	**2,694**

As of 31 December 2020
Financial liabilities

(in EUR million)	Financial liabilities measured at amortised cost	Not in the scope of IFRS 7 (**)	Total carrying amount	Level 1 (Quoted prices)	Level 2 (Significant other observable input parameters)	Level 3 (Significant unobservable input parameters)	Total fair value
				Measurement hierarchy			
Non-current interest-bearing debt (Note 5.11)	1,577	–	1,577	639	1,026	–	1,665
Non-current trade and other payables (Note 5.13)	10	2	12	–	10	–	10
Non-current payables – Spectrum (Note 5.14)	1,089	–	1,089	–	1.129	–	1.129
Current interest-bearing debt (Note 5.11)	715	–	715	501	–	–	n.a. (*)
Current trade and other payables (Note 5.13)	2,433	41	2,474	–	–	–	n.a. (*)
Current payables – Spectrum (Note 5.14)	107	–	107	–	–	–	n.a. (*)
Total	**5,931**	**43**	**5,974**	**1,140**	**2,165**	**–**	**2,804**

(*) The carrying amount of current financial liabilities corresponds to the fair value.
(**) These instruments are not included in the calculation of fair value.

As of 31 December 2021, no current interest-bearing debt (31 December 2020: EUR 150 million in current interest-bearing debt) was included in a hedging relationship (for more information, please refer to >Note 5.11 INTEREST-BEARING DEBT<).

The fair value of the bonds (non-current and current interest-bearing debt) is determined based on primary market values (unadjusted quoted prices in active markets, level 1). The fair value of the other non-current interest-bearing debt is calculated by discounting the future cash flows using current market interest rates plus a credit spread. The credit spread is derived from the traded bonds of the Telefónica Deutschland Group and is taken into account in discounting, matched to the duration.

In addition to bonds, non-current and current interest-bearing debt as of 31 December 2021 includes promissory note loans and registered bonds with a total nominal value of EUR 397 million (2020: EUR 727 million), a loan from the European Investment Bank (EIB) of EUR 708 million (2020: EUR 333 million) and no short-term utilisation of credit lines (2020: EUR 119 million).

The non-current and current trade and other payables are categorised as financial liabilities at amortised cost.

Please see the respective notes for further information.

The following table shows the net gains and losses per measurement category in accordance with IFRS 9:

1 January to 31 December 2021 (in EUR million)	**Amortised cost**		**At fair value through profit or loss**		**At fair value through other comprehensive income**
	Financial assets	**Financial liabilities**	**Financial assets**	**Financial liabilities**	**Financial assets**
Net result from disposals	–	–	–	–	–
Currency gains/Currency losses	1	(1)	–	–	
Result from valuations	1	(1)	2	–	–
Impairment/reversal of impairment losses	(19)	–	–	–	(52)
Effective interest income	6	–	–	–	–
Effective interest expense	(0)	(38)	–	–	–
Fee income/expense	–	–	–	–	–
Total	**(14)**	**(38)**	**2**	**–**	**(52)**

1 January to 31 December 2020 (in EUR million)	**Amortised cost**		**At fair value through profit or loss**		**At fair value through other comprehensive income**
	Financial assets	**Financial liabilities**	**Financial assets**	**Financial liabilities**	**Financial assets**
Net result from disposals	–	–	–	–	–
Currency gains/Currency losses	1	(1)	–	–	–
Result from valuations	–		(0)	–	–
Impairment/reversal of impairment losses	(20)	–	–	–	(49)
Effective interest income	3	–	–	–	–
Effective interest expense	(1)	(50)	–	–	–
Fee income/expense	–	–	–	–	–
Total	**(19)**	**(50)**	**(0)**	**–**	**(49)**

Offsetting

Financial assets and financial liabilities are offset, and the net amount is reported in the Consolidated Statement of Financial Position, when the Group currently has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The following table presents the amounts of financial assets and financial liabilities that are offset as of 31 December 2021.

As of 31 December 2021

(in EUR million)	**Trade receivables**	**Trade payables**
Gross amounts	1,599	2,346
Amounts set off in the Consolidated Statement of Financial Position in accordance with IAS 32.42	(23)	(23)
	–	–
Net amounts presented in the Statement of Financial Position	**1,576**	**2,323**

As of 31 December 2020

(in EUR million)	**Trade receivables**	**Trade payables**
Gross amounts	1,346	2,095
Amounts set off in the Consolidated Statement of Financial Position in accordance with IAS 32.42	(58)	58
Net amounts presented in the Statement of Financial Position	**1,288**	**2,037**

Offsetting is mainly applied for roaming fees and for receivables and payables in the sales business.

10. List of Shareholdings and Changes in the Group Structure

In accordance with sections 285 and 313 of the German Commercial Code (HGB), the following table lists the companies making up the Telefónica Deutschland Group as of 31 December 2021.

With effect from 1 July 2021, all the shares held by Telefónica Germany GmbH & Co. OHG in TGCS Berlin GmbH and TGCS Essen & Potsdam GmbH have been sold. TGCS Essen & Potsdam GmbH has one operational site in Essen and one in Potsdam. The operational site in Potsdam remains in the Telefónica Deutschland Group and has been spun off to TFS Potsdam GmbH with retroactive effect from 1 January 2021 (>Note 7 DISPOSAL GROUPS<) .

Telefónica Germany Zweite Mobilfunk Standortgesellschaft mbH was sold to Telxius with effect from 1 August 2021 (>Note 7 DISPOSAL GROUPS<) .

For detailed information, please refer to the list of shareholdings published with the Annual Financial Statements of Telefónica Deutschland Holding AG in the German Federal Gazette.

As of 31 December 2021

Company name, registered office	Country	Consolidation	Share in %	Equity 31 December 2020 (in EUR millions)[5]	Result in FY 2020 (in EUR million)[5]
Parent company					
Telefónica Deutschland Holding AG, Munich, Germany	Germany	N/A	N/A	8,055	16
Subsidiaries					
Telefónica Germany Management GmbH, Munich[2]	Germany	Full financial year	100%	11	0
Telefónica Germany GmbH & Co. OHG, Munich[1, 5]	Germany	Full financial year	100%	5,997	779
Telefónica Germany 1. Beteiligungsgesellschaft mbH, Munich [2, 4, 6]	Germany	Full financial year	100%	86	-*
TGCS Rostock GmbH, Munich[2, 6]	Germany	Full financial year	100%	15	-*
Telefónica Germany Business Sales GmbH, Dusseldorf[2,6]	Germany	Full financial year	100%	29	-*
Telefónica Germany Retail GmbH, Dusseldorf[2,6]	Germany	Full financial year	100%	107	-*
Wayra Deutschland GmbH, Munich[2,6]	Germany	Full financial year	100%	2	-*
O2 Telefónica Deutschland Finanzierungs GmbH, Munich[6]	Germany	Full financial year	100%	0	-*
TGCS Bremen GmbH, Munich[2,6]	Germany	Full financial year	100%	2	-*
TGCS Hamburg GmbH, Munich[6]	Germany	Full financial year	100%	2	-*
TGCS Nürnberg GmbH, Munich[6]	Germany	Full financial year	100%	4	-*
E-Plus Service GmbH, Dusseldorf[2,6]	Germany	Full financial year	100%	78	-*
TGCS Essen & Potsdam GmbH, Potsdam[6]	Germany	to July 2021	100%	3	-*
TGCS Berlin GmbH, Düsseldorf[6]	Germany	to July 2021	100%	1	-*
AY YILDIZ Communications GmbH, Düsseldorf[2,6]	Germany	Full financial year	100%	5	-*
Ortel Mobile GmbH, Dusseldorf[2,6]	Germany	Full financial year	100%	5	-*
TFS Potsdam GmbH, Potsdam[2,6]	Germany	Full financial year	100%	0	-*
Telefónica Germany Zweite Mobilfunk Standortgesellschaft mbH, Munich[6]	Germany	to July 2021	100%	0	0
Joint operations					
TCHIBO Mobilfunk Beteiligungs-GmbH, Hamburg[6]	Germany	Full financial year	50%	0	0
TCHIBO Mobilfunk GmbH & Co. KG, Hamburg[6]	Germany	Full financial year	50%	12	1

As of 31 December 2021

Company name, registered office	Country	Consolidation	Share in %	Equity 31 December 2020 (in EUR millions)[5]	Result in FY 2020 (in EUR million)[5]
Associated companies					
UGG TopCo/HoldCo General Partner GmbH, Ismaning[6]	Germany	Full financial year	10%	**	**
UGG TopCo GmbH & Co. KG, Ismaning [6]	Germany	Full financial year	10%	**	**
Other investments[3]					
MNP GbR, Dusseldorf [4,6]	Germany	Full financial year	33%	0	0

[1] This entity uses the exemption provisions pursuant to section 264b HGB.
[2] These entities use the exemption provisions pursuant to section 264 (3) HGB.
[3] Other investments are not included in the consolidation.
[4] This company makes use of the exemption provision under section 291 and does not prepare (sub-) consolidated financial statements
[5] Equity capital and result of the last financial year for which annual financial statements are available according to HGB
[6] Indirect participation in Telefónica Deutschland Holding AG
* After profit and loss transfer
** No prepared annual financial statements are available at the time of preparation

11. Investments in Associated Companies

The Telefónica Deutschland Group holds 10% of the shares in each of UGG TopCo GmbH & Co. KG and UGG TopCo/HoldCo General Partner GmbH. The latter is the general partner of UGG TopCo GmbH & Co. KG. Both investments were classified as associated companies under application of IAS 28.6, taking into consideration the specific facts and circumstances. We have based our assessment that the Telefónica Deutschland Group exercises significant influence on the business and financial policies on the fact that the Telefónica Deutschland Group enters into material business transactions with the companies and is involved in the relevant decision-making processes. Both associated companies are accounted for using the equity method.

UGG TopCo/HoldCo General Partner GmbH is the general partner of UGG TopCo GmbH & Co. KG and is not operationally active. As a result, the investment is classified as immaterial. The carrying amount of the investment is EUR 2,500 and is unchanged compared to the previous year. No further disclosures will be made.

UGG TopCo GmbH & Co. KG is the holding company of a joint venture between Telefónica, S.A. Group/Telefónica Deutschland Group and the Allianz Group established in October 2020. Its purpose is to expand fibre-to-the-home (FTTH) connections for households in Germany.

The following tables present the summarised financial information of the significant shareholdings in UGG TopCo GmbH & Co. KG and its subsidiaries. The financial information is presented in consolidated form across all subsidiaries on a fully consolidated basis:

Consolidated Statement of Financial Position

(in EUR million)

	UGG TopCo GmbH & Co. KG	
Assets	**As of 31 December 2021**	**As of 31 December 2020**
A) Non-current assets	**71**	**6**
B) Current assets	**48**	**4**
Total assets (A+B)	**119**	**10**

Equity and Liabilities	**As of 31 December 2021**	**As of 31 December 2020**
A) Equity	**20**	**8**
B) Non-current liabilities	**46**	**–**
C) Current liabilities	**53**	**2**
Total assets (A+B+C)	**119**	**10**

Condensed Statement of Comprehensive Income

(in EUR million)	UGG TopCo GmbH & Co. KG As of 31 December 2021	As of 31 December 2020
A) Revenues	**0**	**–**
B) Profit/(loss) for the period	**(39)**	**(2)**
C) Other comprehensive income/(loss)	**–**	**–**
D) Total comprehensive income/(loss)	**(39)**	**(2)**

Reconciliation to the carrying amount

(in EUR million)	UGG TopCo GmbH & Co. KG
Net assets as of 1 January 2021	**8**
Capital increases	**50**
Total comprehensive income/(loss)	**(39)**
Dividends paid	**–**
Net assets as of 31 December 2021	**20**
Group share of net assets	**2**
Group share in %	**10%**
Carrying amount as of 31 December 2021*	**3**

*The difference of EUR 1 million between the carrying amount and the Group share of the net assets is due to capitalised incidental acquisition costs.

12. Joint Operations

Telefónica Germany GmbH & Co. OHG jointly controls TCHIBO Mobilfunk Beteiligungs-GmbH, Hamburg, and TCHIBO Mobilfunk GmbH & Co. KG, Hamburg, together with TCHIBO GmbH, Hamburg.

The business objective of TCHIBO Mobilfunk Beteiligungs GmbH is the holding of interests in other companies. The business objective of TCHIBO Mobilfunk GmbH & Co. KG, with TCHIBO Mobilfunk Beteiligungs GmbH as its personally liable shareholder, is the marketing and sale of mobile communications services to be rendered by third parties and the marketing and sale of mobile devices.

As part of the joint operation in TCHIBO Mobilfunk GmbH & Co. KG, Telefónica Germany GmbH & Co. OHG, on the one hand, reimburses the company for sales and marketing services provided by the latter and supplies the company with mobile communications devices, on the other.

13. Related Parties

Related parties within the meaning of IAS 24 are defined as natural persons and companies that can be influenced by the Telefónica Deutschland Group, that can exercise a material influence over the Telefónica Deutschland Group, or that are materially influenced by another related party of the Telefónica Deutschland Group.

Transactions with related parties include transactions between the Telefónica Deutschland Group and the Telefónica, S.A. Group.

Telefónica Deutschland Holding AG is the parent company of the Telefónica Deutschland Group. It is included in the Consolidated Financial Statements of the ultimate parent company, Telefónica, S.A., Madrid, Spain (Telefónica, S.A.; its group: the Telefónica, S.A. Group). The direct parent company of the Telefónica Deutschland Group is Telefónica Germany Holdings Limited, a wholly-owned subsidiary of O2 (Europe) Limited, Slough, United Kingdom (O2 (Europe) Limited), and an indirect subsidiary of Telefónica, S.A. The companies of the Telefónica, S.A. Group are related parties, as Telefónica, S.A. controls the Telefónica Deutschland Group.

The Notes to the Telefónica Deutschland Group provide an overview of the Group companies (>Note 10 LIST OF SHAREHOLDINGS AND CHANGES IN THE GROUP STRUCTURE<) . In 2020 and 2021, the following were related parties from the perspective of the Telefónica Deutschland Group:

- Telefónica, S.A. and its subsidiaries, and significant investments of Telefónica, S.A. Group and associated companies (>Note 13.1 TRANSACTIONS WITH THE TELEFÓNICA, S.A. GROUP<) ,
- Members of the Management Board and Supervisory Board of the Telefónica, S.A. Group and members of the Management Board and Supervisory Board of the Telefónica Deutschland Group (>Note 13.2 TRANSACTIONS WITH MANAGEMENT BOARD AND SUPERVISORY BOARD<) ,

The extent of the transactions conducted with the Telefónica, S.A. Group and other related parties can be seen in the overviews below. Unless separately disclosed for joint ventures or associates, the transactions relate exclusively to Telefónica, S.A. and its subsidiaries.

13.1. Transactions with the Telefónica, S.A. Group and associated companies

Assets with and liabilities to the Telefónica, S.A. Group

The Telefónica Deutschland Group reports the following assets with and liabilities to the companies belonging to the Telefónica, S.A. Group and associated companies:

(in EUR million)	**As of 31 December 2021**	As of 31 December 2020
Assets with the Telefónica, S.A. Group	**1,297**	**2,535**
that are recognised in the following items in the Consolidated Statement of Financial Position:		
Right-of-use assets	–	1,004
Trade and other receivables	24	26
Other financial assets	261	178
Other non-financial assets	1	1
Cash and cash equivalents (cash pooling)	1,012	1,325
Assets with associated companies	**1**	**–**
that are recognised in the following items in the Consolidated Statement of Financial Position:		
Trade and other receivables	1	–
Liabilities to the Telefónica, S.A. Group	**58**	**1,087**
that are recognised in the following items in the Consolidated Statement of Financial Position:		
Lease liabilities	–	1,007
Trade and other payables	58	80
Liabilities to associated companies	**3**	**(1)**
that are recognised in the following items in the Consolidated Statement of Financial Position:		
Trade and other payables	3	(1)

Right-of-use assets

The Telefónica Deutschland Group has no right-of-use assets vis-à-vis Telefónica, S.A. as of 31 December 2021. As a result of the agreement between Telxius Telecom SA and American Tower International, Inc. concerning the sale of the Telxius Towers Division, which became effective on 1 June 2021, the right-of-use assets in place between Telefónica Deutschland Holding AG and the former Telxius are reported as "to third parties" from the date on which the sale became effective.

