

O2 Telefónica Deutschland Finanzierungs GmbH Munich

Financial Statements and management report
31 December 2021

Translation from the German Language¹

¹ This report was published in German and English.

In case of doubt please refer to the German version which is mandatory.

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.

Management Report

O2 Telefónica Deutschland Finanzierungs GmbH, Munich

Management Report for the Financial Year 2021

1. Business and general conditions

O2 Telefónica Deutschland Finanzierungs GmbH, Munich (referred to as “TDF” or the “Company”) acts as the financing company for the Telefónica Deutschland Group (Telefónica Deutschland Holding AG, Munich, and subsidiaries and joint operations) and its operating entities.

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

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

Overall Economic and Industry Conditions

The German economy continues to be affected by the COVID-19 pandemic¹

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

¹ Sources: German Federal Statistical Office (Destatis): Press releases No. 532 (25 November 2021), No. 541 (29 November 2021), No. 005 (6 January 2022) and No. 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)

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 CO2 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.

Telefónica Deutschland Group continues to gain service revenue market share in the German mobile network operator market²

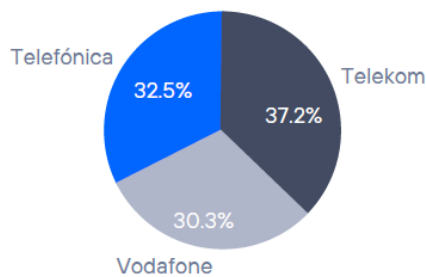
The German mobile telecommunications market currently consists of three network operators and several service providers and mobile virtual network operators (MVNOs). At the 5G frequency auction, which ended in June 2019, the provider 1&1 acquired frequencies and plans to establish itself as the fourth 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.

² 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)

Graphic: 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 continues³

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 to 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.

³ 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: “O2 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: “O2 relies on strong fibre-optic network coverage in Germany for its customers” (2 March 2021)

2. Areas of operation

TDF was established as a wholly owned subsidiary of Telefónica Germany GmbH & Co. OHG, Munich, on 26 February 2013. It is thus part of the Telefónica Deutschland Group. TDF handles major financing activities of the Telefónica Deutschland Group.

On 10 February 2014, TDF issued a five-year unsecured bond (Senior Unsecured Bond) with a nominal value of EUR 500,000 thousand and a maturity on 10 February 2021 in the regulated market of the Luxembourg Stock Exchange. This bond was repaid to investors as scheduled on 10 February 2021.

Furthermore, TDF issued on 5 July 2018 a seven-year unsecured bond (Senior Unsecured Bond) with a nominal value of EUR 600,000 thousand also in the regulated market of the Luxembourg Stock Exchange. The bond matures on 5 July 2025. The bond is guaranteed by Telefónica Deutschland Holding AG, Munich.

The net proceeds from the issue of these bonds were transferred in full to the parent company Telefónica Germany GmbH & Co. OHG, Munich, in the form of intercompany loans. In the reporting period, OHG repaid the intercompany loan to the Company in the amount of EUR 500,000 thousand.

3. Net assets, results of operations and financial position

Net assets

The assets are presented in the following table:

Balance sheet item	31 Dec. 2021 EUR thousand	31 Dec. 2020 EUR thousand	Change EUR thousand
Financial assets	600,000	1,100,000	-500,000
Receivables from affiliated companies	5,360	15,935	-10,574
Other assets	0	12	-12
Prepaid expenses	1,116	1,512	-396
Total Assets	606,476	1,117,459	-510,982

The financial assets as of 31 December 2021 consist of one loan in the amount of EUR 600,000 thousand, granted by TDF to its shareholder Telefónica Germany GmbH & Co. OHG, Munich. The change compared to the previous year results from the scheduled repayment of a loan in the amount of EUR 500,000 thousand by OHG on 10 February 2021.

The receivables from affiliated companies of EUR 5,360 thousand (previous year: EUR 15,935 thousand) consist mainly of interest receivables from the loans granted to OHG, in the amount of EUR 5,149 thousand (previous year: EUR 15,738 thousand). The change compared to the previous year results from the decrease in interest receivables to OHG due to the scheduled repayment of a loan in the amount of EUR 500,000 thousand by OHG on 10 February 2021.