Trade and other receivables

These receivables result from transactions in goods and services, such as roaming and commissions for insurance services, between Telefónica Deutschland Group and the Telefónica, S.A. Group. As of the reporting dates of 31 December, the line item contains receivables from Telefónica, S.A. of EUR 0 million in 2021 (2020: EUR 3 million).

Other financial assets

Other financial assets include the share of the purchase price receivable that is not yet due as a result of the first and second transaction steps of the sale of major parts of the business operations of the rooftop sites to Telxius (>Note 7 DISPOSAL GROUPS<) .

Other non-financial assets

Other non financial assets comprise advance payments made to the Telefónica, S.A. Group. The item does not include any prepayments to Telefónica, S.A. as at the balance sheet date of 31 December 2021 (2020: EUR 0 million).

Cash and cash equivalents (cash pooling)

The cash-pooling receivables from Telefónica, S.A. Group relate exclusively to the cash pooling agreement with Telfisa Global B.V., which in particular grants an overdraft facility of EUR 454 million, which was not utilised as of 31 December 2021. For further details, please refer to >Note 5.9 CASH AND CASH EQUIVALENTS< .

Lease liabilities
The Telefónica Deutschland Group has no lease liabilities to Telefónica, S.A. as of 31 December 2021. As a result of the agreement between Telxius Telecom SA and American Tower International, Inc. concerning the sale of the Telxius Towers Division, which became effective on 1 June 2021, the lease liabilities in place between Telefónica Deutschland Holding AG and Telxius are reported as "to third parties" from the date on which the sale became effective.

Trade and other payables
As of 31 December 2021, the line item contains other payables to Telefónica, S.A. of EUR 11 million (2020: EUR 11 million). In addition, the item includes liabilities from licence agreements and social security benefits to the Telefónica, S.A. Group.

Revenues, other income, expenses, depreciation, amortisation and interest expenses relating to Telefónica, S.A. Group and associated companies

	Revenues, other income and interest income		Expenses, depreciation of right-of-use assets, interest expenses	
	1 January to 31 December		1 January to 31 December	
(in EUR million)	**2021**	2020	**2021**	2020
Telefónica, S.A. Group	296	440	(179)	(175)
Associated companies	7	–	(0)	–

Other income includes the net gain on disposal of EUR 262 million from the second transaction step of the sale of major parts of the business operations of the rooftop sites to Telxius in the amount of EUR 262 million. Revenues and other income are also generated from goods and services such as roaming and mobile phone insurance, of which EUR 0 million in the financial year (EUR 0 million in 2020) is attributable to Telefónica, S.A.

Expenses include Group fees totalling EUR 33 million in 2021 (EUR 32 million in 2020), of which EUR 18 million (EUR 17 million in 2020) relate to Telefónica, S.A. In addition, EUR 97 million (EUR 79 million in 2020) result from expenses from the purchase of goods, services and other expenses, of which EUR 1 million (EUR 1 million in 2020) relates to Telefónica, S.A. Furthermore, expenses from the depreciation of right-of-use assets amount to EUR 50 million (previous year: EUR 64 million), of which EUR 0 million (previous year: EUR 0 million) relates to Telefónica S. A.

Dividend distribution to the Telefónica, S.A. Group
For the financial year 2020, a dividend of EUR 0.18 per dividend-entitled non-par value share, for a total of EUR 371 million, was distributed to Telefónica Germany Holdings Limited, an indirect wholly-owned subsidiary of Telefónica, S.A.

13.2. Transactions with Management Board and Supervisory Board

a) Management Board

In financial year 2021, key management personnel included the following members of the Management Board:

— Markus Haas (CEO)

— Markus Rolle (CFO)

— Valentina Daiber

— Nicole Gerhardt

— Alfons Lösing

— Wolfgang Metze

— Mallik Rao (Yelamate Mallikarjuna Rao)

In the financial years to which the Consolidated Financial Statements relate, the members of the Management Board have not carried out any transactions with the Telefónica Deutschland Group other than as part of the normal trading and business activities of the Telefónica Deutschland Group.

In accordance with section 314 (1) no. 6a HGB, the total remuneration granted to the Management Board of Telefónica Deutschland Holding AG for the financial year ended 31 December 2021 amounted to EUR 7,581 thousand (2020: EUR 7,122 thousand). The total remuneration for the reporting year includes share-based payments with a fair value of EUR 1,723 thousand at the grant date (2020: EUR 1,517 thousand) for 286,610 shares (2020: 161,454).

In addition to the Telefónica Deutschland Performance Share Plan, which offers a choice between payment in cash and the issue of shares in Telefónica Deutschland Holding AG, the share-based payment programmes also include programmes of Telefónica, S.A. Under these programmes, the parent company Telefónica, S.A. Group grants own shares to the Management Board members of Telefónica Deutschland Holding AG. The expenses of Telefónica, S.A. are charged to Telefónica Deutschland Holding AG (see >Note 14. SHARE-BASED PAYMENTS< for more information). The Telefónica Deutschland Group has not currently granted the members of its Management Board any collateral or loans and has not assumed any guarantees for them.

Salaries and other benefits according to IAS 24.17 that were granted to active Management Board members are composed as follows:

1 January to 31 December

(in EUR thousand)	**2021**	2020
Total remuneration	**7,997**	**7,776**
thereof:		
Short-term employee benefits	5,858	5,605
Other long-term employee benefits	385	769
Share-based payments	1,205	896
Service cost	549	506

The participation of the Management Board members in the Telefónica Deutschland Performance Share Plan does not confer any rights to the transfer of shares without consideration (bonus shares) of Telefónica Deutschland Holding AG, as the plan provides for an option between payment in cash and the issue of shares. Participation in the share-based payment programmes of Telefónica, S.A. has resulted in the following changes for the Management Board members with regard to the rights to the free transfer of shares (bonus shares) of Telefónica, S.A.:

(In units)	**2021**	2020
Share options as of 1 January	**360,449**	**237,635**
Forfeited share options	(51,636)	–
Change in composition of the Management Board[1]	–	(38,640)
Newly issued share options	286,610	161,454
Share options as of 31 December	**543,787**	**360,449**

[1] Applies to members of the Management Board who resigned in 2019

The provisions for the share-based remuneration of the Management Board in the financial year amount of EUR 1,545 thousand (2020: EUR 1,765 thousand). Provisions for bonuses for the Management Board were formed amounting to EUR 3,279 thousand (2020: EUR 3,578 thousand).

The net defined benefit liability for the Management Board members in financial year 2021 amounted to EUR 5,749 thousand (2020: EUR 4,688 thousand).

As of 31 December 2021, the net defined benefit liability for members of the former management and their surviving dependants amounted to EUR 20,030 thousand (2020: EUR 19,286 thousand).

Further details of the pension obligations of the Telefónica Deutschland Group can be found in >Note 5.15 PROVISIONS< .

In financial year 2021, the total remuneration expense for the members of the former management and their surviving dependants amounted to EUR 556 thousand (2020: EUR 367 thousand).

b) Supervisory Board

On 20 May 2021, the Annual General Meeting confirmed the remuneration regulation set out in section 20 of the articles of association, which was based on the remuneration system that was also presented.

Name	Member of the Supervisory Board	Remuneration (in EUR) 2021	Remuneration (in EUR) 2020
Peter Löscher	since 01 April 2020	100,000	73,989
Laura Abasolo García de Baquedano	from 12 May 2015 to 31 March 2020	–	2,000
Christoph Braun	since 01 July 2016	50,000	50,000
Sally Anne Ashford	from 18 September 2014 to 25 September 2020	–	31,604
Martin Butz	since 17 May 2018	40,000	40,000
Pablo de Carvajal González	since 25 July 2018	–	2,000
Patricia Cobian González	from 18 September 2012 to 25 September 2020	–	2,000
Peter Erskine[1]	from 19 May 2016 to 31 December 2021	30,000	30,000
María García-Legaz Ponce	since 07 June 2018	–	2,000
Ernesto Gardelliano[2]	since 05 October 2020	–	–
Cansever Heil	since 03 April 2019	30,000	30,000
Christoph Heil	from 3 June 2013 to 17 May 2018; since 3 April 2019	30,000	30,000
Michael Hoffmann	since 05 October 2012	88,000	78,481
Julio Linares López	since 16 October 2017	30,000	30,000
Stefanie Oeschger[3]	since 03 October 2020	30,000	7,377
Thomas Pfeil	since 03 June 2013	40,000	40,000
Joachim Rieger[4]	since 31 October 2014	32,232	34,500
Dr. Jan-Erik Walter	since 03 June 2013	37,500	37,500
Claudia Weber	since 03 June 2013	37,500	37,500

(1) Peter Erskine resigned from office with effect from the end of 31 December 2021
(2) Ernesto Gardelliano was appointed to the Supervisory Board as a shareholder representative by court order with effect from 5 October 2020 and by resolution of the Annual General Meeting on 20 May 2021.
(3) Stefanie Oeschger was appointed to the Supervisory Board as a shareholder representative by court order with effect from 3 October 2020 and by resolution of the Annual General Meeting on 20 May 2021.
(4) In addition to the remuneration pursuant to section 20 of the articles of association of Telefónica Deutschland Holding AG, Joachim Rieger received for his work as a member of the Supervisory Board of the Subsidiary TGCS Essen & Potsdam GmbH an annual remuneration of EUR 4,500, which, however, was only granted on a pro rata basis until 30 June 2021 and is already included in the table.

The members of the Supervisory Board received remuneration for their work on the Supervisory Board of Telefónica Deutschland Holding AG and its subsidiaries amounting to EUR 575 thousand in 2021 (2020: EUR 559 thousand). Three members of the Supervisory Board waived the remuneration owed in full.

Members of the Supervisory Board who are also employees of the Telefónica Deutschland Group also receive remuneration from their employment relationship, including entitlements from share-based payment agreements, subject to compliance with the requirements for participation in each individual case, and acquire entitlements as part of pension schemes. This remuneration comprises the following for the period of appointment to the Supervisory Board:

1 January to 31 December

(in EUR thousand)	2021	2020
Total remuneration	**735**	**726**
thereof:		
Short-term employee benefits	686	671
Share-based payments	26	32
Service cost	23	23

As of 31 December2021, the Telefónica Deutschland Group has not granted the members of its Supervisory Board any collateral or loans, and has not assumed any guarantees on their behalf.

14. Share-based Payments

As of 31 December 2021, the Telefónica Deutschland Group had concluded various agreements regarding share-based payments. The Company considers these payments to be equity-settled share-based payment transactions. The financial effects of the share-based remuneration systems are, however, of minor importance for the Telefónica Deutschland Group:

In financial year 2021, personnel expenses resulting from share-based payment transactions amounting to EUR 2 million (2020: EUR 3 million) were recognised in this connection.

As of 31 December 2021, liabilities resulting from share-based payment transactions with the Telefónica, S.A. Group amounting to EUR 4 million (2020: EUR 6 million) were recognised. The Telefónica Deutschland Group occasionally receives a service from the employee without itself providing the share-based payment agreed for this purpose. The Telefónica S. A. Group grants own shares to employees of the Telefónica Deutschland Group. The expenses of Telefónica, S.A. are charged to Telefónica Deutschland Group.

As of 31 December 2021, retained earnings resulting from equity-settled share-based payment transactions of EUR 1 million (2020: EUR 0 million) were recognised.

There are four share-based payment programmes. These include the Telefónica Deutschland Performance Share Plan, the Telefónica, S.A. Performance Share Plan, the Telefónica, S.A. Restricted Share Plan as a special remuneration instrument in individual situations and the possible participation in the Telefónica, S.A. employee share programme.

Telefónica Deutschland Performance Share Plan

The Telefónica Deutschland Performance Share Plan is a share-based plan for the members of the Management Board of Telefónica Deutschland Holding AG. An allocation cycle begins on 1 January of each financial year and has a performance period of at least three years. At the start of the performance period, the Supervisory Board determines the grant value equal to a percentage of the annual fixed salary for each member of the Management Board. The payout after the end of the performance period equals the product of the respective grant value, a TSR-factor (1+TSR) (total shareholder return (TSR)), which reflects the development of the share price of Telefónica Deutschland over the plan term, and a target achievement factor, which can range between 0% and a maximum value (cap). The payout is limited to 200% of the grant value (cap). However, the Supervisory Board reserves the right to alternatively settle the claims in shares. Because of this and as there is no current obligation to settle in cash, it is accounted for as equity-settled.

The performance period for the 2020 allocation cycle is three years. The target achievement factor may take on a maximum value of 100% and consists of two components: The first component is based on the relative total shareholder return of Telefónica Deutschland compared to a reference group consisting of the STOXX Europe 600 Telecommunications companies (with the exception of Telefónica, S.A.) (TSR target achievement factor) and has a weighting of 50%. The second component is based on the achievement of free cash flow targets of Telefónica Deutschland (FCF target achievement factor) and also has a weighting of 50%.

The fair value of the entire allocation at the grant date is EUR 970,970. It was determined on the basis of a medium probability scenario for the TSR factor, the TSR target achievement factor and the FCF target achievement factor. The plan terms do not provide for the conversion of grant values into numbers of shares.

The performance period for the 2021 allocation cycle is also three years. The target achievement factor may take on a maximum value of 100% and consists of three components: The first component is based on the relative total shareholder return of Telefónica Deutschland compared to a reference group consisting of the STOXX Europe 600 Telecommunications companies (with the exception of Telefónica, S.A.) (TSR target achievement factor) and has a weighting of 50%. The second component is based on the achievement of free cash flow targets of Telefónica Deutschland (FCF target achievement factor) and has a weighting of 40%. The third component is based on the achievement of targets for the neutralisation and reduction of CO_2 emissions of Telefónica Deutschland (CO_2 target achievement factor) and has a weighting of 10%.

The fair value of the entire allocation amounts to EUR 893,750 and was determined based on a medium probability scenario for the TSR factor, TSR target achievement factor, FCF target achievement factor and CO_2 target achievement factor. The plan terms do not provide for the conversion of grant values into numbers of shares.

Telefónica, S.A. Performance Share Plan

The Telefónica, S.A. Performance Share Plan is a share-based plan for selected employees of the Telefónica Deutschland Group, which is settled in own shares by Telefónica, S.A. (for nominated talents, the plan operates under the name "Talent for the Future Share Plan"). An allocation cycle begins on 1 January of each financial year and has a performance period of at least three years. The plan participant receives a certain number of Telefónica, S.A. virtual performance shares at the beginning of the performance period. For the calculation of the number of performance shares, the grant value is divided by the weighted average Telefónica, S.A. share price of the last 30 trading days prior to the start of the respective performance period. The number of real shares actually earned after the end of the plan term equals the product of the number of allocated performance shares and a target achievement factor, which can range between 0% and a maximum value (cap), depending on the achievement level of performance criteria of Telefónica, S.A. For plan participants who are also members of the Executive Committee of Telefónica, S.A., a holding period of a minimum of twelve months for at least 25% of the shares earned is provided for.

The performance period will be three years for each of the 2018, 2019 and 2020 allocation cycles. In each allocation cycle, the target achievement factor may take on a maximum value of 100% and comprises two components: The first component is based on the relative total shareholder return of Telefónica, S.A. compared to a reference group consisting of selected global telecommunications companies (TSR target achievement factor) and has a weighting of 50%. The second component is based on the achievement of free cash flow targets of Telefónica, S.A. (FCF target achievement factor) and also has a weighting of 50%.

The performance period for the 2021 allocation cycle is also three years. The target achievement factor may take on a maximum value of 100% and consists of three components: The first component is based on the relative total shareholder return of Telefónica, S.A. compared to a reference group consisting of selected global telecommunications companies (TSR target achievement factor) and has a weighting of 50%. The second component is based on the achievement of free cash flow targets of Telefónica, S.A. (FCF target achievement factor) and has a weighting of 40%. The third component is based on the achievement of targets for the neutralisation and reduction of CO_2 emissions of Telefónica, S.A. (CO_2 target achievement factor) and has a weighting of 10%.

The 2018 - 2020 tranche was settled in the 2021 financial year. 206,274 real shares were earned based on a target achievement factor of 50%.

Tranche 2018 – 2020	**Number of shares assigned**	**Shares outstanding as of 31/12/2021**	**Fair value per share (in euro)**
TSR - Target achievement factor:	258,493	0	4.52
FCF - Target achievement factor:	258,493	0	6.46

Tranche 2019 – 2021	**Number of shares assigned**	**Shares outstanding as of 31/12/2021**	**Fair value per share (in euro)**
TSR - Target achievement factor:	287,990.5	212,433	4.44
FCF - Target achievement factor:	287,990.5	212,433	6.14

Tranche 2020 – 2022	**Number of shares assigned**	**Shares outstanding as of 31/12/2021**	**Fair value per share (in euro)**
TSR - Target achievement factor:	189,955	177,510	1.64
FCF - Target achievement factor:	189,955	177,510	3.21

Tranche 2021 – 2023	**Number of shares assigned**	**Shares outstanding as of 31/12/2021**	**Fair value per share (in euro)**
TSR - Target achievement factor:	579,443	579,443	2.65
FCF - Target achievement factor:	463,554	463,554	3.16
CO_2 – Target achievement factor	115,889	115,889	3.16

Telefónica, S.A. Restricted Share Plan

In order to attract or retain qualified employees, the Supervisory Board has the option to grant them an amount under the Restricted Share Plan on a one-time or recurring basis, for example, to compensate them for forfeited compensation claims at their previous employer. Therefore, this plan serves as a special compensation instrument.

The plan term according to the Restricted Share Plan is between one and five years. At the beginning of the term, the participant receives a certain number of virtual shares of Telefónica, S.A. at an amount, which corresponds to a certain proportion of the participant's annual base salary. At the end of the term, the participant receives a certain percentage of the virtual shares originally assigned in the form of real shares. The percentage corresponds to the proportion of the active employment period in the total plan term and is therefore between 0% and 100%, i.e. the plan participant can only be entitled to a maximum of 100% of the initially allocated virtual shares in the form of real shares (cap). The allocation of real shares requires an active employment relationship for at least twelve months during the plan term and an active relationship at the time of settlement by Telefónica, S.A.

The fair value of the entire allocation of 49,637 virtual shares in 2020 amounts to EUR 266,575 at the grant date and was determined on the basis of the average share price over 30 trading days prior to the respective grant date. The terms of the allocations extend over one, two and three years.

7,697.4 real shares were earned in the 2021 financial year. As of 31 December 2021, 41,939.6 virtual shares were outstanding.

There was no allocation from the plan in 2021.

Telefónica, S.A. Employee Participation Programme
The employees of the Telefónica Deutschland Group have the opportunity to participate in the Telefónica, S.A. employee share ownership programme. The current tranche, which was issued in August 2019, had a term of two years. During the first year, the participant invests a monthly sum of between EUR 25 and EUR 150 to buy shares in Telefónica, S.A. at the relevant market price. Subsequently, a holding period of one year is provided for. At the end of the holding period, the participant receives one share in Telefónica, S.A. free of charge for every two shares purchased. In August 2021, 166,312 shares were allocated to 1,234 employees free of charge by Telefónica, S.A.

15. Information Regarding Employees

The following table presents the breakdown of the Telefónica Deutschland Group's average headcount grouped with respect to their status under employment law:

Average headcount	**2021**	2020
Office staff	7,417	7,852
thereof from joint operations	12	12
Temporary staff	374	419
Total	**7,791**	**8,271**

16. Financial Instruments and Risk Management

As of the reporting date, Telefónica Deutschland Group faces a variety of risks from financial instruments. In this regard, please refer to the statements regarding risk management and financial instruments in the Combined Management Report.

Further information on risks from financial instruments

Currency Risk
The effects before taxes on the Consolidated Income Statement of a simultaneous, parallel increase (decrease) in the euro of 10% in the financial years 2021 and 2020 would have been as follows:

	1 January to 31 December 2021		1 January to 31 December 2020	
(in EUR million)	**Risk position**	**+/(-) 10%**	Risk position	+/(-) 10%
USD	(11)	1.0/(1.2)	(6)	0.5/(0.7)
GBP	1	(0.1)/0.1	1	(0.1)/0.1

There are no material direct effects from exchange rate fluctuations on the equity of the Telefónica Deutschland Group.

Interest rate risk
The effects before taxes on the Consolidated Income Statement of a change in the euro interest rates of variable interest-bearing financial instruments of +/-100 basis points as of the reporting dates 31 December 2021 and 2020 are shown below. There is no impact recognised directly in equity. This analysis assumes that all other variables remain unchanged.

1 January to 31 December

(in EUR million)	**2021**	2020
+100bp	10	9
-100bp	(10)	(11)

Inflation risk
The effects before taxes on the Consolidated Income Statement of a change in the inflation rate of +/- 100 basis points on non-current financial receivables as of the balance sheet dates 31 December 2021 and 31 December 2020 are disclosed below.

1 January to 31 December

(in EUR million)	**2021**	2020
+100bp	10	7
-100bp	(10)	(7)

Credit risk

Determining the default rate for the following assets is based on the general approach. The following tables show the gross carrying amounts of the assets, their classification in the general impairment model and the average expected credit loss: :The maximum credit risk from these instruments corresponds to the carrying amount in the balance sheet.

As of 31 December 2021

(in EUR million)	Gross carrying amount	Impairment level 1	Impairment level 2	Impairment level 3	Credit rating	Average expected default rate
Silent factoring deposit	24	24	–	–	High	[0.12% - 0.08%]
Purchase price receivable from the sale of major parts of the business operations of the rooftop sites	246	246	–	–	High	0.21%
Loans	16	16	–	–	High	0.09%
Non-current financial assets	**286**	**286**				
Silent factoring deposit	47	47	–	–	High	[0.1% - 0.06%]
Purchase price receivable from the sale of major parts of the business operations of the rooftop sites	15	15	–	–	High	0.17%
Current financial assets	**62**	**62**				
Other receivables	**78**	**78**	**–**	**–**	**High**	**0.04%**

As of 31 December 2020

(in EUR million)	Gross carrying amount	Impairment level 1	Impairment level 2	Impairment level 3	Credit rating	Average expected default rate
Silent factoring deposit	38	38	–	–	High to moderate	[0.45%-0.11%]
Purchase price receivable from the sale of major parts of the business operations of the rooftop sites	145	145	–	–	High to moderate	0.29%
Loans	26	26	–	–	High to moderate	0.09%
Non-current financial assets	**209**	**209**				
Silent factoring deposit	26	26	–	–	High to moderate	[0.40% - 0.07%]
Purchase price receivable from the sale of major parts of the business operations of the rooftop sites	33	33	–	–	High to moderate	0.22%
Current financial assets	**59**	**59**				
Other receivables	**60**	**60**	**–**	**–**	**High to moderate**	**0.05%**

Information from external rating agencies is used to determine the probability of default and the loss rate under the general approach, although internal ratings from receivables management may be applied in exceptional cases. In order to determine impairment rates, the Telefónica Deutschland Group uses CDS rates quoted on the market, which either directly represent the credit risk of the counterparty or are derived from the credit risk of a benchmark. These data are adjusted accordingly for financial assets with a remaining term of less than twelve months. The expected loss within the next twelve months is recognised as an impairment loss. This impairment is currently considered to be immaterial, therefore no impairment will be recognised.

Trade receivables are subject to the simplified approach. For more information, please see >NOTE 5.5 TRADE AND OTHER RECEIVABLES< . Receivables from leases also follow the simplified approach. The impairment is to be determined in the amount of the credit loss expected over the total term. For individual receivables (including leases), the Telefónica Deutschland Group holds certain collateral that mitigates the loss in the event of counterparty default; this collateral is taken into account in the calculation of expected credit losses in the form of the LGD. Collateral is provided for the sale of mobile devices as part of O_2 My Handy transactions. The Telefónica Deutschland Group retains the title to the mobile devices until the end customer has paid the final instalment. In addition, there is commercial credit insurance against bad debts with sales partners with a deductible of 10%.

All cash holdings include a daily maturity and are therefore subject to a one-day probability of default.

As all of them are rated investment grade (including Telefónica, S.A. Group), this leads to only very minor impairments, which are not recorded by the Telefónica Deutschland Group.

(in EUR million)	Net book value	As of 31 December 2021 Ratings of cash and cash equivalents	Net book value	As of 31 December 2020 Ratings of cash and cash equivalents
Cash at bank and in hand	9	[A-1 - A-2]	12	[A-1 - A-2]
Cash pooling	1,012	A-3	1,325	A-3
Cash and cash equivalents	**1,020**		**1,337**	

Liquidity risk

On the balance sheet date on 31 December 2021, the Telefónica Deutschland Group had unused credit lines from current overdraft facilities, loans and revolving credit facilities with a total volume of EUR 1,454 million. As of 31 December 2020 the unused credit lines amounted to EUR 2,264 million.

Cash and cash equivalents amounted to EUR 1,020 million as of 31 December 2021 and EUR 1,337 million as of 31 December 2020.

The following table shows the maturity profile of the financial liabilities of the Telefónica Deutschland Group on the basis of the contractual undiscounted payments (including interest):

MATURITIES OF FINANCIAL LIABILITIES

As of 31 December 2021

(in EUR million)	Total carrying amount	Gross cash outflow	Remaining term < 1 year	Remaining term 1-5 years	Remaining term > 5 years
Non-current interest-bearing debt	1,627	1,708	–	1,302	407
Non-current lease liabilities	2,781	2,809	–	1,709	1,100
Non-current trade and other payables	8	8	–	8	–
Non-current payables - Spectrum	990	1,035	–	466	568
Current interest-bearing debt	89	95	95	–	–
Current lease liabilities	548	559	559		
Current trade and other payables	2,779	2,779	2,779	–	–
Current payables - Spectrum	107	108	108	–	–
Financial liabilities	**8,929**	**9,101**	**3,541**	**3,485**	**2,075**

As of 31 December 2020

(in EUR million)	Total carrying amount	Gross cash outflow	Remaining term < 1 year	Remaining term 1-5 years	Remaining term > 5 years
Non-current interest-bearing debt	1,577	1,678	–	1,407	271
Non-current lease liabilities	2,326	2,368	–	1,483	885
Non-current trade and other payables	12	12	–	12	–
Non-current payables - Spectrum	1,089	1,164	–	454	710
Current interest-bearing debt	715	726	726	–	–
Current lease liabilities	514	526	526	–	–
Current trade and other payables	2,475	2,475	2,475	–	–
Current payables - Spectrum	**107**	**108**	**108**	**–**	**–**
Financial liabilities	**8,815**	**9,057**	**3,835**	**3,356**	**1,866**

17. Capital Management

The Telefónica Deutschland Group strives to guarantee the sustainability of its business and to maximise its enterprise value by permanently monitoring its capital costs in addition to its most important management performance indicators.

The Telefónica Deutschland Group uses the net leverage ratio to monitor its capital structure.

The net leverage ratio compares the net financial debt level with an operational success parameter (OIBDA adjusted for exceptional effects for the last twelve months) and provides management with information about the Company's debt reduction ability. The maximum leverage ratio defined within the framework of our financing policy applicable since 1 January 2019 remains unchanged at 2.5x (>Management Report MANAGEMENT SYSTEM<) .

18. Contingent Assets and Liabilities

The Telefónica Deutschland Group is subject to claims or other proceedings arising in the ordinary course of business. The possible effects are of minor significance for the Group's net assets, financial position and results of operations.

Indirect claims against the frequency allocation at 800 MHz, 1.8 GHz, 2.0 GHz and 2.6 GHz could result in the reassignment of the 800 MHz, 1.8 GHz, 2.0 GHz and 2.6 GHz frequencies purchased at the 2010 frequency auction. The above frequencies were (indirectly) contested, as there was pending litigation from several cable network operators, broadcasting companies and Airdata AG against the terms and conditions, on which the frequency allocation was based. This litigation was primarily aimed at the allocation conditions for 800 MHz, but also alternatively involved the rescission of the entire allocation decision (i.e. also affecting 1.8 GHz, 2.0 GHz and 2.6 GHz). The actions have now been dismissed in the court of last instance. This ends the legal disputes before the administrative courts. The possibility of additional legal proceedings due to as yet unasserted third-party claims against frequency allocations in 800 MHz in connection with the aforementioned legal action cannot be ruled out. If the appeals are successful, this could result in the reassignment of the frequencies for 800 MHz acquired at the 2010 frequency auction.

Legal actions challenging the rules governing the award and the auction of frequencies in the 2 GHz and 3.6 GHz ranges from the 2019 auction ("PKE 3 + 4") could result in stricter regulations, in particular with regard to the service provider obligation (obligation of the Telefónica Deutschland Group to negotiate with suitable service providers on the shared use of radio capacities). Three actions filed by service providers were dismissed in the court of last instance. It is not known whether a constitutional complaint has been lodged in this regard, but this cannot be ruled out. Another action by a service provider has not yet been decided in the court of first instance. The action of another service provider was dismissed. The appeal of the ruling to the Federal Administrative Court was accepted and heard by the Federal Administrative Court on 20 October 2021. The Federal Administrative Court (BVerwG) has ruled that additional findings by the Administrative Court of Cologne are needed to clarify whether the method used by the BNetzA to decide on the 2019 award and auction rules was free of procedural and deliberation errors. Consequently, the case was referred back to the Cologne Administrative Court. The outcome of this clarification, which has yet to be conducted by the Administrative Court, could lead to the repeal of PKEs 3 + 4, at the end of which the supply obligations/negotiation obligations could be made stricter. In addition, the actions of the Telekom Deutschland Group and the Vodafone Group were dismissed in the court of last instance by the Federal Administrative Court. It is not known whether a constitutional complaint has been lodged in this regard, but this cannot be ruled out. The Telefónica Deutschland Group's appeal was accepted but then dismissed at the hearing on 20 October 2021. The 1&1 Group proceedings are still pending before the court of first instance. If the 1&1 Group succeeds, the obligation to allow the 1&1 Group to participate in the Telefónica Deutschland Group network (e.g. roaming) could lead to a tightening of currently existing negotiation obligations.

In relation to frequency allocations at 3.6 GHz, a (new) objection by EWE TEL GmbH against Telefónica Deutschland Group's 3,540 Mhz - 3,610 MHz frequency allocation of 24 September 2020 is pending. If the appeal is successful, this could result in the reassignment of the frequencies for 3.6 GHz acquired at the 2010 frequency auction.

As one of the leading network operators in Germany, Telefónica Deutschland Group is exposed to the risk of claims concerning patent violations. In this context, patent owners could assert claims for licence payments and/or for the prohibition of the use of certain patent-violating technologies. This risk is mitigated by Telefónica Deutschland Group's exemption and compensation claims against its relevant suppliers. Besides compensation claims for legal costs, patent owners currently have potential licence claims that come under consideration on the basis of the provisional/court-assessed values in dispute. These claims are almost completely offset by the potentially mitigating exemption and compensation claims. The amount of the legal costs and licence claims is estimated in the low millions (EUR).

Estimates, assumptions and discretionary judgements are used to determine contingent assets and liabilities. These relate, inter alia, to risks from the assertion of patent infringements and participations in judicial and extra-judicial proceedings within the scope of ordinary business.