Equity and liabilities are presented in the following table:

Balance sheet item	31 Dec. 2021 EUR thousand	31 Dec. 2020 EUR thousand	Change in EUR thousand
Equity	175	175	0
Other provisions	36	33	3
Bonds	600,000	1,100,000	-500,000
Liabilities to affiliated companies	-	0	-0
Other liabilities	5,149	15,738	-10,589
Deferred income	1,116	1,512	-396
Total Equity and liabilities	606,476	1,117,459	-510,982

The Company's share capital remains unchanged at EUR 25 thousand and is fully paid. It is held entirely by Telefónica Germany GmbH & Co. OHG, Munich. Furthermore, as in the previous year, there is a capital reserve of EUR 150,000.

The category Bonds includes one bond with a nominal value of EUR 600,000 thousand in total. The remaining term of this bond is less than five years. The seven-year bond of EUR 500,000 thousand issued in 2014 was repaid as scheduled on 10 February 2021.

The other liabilities include current interest-bearing liabilities relating to the bond that will not be paid until the following year. The change compared to the previous year results from the decrease in interest payable to investors due to the scheduled repayment of a bond in the amount of EUR 500,000 thousand by the company on 10 February 2021.

Results of operations

In the financial year ending 31 December 2021, TDF reported a profit/(loss) after tax as well as a profit/(loss) for the period of EUR 0.00 (previous year: EUR 0.00).

The main items from income statement are as follows:

Income statement item	1 Jan. 2021 - 31 Dec. 2021 EUR thousand	1 Jan. 2020 - 31 Dec. 2020 EUR thousand	Change EUR thousand
Other operating income	70	80	-10
Other operating expenses	-70	-80	10
Income from financial assets - loans	11.786	22,389	-10.603
Other interest and similar income	396	784	-387
Interest and similar expenses	-12.183	-23,173	10.990
Profit/(loss) after tax	0	0	0
Income from loss transfer / profit transferred due to a profit and loss transfer agreement	0	0	0
Profit/(loss) for the period	0	0	0

Income from financial assets – loans in the amount of EUR 11,786 thousand (previous year: EUR 22,389 thousand) result from interest income, existing loan at the end of the reporting period as well as from interest income until the scheduled repayment of a loan on 10 February 2021 from Telefónica Germany GmbH & Co. OHG, Munich.

Interest and similar expenses in the amount of EUR 12,183 thousand (previous year: EUR 23,173 thousand) include mainly interest expense in the amount of EUR 11,786 thousand (previous year: EUR 22,389 thousand) from the bond existing at the end of the reporting period and from interest expenses until the scheduled repayment of a bond on 10 February 2021.

Financial position

Principles and goals of financial management

The risk control and a central management are fundamental principles of the TDF financial management. The goal of financial management is to continually ensure sufficient financial liquidity and stability. Risk controls are used in order to anticipate potential risks and counteract these using corresponding measures. At present there are no circumstances which would indicate that TDF cannot meet its financial obligations.

The development of cash and cash equivalents as well as the corresponding cash flows are presented in the separately disclosed cash flow statement.

Cash and cash equivalents include cash-pooling receivables from Telfisa Global B.V, Amsterdam, the Netherlands in the amount of EUR 146 thousand (previous year: EUR 163 thousand). There were no freely available bank and cash balances at the end of the reporting period (as in the previous year).

During the financial year 2021, TDF reported a negative cash flow from **operating** activity in the amount of EUR 17 thousand, in previous year TDF reported a negative cash flow from operating activities in the amount of EUR 47 thousand.

Cash flow from **investing** activities amounted to EUR 522,375 thousand in the financial year 2021 (previous year: EUR 22,375 thousand). The cash inflows from investing activities result from the scheduled repayment of the loan of EUR 500,000 thousand in the reporting period and the interest payments of EUR 22,375 thousand received from the borrower OHG.

Cash flow from **financing** activities in the reporting period amounted to EUR -522,375 thousand (previous year: EUR -22,225 thousand). The payments result from the bond in the amount of EUR 500,000 thousand which was repaid in full and on schedule on 10 February 2021, as well as from the interest payment in the amount of EUR 22,375 thousand for this bond.

The total changes result in a negative cash flow of EUR 17 thousand for the current financial year.

4. Opportunity and risk report

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

Fundamental risk management principles

In the course of our business activities, the Telefónica Deutschland Group is confronted with various business, operational and financial risks. We provide our services on the basis of the organisational, strategic and financial decisions made and precautions taken by us.

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

Risk management is a component of the decision-making processes within 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 ensure that risks that can only be identified at the highest management level or on the basis of a group-wide consideration, are discussed 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.

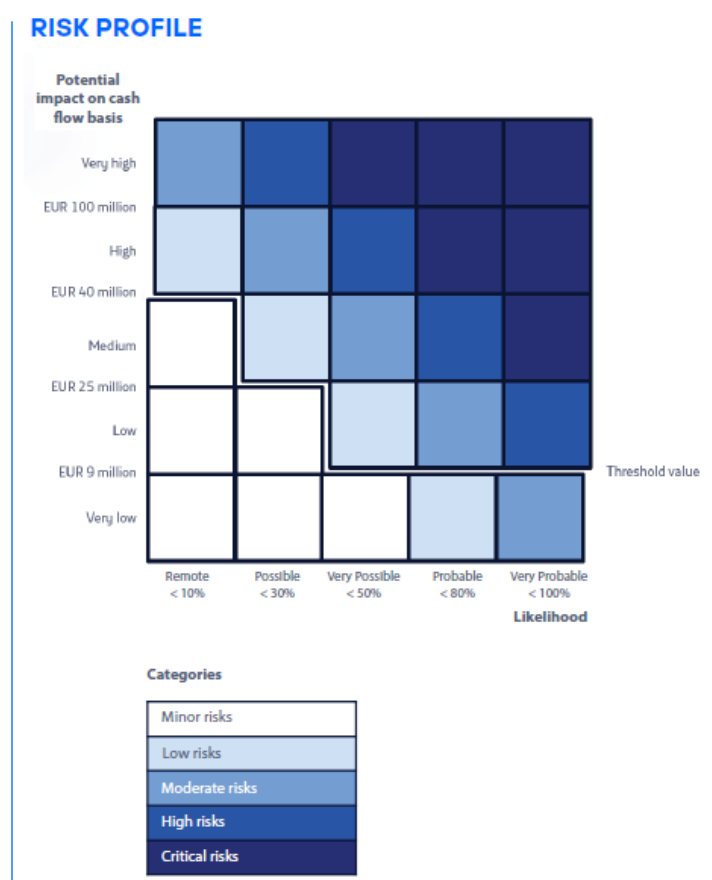
Opportunities are not recorded in the risk management system

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:

Graphic: 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.

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

The main element of the assets of TDF is the loan granted to Telefónica Germany GmbH & Co. OHG, Munich. The economic existence of TDF is thus primarily dependent on whether Telefónica Germany GmbH & Co. OHG, Munich is able to meet its obligations in relation to this loan. All interest and capital payments relating to all debt securities currently issued by TDF are secured by a full and unlimited guarantee by the guarantor Telefónica Deutschland Holding AG. These guarantees are enforceable in accordance with the law of the Federal Republic of Germany.

Accordingly, the risks and opportunities of O2 Telefónica Deutschland Finanzierungs GmbH, Munich, as well as the measures and processes for handling risks and opportunities are essentially the same as those applicable for the Telefónica Deutschland Group and are therefore presented individually below. The assessment of the individual risks according to the risk profile is shown in brackets.

- Business risks
 - Competitive markets and changing customer demands (critical)
 - Geopolitical risks (high)
 - Market acceptance and technological transformation (low)
 - COVID-19 pandemic (low)
 - Regulatory environment (low to high)
 - Insurances (low)
- Operational risks
 - Reliability of our services (high to critical)
 - Supply chain disruptions (moderate)
 - Loss of advantages in the event of reduced integration in the Telefónica, S.A. Group (low to moderate)
 - Legal risks (low to high)
- Risks from Financial Instruments (minor)
 - Market Risk
 - Currency Risk
 - Interest rate risk
 - Inflation risk
 - Credit risk
 - Liquidity risk

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

Opportunity management

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

5. Accounting-Related Internal Control and Risk Management System

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

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

The risk management system also includes an accounting-related perspective with the aim of ensuring

the reliability of financial reporting. In addition to the legal requirements of, for example, the German 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 must comply with 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.