19. Purchase and Other Contractual Obligations

The following expected maturities apply to purchase and other contractual obligations:

(in EUR million)	**As of 31 December 2021**	As of 31 December 2020
Less than 1 year	2,009	1,630
1 to 5 years	2,668	1,103
Over 5 years	877	152
Purchase and other contractual obligations	**5,554**	**2,885**

The purchase and other contractual obligations also include short-term leases and leases of assets of low value.

Purchase and other contractual obligations comprise EUR 601 million from property, plant and equipment as of 31 December 2021 (2020: EUR 609 million) and EUR 33 million from intangible assets (2020: EUR 12 million).

The investment in UGG TopCo GmbH & Co. KG resulted in an investment obligation in the amount of EUR 95 million over approximately five years.

The Telefónica Deutschland Group provides absolute guarantees to secure rental obligations primarily for antenna sites. These guarantees are granted by external financial counterparts.

The guarantees amount to EUR 126 million as of 31 December 2021 (2020: EUR 83 million). Telefónica Deutschland Holding AG has submitted a financing commitment to the German Federal Network Agency in the context of the 5G auction procedure. As part of this agreement, Telefónica Deutschland Holding AG undertakes to ensure, without restriction and on a permanent basis, that Telefónica Germany GmbH & Co. OHG has access to all funds required to fulfil a bid submitted for the acquisition of a frequency in the auction procedure. This letter of comfort already issued replaces the issuance of a new letter of comfort under the Agreement on the Implementation of the Mobile Communications Summit 2018, in which Telefónica Germany GmbH & Co OHG clarified that the letter of comfort issued in connection with the 2019 frequency auction also applies to secure any claims of the Federal Republic of Germany under this agreement.

For contractual obligations arising from further leases, please refer to >Note 20 LEASES< .

20. Leases

Leases

The Consolidated Income Statement presents the following income and expenses related to leases:

1 January to 31 December

(in EUR million)	**2021**	2020
Income from operating leases	1	16
Income / Expenses from finance leases	1	(1)
Expenses relating to short-term leases	(12)	(21)
Expenses relating to leases of low-value assets	(2)	(2)
Depreciation of right-of-use assets	(585)	(525)
Interest expenses on lease liabilities	(26)	(14)

The total cash outflows for leases in the financial year 2021 amounted to EUR 642 million (2020: EUR 583 million).

For additions to right-of-use assets in financial year2021 and the carrying amount of the right-of-use assets as of 31 December 2021 by class of underlying assets, please refer to >Note 5.4 RIGHT-OF-USE ASSETS< .

The Telefónica Deutschland Group has a large number of leases that include cancellation options, extension options and automatic extension options. The different contractual agreements are included in the calculation of the potential future payment obligations resulting from the options which are not taken into account in the lease liability recognised as at 31 December 2021 as follows.

— If contracts provide for extension options that have not yet expired or have already been drawn on, the value of the potential payment obligations is taken into account for the entire period of all future extension options, which usually range from one month to five years.

— For all contracts where there are no future extension options, but instead automatic extensions have been agreed, these extensions are included in the calculation with the first period of automatic extension that is not already included in the lease liability.

— Independently of extension options and automatic extensions, the remaining period until the expiry of the minimum term is taken into account in the calculation for contracts whose expected expiry is less than the minimum term due to sufficiently probable unilateral termination options.

This results in potential future payment obligations for the Telefónica Deutschland Group of EUR 1,554 million as of 31 December 2021 (EUR 1,582 million as of 31 December 2020).

The Telefónica Deutschland Group has various lease contracts that have not yet commenced as at 31 December 2020. The future possible cash outflows for those lease contracts are EUR 1,307 million as of 31 December 2021 (EUR 182 million as of 31 December 2020).

Lessor

As lessor, the Telefónica Deutschland Group has entered into several sublease agreements for shops and cell sites with antenna towers.

Where a sublease is classified as a finance lease, the Group recognises Other financial assets at the value of the net investment in the lease. Future cash inflows from minimum lease payments under finance leases are comprised as follows:

As of 31 December 2021

(in EUR million)	Future minimum lease payments	Unearned finance income	Present value of the minimum lease payments
Due within 1 year	6	0	6
Due between 1 and 5 years	13	0	13
Due in more than 5 years	1	–	1
Total net investment in lease	**20**	**0**	**20**

As of 31 December 2020

(in EUR million)	Future minimum lease payments	Unearned finance income	Present value of the minimum lease payments
Due within 1 year	5	0	5
Due between 1 and 5 years	11	0	11
Due in more than 5 years	2	0	2
Total net investment in lease	**19**	**0**	**19**

Where a lease is classified as an operating lease, the Group, as lessor, recognises the right-of-use asset in the Consolidated Statement of Financial Position. The lease payments received are recognised in profit or loss. Future income from operating leases is comprised as follows:

(in EUR million)	As of 31 December 2021	As of 31 December 2020
Due within 1 year	3	3
Due between 1 and 5 years	4	5
Due in more than 5 years	2	3
Future minimum lease payments receivables from operating leases	**8**	**11**

As lessor, the Telefónica Deutschland Group has entered into several sublease agreements for cell sites with antenna towers and shops.

As a rule, only parts of the antenna towers that are also used by the company itself are leased to third parties. The shops are primarily leased spaces that are accounted for as right-of-use assets. Where a lease is classified as an operating lease, the Telefónica Deutschland Group continues to recognise the leased assets in its Statement of Financial Position. The lease payments received are recognised in profit or loss.

The following table shows the historical cost, accumulated depreciation and residual value of the corresponding assets in the Consolidated Statement of Financial Position as at 31 December 2021, which are subject to sublease in the form of an operating lease agreement:

(in EUR million)	**Cost**	**Accumulated depreciation**	**Residual book value as of 31 December 2021**
Property, plant and equipment	63	(38)	24
Right-of-use assets	35	(16)	18
Total	**98**	**(54)**	**42**

(in EUR million)	Cost	Accumulated depreciation	Residual book value as of 31 December 2020
Property, plant and equipment	121	(76)	45
Right-of-use assets	143	(32)	112
Total	**264**	**(108)**	**157**

21. Total Auditor's Fees

In the financial years 2021 and 2020, the services listed below provided by the Group's auditors, PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, are recognised in the Consolidated Income Statement.

Because the Telefónica Deutschland Group conducts all of its business in Germany, the entire amount is incurred in Germany.

1 January to 31 December

(in EUR million)	**2021**	2020
Types of fee:		
Audit services	2.2	2.3
Other certification services	0.1	0.1
Other services	0.0	0.0
Total fee	**2.3**	**2.4**

The auditor's fees include the fees for auditing the Consolidated Financial Statements of Telefónica Deutschland Holding AG and fees for auditing the annual financial statements of the subsidiaries, other certification services, primarily in connection with sustainability reporting, and other services in connection with a contractual agreement. Other audit-related services and other services were performed in financial years 2021 and 2020 only to a minor extent.

22. Subsequent Events

On 9 February 2022, the Management Board of Telefónica Deutschland resolved to propose a total cash dividend of approx. EUR 535 million or EUR 0.18 per share to the next Annual General Meeting which is scheduled for 19 May 2022.

Jaime Smith Basterra was appointed to the Supervisory Board as a shareholder representative by order of the competent court on 30 December 2021 with effect from 4 January 2022.

No additional events subject to disclosure requirements occurred after the end of financial year 2021.

23. Declaration of Compliance with the German Corporate Governance Code

The Management Board and the Supervisory Board last submitted a declaration of compliance in accordance with section 161 of the German Stock Corporation Act (AktG) on 25 and 27 October 2021. The complete wording of the declaration of compliance is available on Telefónica Deutschland's website at https://www.telefonica.de/investor-relations-en/corporate-governance/declarations-reports-and-articles.html.

Munich, 17 February 2022

Telefónica Deutschland Holding AG

The Management Board

Markus Haas

Markus Rolle

Valentina Daiber

Nicole Gerhardt

Alfons Lösing

Wolfgang Metze

Mallik Rao

Further Information

Further information

Further information

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Editorial note:
We use largely gender-neutral language in this report. We use the generic masculine in some places for reasons of readability and comprehensibility. These formulations apply without restriction to the other genders as well.
The figures in the following have been rounded in accordance with established commercial practice. Therefore, recalculations may slightly differ from the totals shown in the tables. We also advise that absolute amounts smaller than EUR 500,000 are stated either as "0" or "(0)", depending on whether a plus or minus sign appears before it. A nil notification using "-" is indicated for items that do not have a value.

Telefónica Deutschland Holding AG Declaration of the Statutory Representatives

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

Munich, 17 February 2022

Telefónica Deutschland Holding AG

The Management Board

Markus Haas

Markus Rolle

Valentina Daiber

Nicole Gerhardt

Alfons Lösing

Wolfgang Metze

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INDEPENDENT AUDITOR'S REPORT

To Telefónica Deutschland Holding AG, Munich

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

Audit Opinions

We have audited the consolidated financial statements of Telefónica Deutschland Holding AG, Munich, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of comprehensive income, consolidated statement of profit or loss, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from 1 January to 31 December 2021, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of Telefónica Deutschland Holding AG, which is combined with the Company's management report, for the financial year from 1 January to 31 December 2021. In accordance with the German legal requirements, we have not audited the content of the statement on corporate governance pursuant to § [Article] 289f HGB [Handelsgesetzbuch: German Commercial Code] and § 315d HGB.

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

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. [paragraph] 1 HGB and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December 2021, and of its financial performance for the financial year from 1 January to 31 December 2021, and
- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the group management report does not cover the content of the statement on corporate governance referred to above.

Pursuant to § 322 Abs. 3 Satz [sentence] 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities 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 consolidated financial statements and on the group management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from 1 January to 31 December 2021. These matters were addressed in the context of our audit of the consolidated 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 matters of most significance in our audit were as follows:

❶ Appropriateness of revenue recognition

❷ Sale of material portions of the rooftop sites operation

Our presentation of these key audit matters has been structured in each case as follows:

① Matter and issue

② Audit approach and findings

③ Reference to further information

Hereinafter we present the key audit matters:

❶ **Appropriateness of revenue recognition**

① In the Company's consolidated financial statements, revenue of EUR 7.8 billion is reported in the consolidated statement of profit and loss. This comprises revenues from the provision of services (mobile service revenues and fixed-line/DSL business), revenues from the sale of hardware, and other revenues. This significant item in terms of amount is subject to particular risk in view of its complexity (e.g., principal versus agent considerations, accounting treatment of multiple-element arrangements, recognition of contract acquisition costs) as well as the number of systems necessary for the accurate recording and allocation of revenue, the constantly changing price and tariff models, and the use of multiple-element arrangements. In addition, revenue recognition is based to a large extent on estimates and assumptions made by the executive directors. Against this background, the accounting treatment of revenue was of particular significance in the context of our audit.

② In the knowledge that the high degree of complexity and the estimates and assumptions to be made by the executive directors give rise to an increased risk of accounting misstatements, as part of our audit we initially assessed the systems used by the Company and the processes and controls established for the purpose of recording and allocating revenue. This also included an evaluation of the IT systems environment, from the transfer of data from the mediation systems, via the measurement and billing systems, down to entry in the general ledger. As part of this process, we assessed whether revenue had been recognized fully and accurately and verified whether it had been allocated to the correct periods or correctly deferred. In addition, we examined the accounting effects of the multiple-element arrangements and the reporting of business relationships with dealers and business partners. We assessed among other things the appropriateness of the procedure used to account for revenue, and assessed the estimates and judgments made by the executive directors with respect to revenue recognition and deferral. We also examined customer invoices and the associated contracts and receipts of payment on a test basis and verified that the receivables reported as at the reporting date for private and business customers were substantiated. We applied consistent audit procedures for the audit of the operating subsidiaries to ensure that we responded appropriately to the inherent audit risk in the audit area. In addition, we verified the consistency of the methods used to recognize revenue in the Group. We were able to satisfy ourselves that the systems, processes and controls in place are appropriate and that the estimates and assumptions made by the executive directors are sufficiently documented and substantiated to ensure that revenue is appropriately accounted for.

③ The Company‘s disclosures on revenue are contained in sections „4.2 l) Significant Accounting Policies / revenues from contracts with customers“ as well as „6.1 Revenues“ of the notes to the consolidated financial statements.

❷ Sale of material portions of the rooftop sites operation

① A disposal gain of EUR 262 million is reported for the financial year in the consolidated income statement under „other income“. The disposal gain resulted from the sale of material portions of Telefónica Germany GmbH & Co. OHG‘s rooftop sites operation in the second stage of the transaction. On June 8, 2020, Telefónica Germany GmbH & Co. OHG, Munich, Germany – a 99.99% subsidiary of Telefónica Deutschland Holding AG – entered into a comprehensive set of agreements with Telxius Telecom, S.A., Madrid, Spain – an affiliate of Telefónica, S.A., Madrid, Spain – concerning the sale of material portions of the rooftop sites operation. The transaction comprised two steps: on 19 August 2020, approximately 60% of the relevant sites were spun off to Telefónica Germany Mobilfunk Standortgesellschaft mbH, Munich, which was newly formed in the first half of 2020. The shares in this company were transferred to Telxius Telecom S.A., Madrid, Spain, on 1 September 2020. The purchase price receivable relating to the first stage of the transaction amounted to EUR 945 million. On 22 July 2021, the approximately 40% of sites remaining were spun off to Telefónica Germany Zweite Mobilfunk Standortgesellschaft mbH, Munich, which was formed in 2020; shares in this entity were also transferred to Telxius Telecom S.A. with effect from 1 August 2021. The purchase price receivable relating to the second stage of the transaction amounted to EUR 632 million. In our view, this matter was of particular significance for our audit due to the high complexity of the calculation for the disposal gain and in the accounting treatment of the deconsolidation resulting from the second stage of the transaction.

② As part of our audit and together with the support of our internal specialists from Capital Markets & Accounting Advisory Services (CMAAS), we first obtained an understanding of the underlying contractual agreements and their effects on the consolidated financial statements. In that connection, we verified whether the assets and liabilities disposed of were fully and completely identified on the basis of the contractual agreements. We furthermore assessed whether the carrying amounts for the assets and liabilities disposed of, including a review of the partial suspension of depreciation and amortization, costs of disposal and the notional disposal gain, taking into account the agreed purchase price, were appropriately determined. We then verified whether the spin-off to Telefónica Germany Zweite Mobilfunk Standortgesellschaft mbH , taking into account the carrying amounts determined for the assets and liabilities being disposed of, as well as the subsequent deconsolidation were accurately recorded in the in the Group‘s financial accounts. We were able to satsify ourselves that the recognized disposal gain and the treatment of the transaction in the Group‘s financial accounts relating to the second stage of the transaction were sufficiently documented and substantiated.

③ The Company’s disclosures relating to the second stage of the transaction are contained in section 7 „Disposal groups“ of the notes to the consolidated financial statements.

Other Information

The executive directors are responsible for the other information. The other information comprises the statement on corporate governance pursuant to § 289f HGB and § 315d HGB as an unaudited part of the group management report.

The other information comprises further

- the separate non-financial report pursuant to § 289b Abs. 3 HGB and § 315b Abs. 3 HGB
- all remaining parts of the annual report – excluding cross-references to external information – with the exception of the audited consolidated financial statements, the audited group management report and our auditor’s report

Our audit opinions on the consolidated financial statements and on the group 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 mentioned above and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report disclosures audited in terms of content or with our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

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

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group'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 unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated 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 group 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 group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated 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 consolidated financial statements and on the group 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 consolidated financial statements and this group management report.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group 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 consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group 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.

- 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 Group'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 consolidated financial statements and in the group 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 Group to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.

- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.