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 AG. 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.

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

O2 Telefónica Deutschland Finanzierungs GmbH does not have its own internal control system, but is included into the aforementioned Group-wide accounting-related internal control system described above. Telefónica Germany GmbH & Co. OHG, operates the internal control system for the Company. For the annual financial statements of the TDF, the tasks of the Audit Committee described above are assumed by the Audit Committee of the TDF.

6. Principals of the remuneration system

The Managing Directors do not receive any remuneration from TDF.

7. Forecast report 2022

Due to the fact that the company does not have any separate key performance indicators and the company has also concluded a profit and loss transfer agreement with OHG, a forecast of earnings and profits is not made. The success of the Company, the business strategy and also the results of the Company are influenced by a wide range of factors outside the control of the Company.

If such opportunities or risks occur or if uncertain factors materialise, or if it becomes apparent that one of the underlying assumptions was not correct, the actual development of the Company may differ (positively as well as negatively) from the expectations and assumptions in the forward-looking comments and information set out in this forecast report.

As a result of the close personnel and economic links between TDF and the Telefónica Deutschland Group, TDF is subject to the same business and framework conditions as well as the same regulatory environment as the Telefónica Deutschland Group. The future development of TDF is very much dependent on the capital requirements and the form of financing chosen by the Telefónica Deutschland Group. The assessment of the future development of TDF is therefore based on forecasts of the business developments of the Telefónica Deutschland Group, which is summarised below.

Economic 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.

According to the Federal Statistical Office, the inflation rate in 2021 increased by an annual average of 3.1 % compared to the previous year. 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 CO2 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.

However, these above forecasts do not yet reflect the possible negative effects of the Russia-Ukraine conflict: Initial expert estimates expect existing disruptions in supply chains to intensify and rising energy prices to increase inflationary pressure, thus reducing Germany's growth prospects for 2022.

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 2022.⁴

Graphic: GDP GROWTH 2020 – 2022 GERMANY (CALENDAR-ADJUSTED)⁵

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

Market Expectation⁶

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

⁴ 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 No. 039 (28 January 2022)

⁵ Sources Bundesbank: Press release "Bundesbank projections: Upswing shifts somewhat" (17 December 2021)

⁶ 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)

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.

Financial Outlook 2022

The 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. The 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.

Management summary

On the basis of the emissions issued and the repayment of the loan of EUR 500,000,000 issued to OHG in 2021, as well as the subsequent scheduled repayment of the unsecured seven-year bond issued on the regulated market of the Luxembourg Stock Exchange (Senior Unsecured Bond) in the amount of EUR 500,000,000 on 10 February 2021, the management of TDF considers the overall business development to be favourable and does not expect any significant changes in the net assets, financial position and results of operations compared to 2021.