- Perform audit procedures on the prospective information presented by the executive directors in the group 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 consolidated 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

Report on the Assurance on the Electronic Rendering of the Consolidated Financial Statements and the Group Management Report Prepared for Publication Purposes in Accordance with § 317 Abs. 3a HGB

Assurance Opinion

We have performed assurance work in accordance with § 317 Abs. 3a HGB to obtain reasonable assurance as to whether the rendering of the consolidated financial statements and the group management report (hereinafter the "ESEF documents") contained in the electronic file Telefonica Deutschland Holding_AG_KAP+LB_ESEF-2021-12-31.zip and prepared for publication purposes complies in all material respects with the requirements of § 328 Abs. 1 HGB for the electronic reporting format ("ESEF format"). In accordance with German legal requirements, this assurance work extends only to the conversion of the information contained in the consolidated financial statements and the group management report into the ESEF format and therefore relates neither to the information contained within these renderings nor to any other information contained in the electronic file identified above.

In our opinion, the rendering of the consolidated financial statements and the group management report contained in the electronic file identified above and prepared for publication purposes complies in all material respects with the requirements of § 328 Abs. 1 HGB for the electronic reporting format. Beyond this assurance opinion and our audit opinion on the accompanying consolidated financial statements and the accompanying group management report for the financial year from 1 January to 31 December 2021 contained in the „Report on the Audit of the Consolidated Financial Statements and on the Group Management Report" above, we do not express any assurance opinion on the information contained within these renderings or on the other information contained in the electronic file identified above.

Basis for the Assurance Opinion

We conducted our assurance work on the rendering of the consolidated financial statements and the group management report contained in the electronic file identified above in accordance with § 317 Abs. 3a HGB and the IDW Assurance Standard: Assurance Work on the Electronic Rendering, of Financial Statements and Management Reports, Prepared for Publication Purposes in Accordance with § 317 Abs. 3a HGB (IDW AsS 410 (10.2021)) and the International Standard on Assurance Engagements 3000 (Revised). Our responsibility in accordance therewith is further described in the „Group Auditor's Responsibilities for the Assurance Work on the ESEF Documents" section. Our audit firm applies the IDW Standard on Quality Management 1: Requirements for Quality Management in the Audit Firm (IDW QS 1).

Responsibilities of the Executive Directors and the Supervisory Board for the ESEF Documents

The executive directors of the Company are responsible for the preparation of the ESEF documents including the electronic renderings of the consolidated financial statements and the group management report in accordance with § 328 Abs. 1 Satz 4 Nr. [number] 1 HGB and for the tagging of the consolidated financial statements in accordance with § 328 Abs. 1 Satz 4 Nr. 2 HGB.

In addition, the executive directors of the Company are responsible for such internal control as they have considered necessary to enable the preparation of ESEF documents that are free from material non-compliance with the requirements of § 328 Abs. 1 HGB for the electronic reporting format, whether due to fraud or error.

The supervisory board is responsible for overseeing the process for preparing the ESEF documents as part of the financial reporting process.

Group Auditor's Responsibilities for the Assurance Work on the ESEF Documents

Our objective is to obtain reasonable assurance about whether the ESEF documents are free from material non-compliance with the requirements of § 328 Abs. 1 HGB, whether due to fraud or error. We exercise professional judgment and maintain professional skepticism throughout the assurance work. We also:

- Identify and assess the risks of material non-compliance with the requirements of § 328 Abs. 1 HGB, whether due to fraud or error, design and perform assurance procedures responsive to those risks, and obtain assurance evidence that is sufficient and appropriate to provide a basis for our assurance opinion.
- Obtain an understanding of internal control relevant to the assurance work on the ESEF documents in order to design assurance procedures that are appropriate in the circumstances, but not for the purpose of expressing an assurance opinion on the effectiveness of these controls.
- Evaluate the technical validity of the ESEF documents, i.e., whether the electronic file containing the ESEF documents meets the requirements of the Delegated Regulation (EU) 2019/815 in the version in force at the date of the consolidated financial statements on the technical specification for this electronic file.
- Evaluate whether the ESEF documents provide an XHTML rendering with content equivalent to the audited consolidated financial statements and to the audited group management report.
- Evaluate whether the tagging of the ESEF documents with Inline XBRL technology (iXBRL) in accordance with the requirements of Articles 4 and 6 of the Delegated Regulation (EU) 2019/815, in the version in force at the date of the consolidated financial statements, enables an appropriate and complete machine-readable XBRL copy of the XHTML rendering.

Further Information pursuant to Article 10 of the EU Audit Regulatio

We were elected as group auditor by the annual general meeting on 20 May 2021. We were engaged by the supervisory board on 25 October 2021. We have been the group 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).

REFERENCE TO AN OTHER MATTER– USE OF THE AUDITOR'S REPORT

Our auditor's report must always be read together with the audited consolidated financial statements and the audited group management report as well as the assured ESEF documents. The consolidated financial statements and the group management report converted to the ESEF format – including the versions to be published in the Federal Gazette – are merely electronic renderings of the audited consolidated financial statements and the audited group management report and do not take their place. In particular, the "Report on the Assurance on the Electronic Rendering of the Consolidated Financial Statements and the Group Management Report Prepared for Publication Purposes in Accordance with § 317 Abs. 3a HGB" and our assurance opinion contained therein are to be used solely together with the assured ESEF documents made available in electronic form.

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

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

Munich, February 17, 2022

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

(sgd. Stefano Mulas)	(sgd. ppa. Birgit Wicke)
Wirtschaftsprüfer	Wirtschaftsprüferin
(German Public Auditor)	(German Public Auditor)

Supervisory Board Report for the 2021 financial year

Dear Shareholders,

Telefónica Deutschland can look back on a very successful financial year 2021 despite the many challenges posed by the ongoing global covid pandemic. The „Investment for Growth" strategy program was implemented consistently and successfully in its second year. The investments are paying off and translating into very good operational and financial performance. In terms of revenue and operating profit OIBDA, Telefónica Deutschland is fully on track to achieve its ambitious targets. The company was able to confirm its strong momentum in financial year 2021, adding approximately 1.5 million new mobile contract customers and expanding market share. The network expansion continued to be driven forward. Telefónica Deutschland covers more than 99% of the German population with 4G and has also reached important milestones in the rollout of the 5G network. 30% of the German population was provided with the new mobile technology by the end of the year, as announced.

Telefónica Deutschland's mobile network is on a par with the competition. The trade magazine „connect" confirmed its „very good" rating.[1] In addition to customer growth, this is also reflected in customer satisfaction. The recommendation rate improved once again and the churn rate is at a historic low. With Lebara, another major partner company could be acquired for the Telefónica Deutschland network. The Business Customer segment is also developing sustained momentum with the acquisition of new customers, the expansion of existing business relationships and the opening up of new markets with future technologies. At the same time, the company is taking responsibility for its employees in terms of digital training and has implemented programs for the digital working world of tomorrow and hybrid working models. With the Responsible Business Plan 2025 presented in financial year 2021, the company has set itself ambitious sustainability goals and more than doubled the number of measures in it.

Peter Löscher

Chairman of the Supervisory Board
of Telefónica Deutschland Holding AG

In the spirit of good corporate governance, the Supervisory Board collaborated well with the Management Board with regard to all significant topics on the basis of trustful cooperation, advised it in managing the company and fulfilled its controlling responsibilities in the reporting period.

It thus consistently and responsibly performed its duties as set out by law, the Articles of Association and the bylaws.

[1] Connect mobile communications network test, issue 1/2022: "very good" (874 points); in total, three "very good" ratings (944, 913 and 874 points) were awarded

Composition of the Supervisory Board

The company's Supervisory Board consists of 16 members, of which eight are shareholder representatives and eight are employee representatives.

During the 2021 financial year, the Supervisory Board consisted of the following members: Peter Löscher (Chairman), Christoph Braun (Deputy Chairperson) as well as the Supervisory Board members Martin Butz, Pablo de Carvajal González, Peter Erskine, María García-Legaz Ponce, Ernesto Gardelliano, Cansever Heil, Christoph Heil, Michael Hoffmann, Julio Linares López, Stefanie Oeschger, Thomas Pfeil, Joachim Rieger, Dr. Jan-Erik Walter and Claudia Weber.

There were no changes to the Supervisory Board members during the reporting period.

Peter Erskine resigned from his role as Supervisory Board member with effect from end of 31 December 2021; by court order dated 30 December 2021, with effect from 4 January 2022, Jaime Smith Basterra was appointed by the court as a shareholder representative as a member of the Supervisory Board. He has expertise in the fields of accounting and auditing and is independent of the Company and its Management Board as well as of the controlling shareholder.

Further information, including curricula vitae of the members of the Supervisory Board, can be found on the Company's website at www.telefonica.de/supervisory-board.

In accordance with the recommendation of C.10 of the German Corporate Governance Code, the member Michael Hoffmann, who is independent of the controlling shareholder as well as of the Company and the Executive Board, is the Chairman of the Audit Committee and an independent financial expert on the Supervisory Board.

In accordance with Section 100 para. (5) of the German Stock Corporation Act (AktG), the Supervisory Board already included at least one member with expertise in the field of accounting and auditing, Michael Hoffmann, and at least one further member with expertise in the field of accounting and auditing, Ernesto Gardelliano, in the reporting period. In addition, Thomas Pfeil as a longstanding member of the Audit Committee also has corresponding expertise. The members of the Supervisory Board as a whole were familiar with the sector in which the Company operates.

Composition of the Management Board

In the financial year 2021, the **Management Board** of Telefónica Deutschland Holding AG consisted of seven members: Markus Haas, Chief Executive Officer (CEO), Markus Rolle, Chief Financial Officer (CFO), Valentina Daiber (Chief Officer Legal and Corporate Affairs), Nicole Gerhardt (Chief Human Resources Officer and Labour Director ("Arbeitsdirektorin"), Alfons Lösing (Chief Partner & Wholesale Officer), Wolfgang Metze (Chief Consumer Officer) and Mallik Rao (Yelamate Mallikarjuna Rao; Chief Technology & Information Officer).

There were no changes in the composition of the Management Board during the reporting period.

Cooperation between the Management Board and Supervisory Board

The Management Board and Supervisory Board cooperate in a trusting manner in all relevant matters within and outside of Supervisory Board meetings and in the interest of the company.

In the reporting period, the Supervisory Board advised and monitored the Management Board with advice in accordance with legal requirements.

The Management Board involved the Supervisory Board in all material decisions in a timely manner, submitted reports to the Supervisory Board in oral and written form and provided additional information when required, if necessary also by means of an expert opinion from external advisors. Where approval by the Supervisory Board was required by law, the articles of association or the by-laws, this was given after intensive consultation, examination and discussion in the Supervisory Board and – where relevant – in the committees set up by the Supervisory Board for this purpose.

In addition, the Management Board provided the Supervisory Board monthly with a written report, which covered in particular relevant financial key performance indicators (KPIs).

During the reporting period, the Chairman of the Supervisory Board regularly exchanged information with the Management Board, in particular with the CEO. Thus, regular alignment meetings took place between the Chairperson of the Supervisory Board and the CEO. They discussed the current status and future development of the company, as well as the progress of ongoing important projects, strategy, business policy, corporate planning, risks and opportunities and its management, as well as compliance and governance topics. Furthermore, there is a lively exchange between the Chairperson of the Supervisory Board and the CEO outside of regular meetings. The Chairman of the Supervisory Board informed the other members of the Supervisory Board about important topics discussed.

In addition to the meeting activities, pre-alignment meetings for the respective meetings and other information provided to the Supervisory Board by the Management Board during the year, an annual strategy workshop was again held in which the strategy of the company was analysed in the light of current developments and for each Management Board department and discussed in an informal setting. In that context, the Supervisory Board also discussed the ways corporate sustainability and ESG (Environment, Social, Governance) are included in corporate business and strategy. All members of the Supervisory Board and Management Board participated in the strategy workshop.

Meetings of the Supervisory Board

In 2021, five regular meetings of the Supervisory Board were held, namely on 22 February (meeting on the financial statements for the 2020 financial year; "Bilanzsitzung"), 26 April, 26 July, 25 October and 16 December 2021.

Furthermore, there were five internal meetings of the Supervisory Board in which internal Supervisory Board topics such as the effectivity survey and further training of the Supervisory Board, the composition and composition of its committees as well as Management Board remuneration topics were dealt with. The internal meetings were held on 22 February, 26 April, 26 July, 25 October and 16 December 2021.

In addition, there was an extraordinary Supervisory Board meeting on 18 January 2021 to discuss the budget for the 2021 financial year and issues relating to future shareholder remuneration.

There have been two Supervisory Board meetings so far in 2021. An extraordinary meeting of the Supervisory Board was held on the evening of 18 January 2021 in anticipation of an IR Capital Market Update on the following day.

In 2022, there has been one Supervisory Board meeting and one internal meeting of the Supervisory Board so far.

The meeting on the financial statements for the 2021 financial year was held on 21 February 2022. In addition to financial topics, the meeting on the financial statements also dealt with corporate governance topics and preparations of the 2022 Annual General Meeting, as well as the remuneration report for the financial year 2021. The internal meeting of the Supervisory Board dealt, among other things, with the Supervisory Board's report on the 2021 financial year. Moreover, following respective recommendation of the Remuneration Committee, the prolongation of the management board service agreement and the appointment of Markus Haas until 31 December 2025 was resolved.

Material topics dealt with by the Supervisory Board

The first meeting of the Supervisory Board in the financial year 2021 was an extraordinary meeting, which took place on 18 January 2021. Among other things, the 2021 budget, shareholder remuneration and midterm guidance were discussed in this meeting.

The first regular meeting of the Supervisory Board in the financial year 2021 was then the balance sheet meeting on financial year 2020. It took place on 22 February 2021. The focus of this meeting was the review and approval of the annual and consolidated financial statements and the combined management report for the 2020 financial year as well as the treatment of the dependency report and the non-financial statement and consideration of profitability. In addition to these topics, the Supervisory Board dealt in particular with the strategic priorities for 2021 in general and in particular in the areas of Legal & Corporate Affairs, B2C, CTIO and business partner business. Furthermore, the agenda of the Annual General Meeting on 20 May 2021 and its proposed resolutions, including the distribution of the balance sheet profit, proposal for the appointment of the auditor for the financial year 2021 and corporate governance topics were discussed.

In an internal meeting on the same day, the Supervisory Board dealt in particular with compensation issues, including the compensation systems. Furthermore, the Supervisory Board dealt with the Supervisory Board's report on the 2020 financial year.

The Supervisory Board meeting on 26 April 2021 dealt in particular with the development of the B2B area, financial topics (in particular Q 1 results and the annual financial statements of the direct subsidiaries), an update on network topics and the partner business. The Supervisory Board furthermore dealt with the topics of audit and risk management, including the audit plan for 2021, compliance, and the Corporate Responsibility Report, as well as the upcoming (virtual) Annual General Meeting 2021. Furthermore, the Supervisory Board addressed its strategy workshop.

At its internal meeting, also held on 26 April 2021, one of the items on the agenda was succession planning. Furthermore, the Supervisory Board dealt with compensation and governance topics.

At the meeting on 26 July 2021 Management Board reported on the flood disaster and the exemplary relief efforts of employees, among other things. Meeting topics also included the ongoing Corona pandemic, opportunities in the Business area, Q2 results, and guidance options given the successful financial year. Furthermore, CTIO topics (in particular the network expansion plan) and HR topics were discussed.

In the internal meeting of the Supervisory Board on the same day, the Supervisory Board dealt in particular with remuneration and corporate governance issues and the upcoming annual effectivity survey of the Supervisory Board and, among other things, the dates of the Annual General Meetings in 2022 and 2023.

In a meeting on 25 October 2021, in addition to the usual CTIO update, the Supervisory Board dealt in particular with the Q3 results and the long-term business plan. Furthermore, the Corporate & Legal Affairs Update dealt with the consultation on the spectrum award procedure and the main topics of non-financial reporting.

An internal meeting of the Supervisory Board was also held on 25 October 2021, in which, among other things, the Compliance Declaration and the results of the effectivity survey of the Supervisory Board were discussed and measures were derived.

At the Supervisory Board meeting on 16 December 2021, the topics discussed included among other things a review of the very successful year 2021 for the company, the priorities for 2022, the agenda for the 2022 Annual General Meeting and financial topics. The meeting focused on the Long Term Business Plan 2022-2024 and the resolution on the 2022 budget. Furthermore, an update was given on the CTIO – including on the very good network test results and rollout commitments – and business partner areas of the Management Board, and on the agenda for the 2022 Annual General Meeting and resolutions on the meeting dates for 2022. The subsequent internal meeting of the Supervisory Board dealt with Management Board succession planning and Management Board remuneration topics and presented the main features of the separate Remuneration Report 2022 to be prepared for the first time for the Annual General Meeting in 2022.

Where necessary, the Supervisory Board also passed resolutions outside of meetings, in particular by e-mail. For example, the Compliance Declaration from March 2021 and the final agenda for the 2021 Annual General Meeting and its implementation were passed in this way, taking into account the facilitations resulting from the Act on Measures in Company, Cooperative, Association, Foundation and Condominium Law to Combat the Effects of the COVID 19 Pandemic ("Gesetz über Maßnahmen im Gesellschafts-, Genossenschafts-, Vereins-, Stiftungs- und Wohnungseigentumsrecht zur Bekämpfung der Auswirkungen der COVID-19-Pandemie") after respective predealing in meetings held in person and in committees (where relevant).

Committees of the Supervisory Board

As of 31 December 2021, the Supervisory Board has installed five committees: an Audit Committee, a Remuneration Committee, a Nomination Committee, a Related Party Transactions Committee and a Mediation Committee. The Audit Committee, the Remuneration Committee, the Related Party Transactions Committee and the Nomination Committee meet regularly, the Mediation Committee meets only as required.

The Audit Committee is inter alia responsible for preparing the resolution of the Supervisory Board regarding the approval of the financial statements, discusses the quarterly and half-year reports with the Management Board, monitors the accounting processes and auditing, compliance and the effectivity of internal control systems (including risk management and internal audit systems) and the auditor's review of the financial statements. It furthermore is responsible for the coordination with and selection of the auditor as well as evaluation of the quality of the audit.

During the reporting year, the audit committee consisted of the following members:

- Michael Hoffmann (chairman; independent financial expert)
- Martin Butz
- Ernesto Gardelliano (financial expert) (interrupted from the end of the Annual General Meeting of 20 May 2021 until his reelection to the committee on 6 July 2021) and
- Thomas Pfeil (financial expert).

In 2021, the Audit Committee met four times, on 22 February, 26 April, 26 July and 25 October 2021, to discuss, among other things, the financial results, audit, risk management and integrity services including compliance, data protection and cyber security, and the assessment of quality of the auditor's work. Furthermore, the Supervisory Board's meeting on financial statements and corresponding recommendations to the full board were prepared.

In 2022, the Audit Committee met once, on 21 February 2022, with the focus on preparing the Supervisory Board's balance sheet meeting and recommending the auditor for resolution by the Annual General Meeting, which is scheduled for 19 May 2022.

During the reporting year, the Chairman of the Audit Committee maintained close contact with the auditors and internal (especially finance) departments as well as the Management Board also outside of meetings and informed the other members of the Audit Committee about important topics arising from this exchange. Furthermore, the chairman of the audit committee regularly reports to the Supervisory Board on the activities of the audit committee.

During the reporting year, the Remuneration Committee consisted of the following members:

- Michael Hoffmann (chairman; independent)
- María García-Legaz Ponce
- Dr. Jan-Erik Walter and
- Claudia Weber.

The Remuneration Committee is entrusted with the preparation of topics relating to the remuneration of the Management Board and Supervisory Board. Insofar as Supervisory Board compensation is concerned, this applies only to the extent that it falls within the remit of the Supervisory Board, particularly in the context of the new "say on pay" requirements. The Remuneration Committee makes recommendations to the full Supervisory Board in this regard.

The Remuneration Committee met five times in 2021, on 1 February, 26 March, 19 July, 17 September and 24 November 2021. Among other things, it dealt intensively with the remuneration systems of the Supervisory Board and Management Board and with the implementation of the elements of the remuneration systems in remuneration components, including the proposal of concrete targets and review of the respective target achievement. The Remuneration Committee dealt in detail with the remuneration-related recommendations of the German Corporate Governance Code 2020 before respective resolution passing by the Supervisory Board.

In 2022, one meeting of the Remuneration Committee took place on 28 January 2022 in preparation for the Supervisory Board's resolution on Management Board remuneration topics and the amendment of the Remuneration System for the Supervisory Board, which will be presented to the Annual General Meeting 2022 for resolution.

The members of the Remuneration Committee also participated in a preparatory meeting outside the meetings of the Remuneration Committee (informal Q&A session on the topic of Say on Pay). Furthermore, the Remuneration Committee also passed by e-mail outside of meetings during the reporting period resolutions.

The Chairman of the Remuneration Committee reports regularly on the activities of the Remuneration Committee at the internal meetings of the Supervisory Board.

The Nomination Committee proposes suitable candidates to the Supervisory Board for election proposals to the Annual General Meeting. As of 31 December 2021, the Nomination Committee consisted of the following members:

- Peter Löscher (Chairman; independent)
- Pablo de Carvajal González and
- Ernesto Gardelliano (interrupted from the end of the Annual General Meeting on 20 May 2021 until his re-election to the committee on 6 July 2021).

In the reporting year, the Nomination Committee dealt with the succession topics of the Supervisory Board 2021 and, in particular in advance of the Annual General Meeting on 20 May 2021, proposed Stefanie Oeschger and Ernesto Gardelliano to the full Supervisory Board as suitable candidates for succession to the Supervisory Board to the Annual General Meeting. There was one meeting of the Nomination Committee on 12 November 2021, at which the composition criteria and requirements for members of the Supervisory Board were also discussed in the context of the new election of all shareholder representatives due to take place at the Annual General Meeting in 2022. Furthermore, the members of the Nomination Committee dealt with succession topics of the Supervisory Board outside meetings and, after appropriate informal preliminary treatment, made their recommendations to the Supervisory Board by way of e-mail resolutions.

The Chairman of the Nomination Committee reports regularly on the activities of the Nomination Committee at the internal meetings of the Supervisory Board.

The Chairman of the Nomination Committee reports regularly on the activities of the Nomination Committee at the internal meetings of the Supervisory Board.

The Related Party Transactions Committee monitors and resolves on certain transactions with affiliated companies, in particular transactions with affiliated companies pursuant to sec. 111a, b German Stock Corporation Act (AktG), instead of the full Supervisory Board. The majority of its members have no conflicts of interest with regard to the controlling shareholder.

The Related Party Transactions Committee consists of the following five members:

- Peter Löscher (Chairman)
- Christoph Braun
- Pablo de Carvajal González
- Michael Hoffmann and
- Thomas Pfeil.

The Related Party Transactions Committee met two times in 2021, on 22 February 2021 and 28 September 2021. At these meetings and in the context of e-mail resolutions, the Related Party Transactions Committee dealt with the quarterly monitoring of transactions with affiliated companies and dealt with transactions with affiliated companies that did not trigger any disclosure obligations under section 111c of the German Stock Corporation Act (AktG).

The Chairman of the Related Party Transactions Committee reports regularly on the activities of the Related Party Transactions Committee at the meetings of the Supervisory Board.

As of 31 December 2021, the Mediation Committee with the responsibilities as defined in section 31 Co-Determination Act (Mitbestimmungsgesetz) consisted of the following members:

- Peter Löscher (Chairman)
- Christoph Braun
- Christoph Heil and
- Julio Linares López.

There was no need for the Mediation Committee to convene in the reported year.

Attendance at Meetings

Insofar as members could not attend meetings of the Supervisory Board or relevant committee meetings in isolated cases, they were excused. They participated then in the passing of resolutions by written vote.

The individual meeting attendance during the financial year 2021 was as follows:

Member of the Supervisory Board	Number of Meetings*	Attendance	Non-Attendance	Attendance Quota
Peter Löscher	14	14	0	100%
Christoph Braun	13	13	0	100%
Martin Butz	15	15	0	100%
Pablo de Carvajal González	14	14	0	100%
Peter Erskine	11	11	0	100%
María García-Legaz Ponce	15	15	0	100%
Ernesto Gardelliano	16	16	0	100%
Cansever Heil	11	11	0	100%
Christoph Heil	11	11	0	100%
Michael Hoffmann	21	19	2	90%
Julio Linares López	11	11	0	100%
Stefanie Oeschger	11	11	0	100%

Member of the Supervisory Board	Number of Meetings*	Attendance	Non-Attendance	Attendance Quota
Thomas Pfeil	17	17	0	100%
Joachim Rieger	11	11	0	100%
Dr. Jan-Erik Walter	15	15	0	100%
Claudia Weber	15	15	0	100%
Total	**221**	**219**	**2**	**99%**

* This includes the number of Supervisory Board and respective committee meetings. The work of the Supervisory Board which took place outside of meetings, is not reflected herein.

** The member was excused for personal reason on one day on which two meetings were held. The member participated in the passing of resolutions by submitting a written vote.

The overview on the individual meeting attendance is also available on the Company´s website at https://www.telefonica.de/investor-relations-en/company/supervisory-board/members-attendance-at-meetings.html.

Corporate Governance

Good corporate governance is essential for corporate success and is therefore in the interest of the company's shareholders. Further details on the corporate governance of Telefónica Deutschland Holding AG can be found in the Management Declaration pursuant to section 289f in connection with 315d German Commercial Code (HGB) in the Annual Report and on the company's website at https://www.telefonica.de/management-declaration-2021.

On 25/27 October 2021, the Management Board and the Supervisory Board approved a new Declaration of Compliance pursuant to section 161 German Stock Corporation Act (AktG). The Declaration of Compliance was published on the company's website at https://www.telefonica.de/compliance-declaration-october-2021. Previous versions of the Declaration of Compliance can be also found at the website.

Six of the 16 members of the Supervisory Board in the reporting year held positions in the administrative, management and supervisory bodies of the majority shareholder or its affiliated companies. Both the Supervisory Board members and the Management Board members disclose potential conflicts of interest promptly to the Supervisory Board. In the reporting period, no conflicts of interest within the meaning of the German Corporate Governance Code arose.

As of 31 December 2021, the Supervisory Board comprised four female and twelve male members. Thus the Supervisory Board continues to fulfil the requirements of sec. 96 para. 2 German Stock Corporation Act (AktG) which the Supervisory also adopted for itself (a gender diversity quota of at least 30%), which shall be fulfilled separately by shareholder and employee representatives side following a shareholder representative resolution. This quota was fulfilled during the entire financial year with two female members on the employee representative side and two female members on the shareholder representative side.

The minimum gender diversity quota for the Management Board is 25%. It was met throughout the whole financial year 2021 (two of seven members are female).

Support of Members of the Supervisory Board

The members of the Supervisory Board are adequately supported when taking up their duties. In particular, an introduction to the activities of the Supervisory Board at Telefónica Deutschland takes place upon taking office. As part of this introduction, the Supervisory Board office with legal advisors explain the practical and legal principles and also highlight specific issues relating to stock corporation law. Training and further development requirements of the Supervisory Board are regularly assessed during the course of its work. In the reporting year, general and legal training courses were held, in particular on corporate governance issues and new legal framework. In conjunction with the strategy workshop, the company organized training sessions on new topics related to the Company's strategy, which were attended by all members of the Supervisory Board, in particular on new requirements for corporate sustainability and ESG (Environment, Social, Governance) sustainability reporting. Furthermore, the Supervisory Board was informed interactively about new types of technical developments (future technologies), particularly in the network and cloud areas. Furthermore, noting papers were prepared on individual topics (e.g., the provisions of the Financial Market Integrity Strengthening Act (Gesetz zur Stärkung der Finanzmarktintegrität, FISG) and the Second Management Positions Act (Zweites Führungspositionen-Gesetz, FüPoG II)).

Review of the Financial Statements 2021

Pricewaterhouse Coopers GmbH Wirtschaftsprüfungsgesellschaft audited the annual financial statements and the consolidated financial statements as well as the combined management report of Telefónica Deutschland Holding AG and the Group as of 31 December 2021 and provided each with an unqualified audit opinion. The annual financial statement of Telefónica Deutschland Holding AG and the combined management report for Telefónica Deutschland Holding AG and the Telefónica Deutschland Group were prepared in accordance with German commercial law. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as they are applied in the European Union (EU) and the additional requirements which have to be applied in accordance with section 315e para 1 German Commercial Code (HGB). The auditor carried out the audit in accordance with section 317 German Commercial Code (HGB) considering German principles of proper auditing set by the Institute of Public Auditors in Germany (IDW).

The financial statement documentation of Telefónica Deutschland Holding AG and the Group, the separate non-financial declaration for Telefónica Deutschland Holding AG for the financial year 2021 as well as the respective auditor's reports and the Management Board's proposal for the distribution of profit were submitted to the Supervisory Board prior to the meeting on 21 February 2022 ("Bilanzsitzung"). The Audit Committee and the full Supervisory Board thoroughly reviewed the Annual Financial Statement ("Jahresabschluss"), the Group financial statements, the combined Management Report for Telefónica Deutschland Holding AG and the Group, the separate combined non-financial declaration, the respective auditor´s reports and the Management Board proposal for the distribution of profit and discussed the documents in detail together with the auditor on 21 February 2022. The auditor also reported on scope, material aspects and results of his audit. There was no report on material weaknesses of the internal control system and the risk management system. Management Board explained in this meeting the risk management system besides the annual financial statement of Telefónica Deutschland Holding AG and the Group, the combined management report and the separate non-financial declaration. The Supervisory Board approved the auditor's findings in the audit reports and had no objections after its own assessment.

At its meeting on 21 February 2022, the Supervisory Board approved the annual financial statements of Telefónica Deutschland Holding AG and the consolidated financial statements together with the combined management report for the 2021 financial year; the financial statement of Telefónica Deutschland Holding AG is thereby adopted.

Relations to affiliated companies

The report on relations to affiliated companies (dependency report) as prepared by the Management Board pursuant to section 312 of the German Stock Corporation Act was also audited by the auditor. With respect thereto, the auditor issued the following unqualified opinion ("Uneingeschränkter Bestätigungsvermerk"):

"Based on our audit and assessment, which were carried out in accordance with professional standards, we confirm that

1. the factual statements made in the report are correct, and
2. the payments made by the company in connection with legal transactions detailed in the report were not unreasonably high."

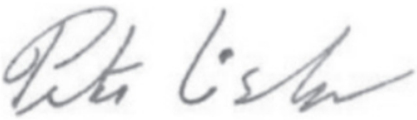
The dependency report as prepared by the management board and audited by the auditor as well as the audit report on the dependency report were submitted to the Supervisory Board and discussed in detail in the meeting on 21 February 2022 also with the auditor. Having reviewed the dependency report and the corresponding audit report, the Supervisory Board agreed with the results of the audit of the dependency report and as the result of its own assessment had no objections against the dependency report and the Management Board's declaration contained therein.

The Supervisory Board once again thanks the Supervisory Board member Peter Erskine, who retired effective 31 December 2021, for many years of good and trusted cooperation.

The Supervisory Board thanks the whole Management Board for the excellent management in the challenging financial year 2021 and for the always trustful collaboration. Furthermore, the Supervisory Board thanks also all employees of Telefónica Deutschland who during this special period, which was again marked by the pandemic and natural disasters, once again showed an outstanding commitment and contributed materially to the success of the Company.

Munich, 21 February 2022

On behalf of the Supervisory Board



Peter Löscher
Chairman of the Supervisory Board of
Telefónica Deutschland Holding AG

Management Declaration in accordance with sections 289f in connection with 315d of the German Commercial Code (HGB)

This Management Declaration of Telefónica Deutschland Holding AG is based on Sect. 289f, 315d of the German Commercial Code (HGB) in the version applicable at the time the statement was issued, as well as the German Corporate Governance Code in the version dated 16 December 2019, published in the Federal Gazette on 20 March 2020.

1. Declaration of Compliance in accordance with section 161 of the German Stock Corporation Act (AktG)

Pursuant to section 161 of the German Stock Corporation Act (AktG), the Management Board and the Supervisory Board of a listed stock corporation are required to declare annually that the Company has complied and is complying with the recommendations of the "Government Commission for the German Corporate Governance Code" (GCGC), as published in the official part of the Federal Gazette by the Federal Ministry of Justice, or, alternatively, are to declare which recommendations the Company has not followed or does not follow and why not. The declaration shall be made permanently available on the Company's website.

On 25/27 October 2021, the Management Board and Supervisory Board of Telefónica Deutschland Holding AG ("Company") issued a declaration of compliance pursuant to section 161 paragraph 1 German Stock Corporation Act (AktG). This declaration of compliance refers to the German Corporate Governance Code as amended on 16 December 2019 ("GCGC") and published in the Bundesanzeiger (Federal Gazette) on 20 March 2020.

The Management Board and Supervisory Board of the Company that the recommendations of the GCGC will be complied with in the future and have been complied with - to the extent required by the GCGC - since the last Compliance Declaration was issued on 9/10 March 2021 (updated on 26/27 July 2021), with the following exceptions:

1. The Supervisory Board establishes the performance criteria for all variable remuneration components at the beginning of a financial year, as the completion of the previous year is awaited in order to be able to adjust performance criteria accordingly if necessary. G.7, which recommends a determination in the respective previous year for the upcoming financial year, was and will be deviated from with regard to the time component.

2. The Company complies with the statutory obligations (in particular Section 162 of the German Stock Corporation Act (AktG)) with regard to the publication of the comprehensibility of the achievement of targets

and does not provide any additional information, as in the case of strategically important targets this may conflict with the Company's confidentiality interests. In this respect, the Company has deviated and continues to deviate in part from G.9, which recommends that the rationale and the amount should be comprehensible.

3. Mostly, it is possible to dispose of long-term variable grant amounts after three years. This is considered appropriate, as the Company operates in an extremely volatile and innovative market environment. In this respect, we have deviated and will deviate from G.10, which recommends a period of four years.
4. The Supervisory Board is of the opinion that it strategically reasonable for the members of the Management Board to participate in share-based programs of Telefónica, S.A. These provide that in the event of termination of a Management Board contract, payment is made upon exit. In this respect, deviations from G.12, which recommends payment according to the due dates or holding periods specified in the contract, have been and will be made.
5. Members and chairmen of the committees with regular meetings (Audit Committee and Remuneration Committee) receive additional remuneration. The Company is of the opinion that a distinction from the other committees, which are only active occasionally, is appropriate. In this respect, the Company has deviated and will continue to deviate in part from G.17, which is based exclusively on the higher time commitment.

The current Compliance Declaration is available on the Company's website at https://www.telefonica.de/compliance-declaration-october-2021. Previous Declarations of Compliance are also available on the Company´s website.

2. Relevant disclosures of management practices

Telefónica Deutschland Holding AG and its governing bodies are committed to efficient, sustainable and transparent corporate management as well as to values that form the basis of common business principles described in the Company's code of ethics called "Our Business Principles". This code includes various fundamental principles and guidelines aimed to direct both management and employees in their daily work. It provides valuable help, particularly with respect to business situations in which legal and/or ethical conflicts of interest arise so that decisions can be taken with integrity and professionalism, both in the design and implementation of work processes and in the manner in which the Company interacts with customers, shareholders, employees, suppliers and other stakeholders.

The Company's Business Principles are available on the website of Telefónica Deutschland Holding AG at www.telefonica.de/geschaeftsgrundsaetze.

Compliance with the Business Principles is of eminent significance since the Company's reputation is built on and affected by decisions and actions taken by its administrative bodies and employees. It is therefore carefully monitored by means of close cooperation between the functions Compliance, Human Resources, Internal Audit, Corporate Responsibility and Legal.

The Company's compliance program includes the main areas of anti-corruption with clear guidelines and procedures, competition law and the avoidance of ethically inappropriate behavior. Employees and third parties have the possibility to report potential breaches of law – especially indications of corruption – in a protected manner e.g, within an external whistleblower system (www.telefonica.de/ombudsmann).

Sustainability (ESG)

In the spirit of responsible corporate governance, the company also keeps an eye on the impact on people and the environment in all its business activities. As part of the Company's CR strategy, sustainability is firmly anchored in the Company and is also expressed, among other things, in the Company's Responsible Business Plan 2025 (see https://www.telefonica.de/responsibility.html).

Risk Management and Internal Control System

For the management and Supervisory Board of Telefónica Deutschland Holding AG, internal control and risk management are fundamental. The handling of risks arising in the course of business is of great importance for the Company´s success and for a professional management. At Telefónica Deutschland Holding AG, an internal control system (ICS) to ensure the effectiveness and economic validity of business activities, lawful financial reporting and compliance with the relevant legal regulations, as well as a risk management system to detect, assess, control, manage and monitor risks have therefore been implemented as integral components of corporate governance. Management Board and Supervisory Board, especially the Audit Committee, receive regular reports on current risks, action plans and developments. The risk management process is designed to timely identify, evaluate and mitigate corporate risks through constant communication with the relevant stakeholders. As part of the risk management, the suitability and the efficacy of the internal control system (IKS) are evaluated each year by the Management Board of Telefónica Deutschland and monitored especially by the audit committee. The internal control system and the risk management system are also continuously improved and reviewed by the external auditor.

You may find further details in the Sections "Report on Risks and Opportunities" respectively "Accounting-Related Internal Control and Risk Management System" within the Annual Report.

Compliance

Telefónica Deutschland Group is committed to comply with all laws, regulations, processes, rules and enactments applicable to its business activity. The Company has a compliance department that is concerned with the implementation and optimisation of the compliance organisation within the whole Company, the coordination of compliance activities and advises employees on their questions. The approach pursued is preventive, raising awareness and informing employees in order to preclude potential violations of rules. Employees and third parties have the possibility to report possible violations of the law e.g. via an external whistleblower system (www.telefonica.de/ombudsmann) in a protected manner.

The compliance program focuses on behaviours protecting fair competition, avoiding corruption and conflicts of interests as well as on ethically appropriate behaviour. These topics are covered by mandatory online trainings, as are the areas of data protection, anti-discrimination and information security. Each employee is required to complete certain mandatory training sessions in regular intervals based on his or her job responsibilities. Clear guidelines and policies were established for the most important compliance matters. In the reporting year, the audit company BDO AG Wirtschaftsprüfungsgesellschaft audited and certified the adequacy of the Company's compliance management system in the area of anti-corruption in accordance with the IDW PS 980 standard. This confirmed that the Compliance Management System has all the relevant elements for detecting compliance violations, that these have been implemented and are regularly monitored.

The existing Compliance Management System is continuously enhanced in order to adjust it to the changing legal and economic conditions of business operations. The Management Board and the Supervisory Board (especially the Audit Committee which is in charge of monitoring internal control systems and compliance) is informed regularly on compliance activities. Both the Management Board and the Supervisory Board regularly address the topic of compliance.

In this overall context, the Company has also a Capital Market Law department in the General Counsel area which, among other things, ensures compliance with the Market Abuse Regulation (EU) № 596/2014, e.g. with insider rules (including trainings and maintaining insider lists recording persons in accordance with the Market Abuse Regulation who act for the Company and have authorised access to inside).

The Company's Data Protection Officer monitors compliance with data protection legislation. This is a top priority for the Company. The "Integrity Services" department (Compliance, Corporate Security, Data Protection, Business Continuity Management) and Internal Audit as well as the department General Counsel reported directly to the Management Board in the financial year 2021.

3. Composition and working procedures of the Management Board, Supervisory Board and the Supervisory Board's Committees

As a German stock corporation, Telefónica Deutschland Holding AG has a dual management system consisting of a Management Board and a Supervisory Board, in which corporate management and corporate control are separated and, accordingly, the tasks and responsibilities are clearly divided between the Company's Management Board and Supervisory Board.

Management Board

In the business year, the **Management Board** of Telefónica Deutschland Holding AG comprised 7 members: Markus Haas, Chief Executive Officer ("CEO"), Markus Rolle, Chief Financial Officer ("CFO"), Valentina Daiber (Chief Officer Legal and Corporate Affairs), Nicole Gerhardt (Chief Human Resources Officer and Labour Director „Arbeitsdirektorin"), Alfons Lösing (Chief Partner and Wholesale Officer), Wolfgang Metze (Chief Consumer Officer) and Mallik Rao (Chief Technology & Information Officer). There were no changes to the composition of the Board of Management in the financial year 2021.

Further information on the members of Management Board and their respective office periods are available at www.telefonica.de/management-board. Initial appointments of Management Board members are in principle not for longer than three years.

The Supervisory Board ensures together with the Management Board that there is long-term succession planning. In this context, the Supervisory Board draws up a requirement profile for each role on the Board of Management, taking into account not only the statutory requirements and the recommendations of the German Corporate Governance Code, but also the diversity concept adopted by the Supervisory Board for the Board of Management and the specific criteria relating to skills, experience and knowledge. These requirement profiles are reviewed on an ongoing basis and adjusted as necessary, in particular with regard to legal changes. The Supervisory Board also makes use of external expertise in the preparation and further development of the profiles. On the basis of the requirement profiles, the Supervisory Board regularly exchanges views with the Management Board on suitable successor candidates from the Telefónica Deutschland Group for Management Board positions. Based on the requirement profiles, individual development needs are also identified and addressed with the involvement of external expertise. External candidates are also included in the consideration.

In accordance with its business principles, the Company has committed explicitly to diversity and equal opportunities in the Company. Supervisory Board and Management Board are convinced that diversity sustainably serves the Company´s best interest. The Diversity Concept for the Management Board consists of the following diversity criteria detailed pursuant to sect. 289f para. 2 no. 6 German Commercial Code (HGB).

Members of Management Board shall especially provide longstanding leadership from different areas relevant to the Company. At least one member shall have international work or educational experience and the Management Board as a body shall have longstanding experience in telecommunications, finance, sales and staff management.

The Supervisory Board determined in December 2017 in accordance with section 111 para. 5 German Stock Corporation Act (AktG) (in the version applicable at the time) a gender diversity quota of at least 25% for the Management Board, to be met by 30 June 2022, which was fulfilled during the entire financial year 2021 (two of seven members of the Management Board are female). The Second Management Positions Act (FüPoG II) stipulates a representation requirement of at least one woman and at least one man on the Management Board for companies such as Telefónica Deutschland Holding AG that are listed on the stock exchange, have equal codetermination and have a Management Board with more than three members. This minimum representation requirement applies from 1 August 2022. Telefónica Deutschland Holding AG has already complied with or exceeded this requirement in the fiscal year 2021 and since the Company's IPO.

Also considering the abovementioned minimum gender quota or the minimum requirement of participation in the Management Board and taking into account the age limit of 62 years for members of the management board as determined in the Management Board service agreements, the Company aims at competencies, skills and experience complementing each other in the best interest of the Company for the boards.

Such objectives were and shall be considered by Supervisory Board for appointment and succession planning of members of management board and have been met throughout the reporting period. The fulfilment may also be verified via the Curricula Vitae of the members of the Management Board published on the Company´s website at www.telefonica.de/management-board.

As part of the diversity strategy, the Management Board has voluntarily set targets for the female quota of the management level below the Management Board, reporting level 1 (Berichtsebene 1). The target of 30% to be met by 30 June 2022 shall be achieved via the Company´s diversity strategy.

In the reporting period as of 31 December 2021 the share of female members of reporting level 1 once more could be increased to 28.9% (In the previous year: 27.7% as of 31 December 2020).

The Management Board manages the Company's business in its own responsibility with the objective of creating sustainable value in the Company's interest, taking into consideration the interests of its shareholders, employees and other stakeholders of the Company. The work of the Management Board is governed in particular by the by-laws of the Management Board and by the Company's Articles of Association. The Management Board develops the strategic direction of the Company, coordinating this regularly with the Supervisory Board, and also ensures its implementation.

Each Management Board member is responsible for managing the area of business allocated to her or him, but without prejudice to their joint responsibility for managing the Company as a whole. All matters of fundamental or material importance for the Company and/or its affiliates, in particular matters regarding organisation, Corporate policy, investment and financial planning as well as all investments significantly exceeding the annual budget approved by the Supervisory Board have to be resolved by the entire Management Board. Furthermore, every Management Board member may submit matters to the full Management Board for decision. Transactions and measures of particular significance are also subject to the prior approval by the Supervisory Board.

Management Board meetings are held regularly, generally once per week. Meetings may also be held by phone or video conference. Resolutions of the Management Board may also be passed outside of meetings, in particular by e-mail.

The Management Board reports regularly to the Supervisory Board on the Company's course of business, inter alia by providing the Supervisory Board with written reports each month covering key performance indicators for the Company's business. Moreover, the Management Board must inform the Supervisory Board about any transactions of possible material significance to the Company's profitability or liquidity. Finally, the Management Board must report to the Supervisory Board any important events or affairs subject to section 90 para. 1 sentence 3 of the German Stock Corporation Act (AktG). The Management Board meets these requirements as defined by law.

Supervisory Board

The **Supervisory Board** comprises sixteen members, eight shareholder and eight employee representatives.

During the 2021 financial year, the Supervisory Board comprised the following members: Peter Löscher (Chairman), Christoph Braun* (Vice Chairman), Martin Butz* , Pablo de Carvajal González, Peter Erskine, María García-Legaz Ponce, Ernesto Gardelliano, Cansever Heil*, Christoph Heil*, Michael Hoffmann, Julio Linares López, Thomas Pfeil*, Stefanie Oeschger, Joachim Rieger, Dr. Jan-Erik Walter and Claudia Weber.

Further information, including the curricula vitae of the members of the Supervisory Board, can be found on the Company's website at www.telefonica.de/supervisory-board.

As of 31 December 2021, the Supervisory Board consisted of four female and twelve male members. Therewith Supervisory Board thus continued to fulfill the requirements of section 96 para. 2 German Stock Corporation Act (AktG) (30% minimum gender diversity quota), such quota to be fulfilled separately by shareholder and employee representatives following a resolution by the shareholder representatives. This quota was met with two female members on the employee representative side and two respectively three female members on the shareholder representative side throughout the whole financial year.

The members of the Supervisory Board as a whole are familiar with the sector in which the Company operates. According to the German Stock Corporation Act (AktG) as amended by the Financial Market Integrity Strengthening Act (FISG) of 3 June 2021, at least one member of the Supervisory Board must have expertise in the field of accounting and at least one other member of the Supervisory Board must have expertise in the field of auditing. The Supervisory Board includes Michael Hoffmann and Ernesto Gardelliano, as members each with expertise in the fields of accounting and auditing. In addition, Mr. Thomas Pfeil as a long-standing member of the Audit Committee also has relevant expertise.

The criteria of the diversity concept of the Supervisory Board consist of the competence profile and the composition objectives of the Supervisory Board, which ensure in the opinion of the Supervisory Board diversity in the Supervisory Board which serves the Company´s best interest. Taking into account the German Corporate Governance Code, Supervisory Board established a Competence Profile that is described in detail below.

The Supervisory Board is to be composed in such a way that its members as a whole possess the knowledge, ability and expert experience required to properly advise and supervise the Management Board. Each member of the Supervisory Board should be prepared and in a position to invest sufficient time and input and have the necessary personal qualities, in particular integrity, motivation and personality to fulfil their office. All members of the Supervisory Board shall consider responsible and ethical behaviour of a reputable business person.

* Employee Representative

In addition, each member of the Supervisory Board should have specialist knowledge in at least one of the areas relevant for advising and supervising the Management Board. The different professional backgrounds, specialist knowledge as well as personal experience of the members should complement each other, so that the Supervisory Board can draw upon as wide a range as possible of experience and varieties of specialist knowledge, e.g. Finance, M&A, Marketing & Sales, Legal and Regulatory, HR, Network & Technology.

The Supervisory Board has specified concrete objectives regarding its composition considering inter alia the specifics of the Company, its shareholders' structure and the Company's international activities, diversity and taking into account that half of the members of the Supervisory Board are elected by the employees pursuant to German Co-Determination law. In this context, the Supervisory Board has set the following objectives regarding its composition:

— The Supervisory Board shall have at least two independent members within the meaning of no. C.6 of the German Corporate Governance Code on the shareholder side. Independence within the meaning of Section C.6 of the German Corporate Governance Code is given if the Supervisory Board member is independent of Telefónica Deutschland Holding AG and its Management Board and independent of the controlling shareholder.

— The Supervisory Board should not include any persons who hold an office (e.g. at a significant competitor) which may create a material and not only temporary conflict of interest.

— At least 30% of the members of the Supervisory Board should be female, at least 30% male.

— At least one third of the Supervisory Board members to be elected by the General Meeting should have international working experience, knowledge of the English language as well as an understanding of global economic contexts ("internationality").

— The standard term of office of supervisory members should end with the Annual General Meeting following the supervisory board member reaching 75 years of age unless an individual member´s experience is of special value to the Company and the Supervisory Board has approved such exception.

— A standard limit of 15 years, i.e. three full terms of office, shall apply to members of the Supervisory Board. In the Company´s best interest and upon approval by Supervisory Board, deviation from the general maximum period is possible, especially in order to fulfill other composition criteria.

In the Supervisory Board´s (shareholder side) opinion, taking into account the stipulations of C.7 and C.9 of the German Corporate Governance Code concerning independency, a number of at least two members of the shareholder side independent of the controlling shareholder and a number of at least five independent of Telefónica Deutschland Holding AG and the Management Board is appropriate.

A Supervisory Board member is independent of the controlling shareholder if he or she or a close family member is neither a controlling shareholder nor a member of the controlling shareholder's Management Board or Supervisory Board or has a personal or business relationship with the controlling shareholder that could give rise to a material and not merely temporary conflict of interest. A Supervisory Board member is independent of the Company and its Management Board if he or she has no personal or business relationship with the Company or its Management Board that could give rise to a material and not merely temporary conflict of interest.

As of 31 December 2021, in the opinion of the Supervisory Board (shareholder side), all eight members of the shareholder side were independent of Telefónica Deutschland Holding AG and its Management Board. In addition, according to the assessment of the Supervisory Board (shareholder side), the following three members of the shareholder representatives on the Supervisory Board were also independent of the controlling shareholder: Peter Löscher, Michael Hoffmann and Stefanie Oeschger.

One of the independent members should also have the expertise in the fields of accounting and/or auditing required by Section 100 (5) of the German Stock Corporation Act (AktG). These requirements are met by Michael Hoffmann. The members Ernesto Gardelliano and Thomas Pfeil also have expertise in the fields of accounting and auditing.

The Supervisory Board is convinced that the aforementioned objectives also reflect the shareholder structure appropriately. Supervisory Board currently considers these concrete objectives and the requirements of the competence profile to have been met.

The abovementioned competence profile and the concrete composition objectives form the requirements of the diversity concept to be met by the Supervisory Board.

The Nomination Committee and the Supervisory Board as a whole consider competence profile and composition criteria (concrete objectives) when recommending candidates to the Annual General Meeting and thus implement the diversity concept of the Supervisory Board.

The requirements defined by the diversity concept were met in the reporting period as evidenced by the Curricula Vitae of the Supervisory Board members detailing professional and personal backgrounds including current mandates, published under www.telefonica.de/supervisory-board. Furthermore, the respective office duration to each member is published there. The general age limit established for members of the Supervisory Board is 75 years.

The Supervisory Board advises and monitors the Management Board in the management of the Company on an ongoing basis and is consulted in all matters outside the ordinary course of business which are of material importance to the Company. The Supervisory Board appoints and dismisses the members of the Management Board and determines the remuneration of the Management Board. The Supervisory Board Chairman coordinates the activities of the Supervisory Board and cooperation with the Management Board. The principles governing the work of the Supervisory Board and its cooperation with the Management Board are essentially described in the by-laws for the Supervisory Board published at the website of the Company and in the Company's Articles of Association.

The Supervisory Board holds at least two meetings in a calendar half-year. Meetings of the Supervisory Board may also be held by telephone or video conference, and resolutions of the Supervisory Board may also be passed outside of meetings, in particular by e-mail.

The Supervisory Board reviews the efficiency and effectiveness of its activities and of its committees at least once a year by conducting an extensive survey among all its members thus also in the financial year 2021. The results are analysed and discussed extensively with the members of the Supervisory Board also with a view to potential optimization of the activities.

Composition and work of the committees of the Supervisory Board

As of 31 December 2021 there were five committees of the Supervisory Board. The Supervisory Board may implement further committees if necessary. The Supervisory Board receives regular reports on the work of the committees. Details on these committees are also published at the Company´s website, www.telefonica.de/supervisory-board/committees .

The **Audit Committee** is inter alia responsible for preparing the decision of the Supervisory Board regarding the approval of the financial statements, discusses the quarterly and half-year reports with the Management Board, monitors the accounting processes and auditing, compliance (including data privacy and information security) and the effectiveness of the internal control system, the risk management system and internal audit systems. It furthermore is responsible for the coordination with and selection and independence of the auditor as well as the evaluation of the quality of the audit work.

As of 31 December 2021, the Audit Committee consisted of the following members:

- Michael Hoffmann (Chairman) (independent, financial expert with expertise in accounting and auditing)
- Martin Butz
- Ernesto Gardelliano (financial expert with expertise in accounting and auditing) and
- Thomas Pfeil (financial expert with expertise in accounting and auditing).

Ernesto Gardelliano´s membership of the Audit Committee was interrupted from the end of the Annual General Meeting of 20 May 2021 until his re-election to the committee on 6 July 2021.

The members of the Audit Committee as a whole are familiar with the sector in which the Company operates. According to the German Stock Corporation Act (AktG) as amended by the Financial Market Integrity Strengthening Act (FISG), at least one member of the Audit Committee must have expertise in the field of accounting and at least one other member of the Audit Committee must have expertise in the field of auditing. The Audit Committee in its current composition meets these requirements. According to the recommendations of the German Corporate Governance Code, the Chairman of the Audit Committee should have special knowledge and experience in the application of accounting principles and internal control procedures, be familiar with the auditing of financial statements and be independent. These requirements are met by the Chairman of the Audit Committee, Mr. Michael Hoffmann.

The **Remuneration Committee** is mainly responsible for the preparation of all board compensation topics in context of board remuneration and gives recommendations to the Supervisory Board in this regard.

As of 31 December 2021, the members of the Remuneration Committee were:

- Michael Hoffmann (Chairman) (independent)
- María García-Legaz Ponce
- Dr. Jan-Erik Walter and
- Claudia Weber.

The **Nomination Committee** proposes suitable candidates to the Supervisory Board for election proposals for members of the Supervisory Board to the Annual General Meeting.

The Nomination Committee is composed exclusively of shareholder representatives and consisted of the members as of 31 December 2021:

- Peter Löscher (Chairman) (independent)
- Ernesto Gardelliano and
- Pablo de Carvajal González.

Ernesto Gardelliano´s membership of the Nomination Committee was interrupted from the end of the Annual General Meeting of 20 May 2021 until his re-election to the committee on 6 July 2021.

As of 31 December 2021, the Mediation Committee with the responsibilities as defined in section 31 Co-Determination Act (MitbestG) consisted of the following members:

- Peter Löscher (Chairman) (independent)
- Christoph Braun
- Christoph Heil and
- Julio Linares López.

The **Related Party Transactions Committee** was implemented by the Supervisory Board in accordance with the stipulations of section 107 para. 2 sentence 3 of the German Stock Corporation Act (AktG). There are no conflicts of interest with regard to the controlling shareholder for the majority of the members in general. It monitors and resolves on certain transactions with related enterprises instead of the Supervisory Board as whole, especially on transactions with related parties pursuant to sections 111a, b of the German Stock Corporation Act (AktG).

As of 31 December 2021, the Related Party Transactions Committee consisted of the following members:

- Peter Löscher (Chairman)
- Christoph Braun
- Pablo de Carvajal González
- Michael Hoffmann and
- Thomas Pfeil.

Further details on composition and activities of the committees of the Supervisory Board are available in the Supervisory Board Report.

4. Remuneration systems and Remuneration Report

The current remuneration system for the members of the Management Board of Telefónica Deutschland Holding AG was finally resolved by the Supervisory Board with effect from 30 March 2021 and submitted to the Annual General Meeting on 20 May 2021 for approval. The Annual General Meeting approved the remuneration system for the Management Board with a majority of 84.72%.

The Annual General Meeting on 20 May 2021 also confirmed the remuneration of the Supervisory Board set out in Art. 20 of the Articles of Association and approved the underlying remuneration system with a majority of 99.94% (remuneration resolution).

The applicable remuneration system for the Board of Management pursuant to sect. 87a para. 1 and 2 sentence 1 of the German Stock Corporation Act (AktG) and the latest compensation resolution on the compensation of the Supervisory Board pursuant to sect. 113 para. 3 of the German Stock Corporation Act (AktG) are available on the Company's website at https://www.telefonica.de/investor-relations-en/corporate-governance/remuneration-systems.html publicly accessible.

The remuneration report and the auditor's report pursuant to sect. 162 of the German Stock Corporation Act (AktG) are also made publicly available at this internet address.

5. Relevant Shareholdings of Management and Supervisory Board

Some members of the Management Board and the Supervisory Board hold shares of Telefónica Deutschland Holding AG. No member of the board holds options on shares of Telefónica Deutschland Holding AG.

As per 31 December 2021, the Management Board held approximately 0.0135% of the shares of Telefónica Deutschland Holding AG. The acquisition of these shares took place via the stock market and was published in each case – if applicable – as managers´ transactions.

As per 31 December 2021, the Supervisory Board held approximately 0.0001% of the shares of Telefónica Deutschland Holding AG. The acquisition of these shares took place via the stock market and was published – if applicable - as managers´ transactions.

6. Relationship to Shareholders and the General Meeting

The shareholders are generally informed four times a year about the financial and earnings situation and business development. The Company provides for further information on its website (http://www.telefonica.de/investor-relations-en) especially the financial calendar. Furthermore, analyst conferences, roadshows and meetings with analysts take place, including on ESG (environmental, governance, social) issues, some of which are also attended by the Chairman of the Supervisory Board.

Other information relevant for shareholders such as ad hoc notifications, information on transactions of managers and their closely related parties, voting rights notifications and corporate news as well as the Company´s Articles of Association is also available at this site: www.telefonica.de/investor-relations-en.

The shareholders exercise their rights according to the law and the Articles of Association before and during the General Meeting, especially by asking questions to the Management Board and exercising their voting rights (amongst others on profit distribution, discharge and the election of the auditor). In order to facilitate shareholders personally exercising their rights in connection with the Annual General Meeting, Telefónica Deutschland Holding AG makes the relevant documents and information available on its website in advance of each Annual General Meeting.

16 February 2022	16 February 2022
Management Board	Supervisory Board

Glossary

The glossary also contains abbreviations as used in the Group Management Report.

AktG	Aktiengesetz (German Stock Corporation Act)
ARPU	Average Revenue per User
Augmented reality	Augmented reality: Computer-aided augmentation of reality
Bitkom	German Federal Association for Information Technology, Telecommunications and New Media, Berlin
BNetzA	German federal network agency
BOLO	Contribution-based benefit regulations of the Essen Association
bp	Basis points
Broadband	Refers to telecommunication in which a wide band of frequencies is available to transmit information
CAP	Capping limit
CapEx	Capital Expenditure: Investments in property, plant and equipment and intangible assets excluding investments in mobile frequency licences and business combinations
CapEx/Sales ratio	Investment ratio – reflects the percentage share of investments in revenues
CDS	Credit Default Swap
Churn	Loss of customers
Cloud services	Dynamic infrastructures, software and platform services, which are available online
DBO	Defined Benefit Obligation
DCGK	German Corporate Governance Code
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
FCF	Free cash flow
FMS	Fixed-Mobile Substitution: replacing fixed network services with mobile telephony services
FTE	Full-time equivalent
FTR	Fixed network termination rates
FttB	Fibre To The Building or Fibre To The Basement. In telecommunications FttB means that the fibre-optic cable is terminated in the user's house (basement).
FttH	Fibre to the Home. In telecommunications FttH means that the fibre-optic cable is terminated right in the user's home or apartment.
FY	Fiscal Year
GB	Gigabyte
GDP	Gross domestic product
GHz	Gigahertz
Handset	Mobile phone
HGB	Handelsgesetzbuch (German Commercial Code)
IAS	International Accounting Standards,
IASB	International Accounting Standards Board
ICS	Internal control system
IDW	Institut der Wirtschaftsprüfer in Deutschland e.V. (Institute of Auditors in Germany), Dusseldorf
IFRS	International Financial Reporting Standards

IoT	Internet of Things
ISIN	International Securities Identification Number
IT	Information Technology
Joint Venture	A joint agreement under which the parties having joint control have rights to the net assets of the agreement
KPI	Key Performance Indicator
LGD	Loss Given Default (loss rate)
LTE	Long Term Evolution: further development of the UMTS/HSPA mobile communications standard
M2M	Machine-to-Machine communication: automatic exchange of information between machines
MBA	Mobile Bitstream Access
Mbit	Megabit
MHz	Megahertz
ms	Milliseconds
MSR	Mobile service revenue
MTR	Mobile network termination rates
MVNO	Mobile Virtual Network Operator: Virtual network operator
O2 (Europe) Limited	O2 (Europe) Limited, Slough, United Kingdom
O_2 My Handy	Monthly payment model for mobile phones and other devices
O_2 Free	The data plan O_2 Free allows customers to remain online with speeds of up to 1 Mbit/s even after they have used all of their high-speed data
OIBDA	Operating Income before Depreciation and Amortisation
OTT	Over-the-top – IP-based and platform-independent services and application (WhatsApp, Facebook, etc.)
Prepaid/Postpaid	In contrast to postpaid contracts, prepaid contracts purchase the credit balance in advance without a fixed contractual commitment
RCF	Revolving Credit Facility
Roaming	Using a communication device or subscriber identity in a different network other than one's home network
SD-WAN	Software Defined Wide Area Network
SIM	Subscriber Identity Module: a chip card to insert into a mobile phone which identifies the user within the network
Smartwatch	A mobile device which consists of an electronic watch with additional computer functions, attached to a bracelet.
Smartphone	Mobile phone with extensive computer and internet functionalities
SME	Small- and medium-sized enterprises
SMS	Short Message Service
SoHo	Small offices/Home offices
SOX	Sarbanes-Oxley Act: US law on improving the reliability of reporting
Spectrum	Frequency rights of use / Mobile communications licences
Tablet	A wireless, portable personal computer with a touch screen
TDD	Time division duplex operation
Telefónica Deutschland	Telefónica Deutschland Holding AG, Munich, Germany
Telefónica, S.A.	Telefónica S.A., Madrid, Spain
Telefónica Deutschland Gruppe	The companies included in the Consolidated Financial Statements of Telefónica Deutschland
TKG	Telekommunikationsgesetz (Telecommunications Act)
Translation risk	The risk arising from the translation of accounting items at a later reporting date
TSR	Total shareholder return (return on shares)
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, Berlin
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.
Virtual Reality	Computer-generated representation of a world (in real time)
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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