Munich, 18 March 2022

O2 Telefónica Deutschland Finanzierungs GmbH

- Management -

Markus Haas

Markus Rolle

Albert Graf

O2 Telefónica Deutschland Finanzierungs GmbH

Munich

Statement of Financial Position as of 31 December 2021

Assets	31.12.2021 EUR	31.12.2020 EUR	Equity and liabilities	31.12.2021 EUR	31.12.2020 EUR
A. Fixed assets			A. Equity		
Financial assets			I. Nominal Capital	25.000,00	25.000,00
Loans to affiliated companies	600.000.000,00	1.100.000.000,00	II. Capital reserve	150.000,00	150.000,00
	600.000.000,00	1.100.000.000,00	B. Provisions	175.000,00	175.000,00
B. Current assets			Other provisions	36.127,00	33.290,25
Receivables and other assets				36.127,00	33.290,25
1. Receivables from affiliated companies	5.360.442,06	15.934.550,59	C. Liabilities		
2. Other assets	0,00	11.808,00	1. Bonds	600.000.000,00	1.100.000.000,00
	5.360.442,06	15.946.358,59	thereof with a remaining term of more than 1 year EUR 600,000,000.00 (previous year EUR 600,000.00)		
C. Prepaid expenses	1.115.999,94	1.512.357,10	thereof with a remaining term of less than 1 year EUR 0.00 (previous year EUR 500,000,000.00)		
			2. Liabilities to affiliated companies	0,00	211,65
			thereof with a remaining term of less than 1 year EUR 0.00 (previous year EUR 211.65)		
			3. Other liabilities	5.149.315,06	15.737.856,69
			thereof with a remaining term of less than 1 year EUR 5,149,315.06 (previous year EUR 15,737,856.69)		
				605.149.315,06	1.115.738.068,34
			D. Deferred income	1.115.999,94	1.512.357,10
Total assets	606.476.442,00	1.117.458.715,69	Total equity and liabilities	606.476.442,00	1.117.458.715,69

O2 Telefónica Deutschland Finanzierungs GmbH
Munich

Income Statement
for the Reporting Period from 1 January 2021 to 31 December 2021

	01.01.2021 - 31.12.2021	01.01.2020 - 31.12.2020
	EUR	EUR
1. Other operating income	69.249,23	79.590,26
2. Other operating expenses	-69.249,23	-79.590,26
3. Income from financial assets - loans thereof from affiliated companies EUR 11,786.458,32 (previous year: EUR 22,389,069,17)	11.786.458,32	22.389.069,17
4. Other interest and similar income thereof from affiliated companies EUR 396,357,21 (previous year EUR 783,857,16)	396.357,21	783.857,16
5. Interest and similar expenses	-12.182.815,53	-23.172.926,33
6. Profit/(loss) after tax	0,00	0,00
7. Income from loss transfer / profit transferred due to a profit and loss transfer agreement	0,00	0,00
8. Profit/(loss) for the period	0,00	0,00

O2 Telefónica Deutschland Finanzierungs GmbH

Munich

***Statement of Changes in Equity
for the Reporting Period from 1 January 2021 to 31 December 2021***

	Share capital	Capital reserve	Net income for the period	Equity
	EUR	EUR	EUR	EUR
As of 1 January 2021	25.000,00	150.000,00	0,00	175.000,00
As of 31 December 2021	25.000,00	150.000,00	0,00	175.000,00
As of 1 January 2020	25.000,00	0,00	0,00	25.000,00
As of 31 December 2020	25.000,00	150.000,00	0,00	175.000,00

O2 Telefónica Deutschland Finanzierungs GmbH**Munich****Statement of Cash Flows****for the Reporting Period from 1 January 2021 to 31 December 2021**

	01.01.2021- 31.12.2021 EUR	01.01.2020- 31.12.2020 EUR
1. Cash flow from operating activities		
Profit/(loss) after tax	0,00	0,00
Increase (+)/decrease (-) in provisions	2.836,75	-23.821,75
Increase (-)/decrease (+) in receivables from affiliated companies and other assets	10.965.215,78	800.511,84
Increase (+)/decrease (-) in trade payables and other liabilities	-10.985.110,44	-823.620,54
Cash flow from operating activities	-17.057,91	-46.930,45
2. Cash flow from investing activities		
Proceeds (+) from disposal of long-term financial assets	500.000.000,00	0,00
Interest received (+)	22.375.000,00	22.375.000,00
Cash flow from investing activities	522.375.000,00	22.375.000,00
3. Cash flow from financing activities		
Cash repayments (-) of bonds and borrowings	-500.000.000,00	0,00
Proceeds (+) from equity contributions from shareholders	0,00	150.000,00
Interest paid (-)	-22.375.000,00	-22.375.000,00
Cash flow from financing activities	-522.375.000,00	-22.225.000,00
4. Cash and cash equivalents at the end of the period		
Net change in cash and cash equivalents	-17.057,91	103.069,55
Cash and cash equivalents at the beginning of the period	163.122,72	60.053,17
Cash and cash equivalents at the end of the period	146.064,81	163.122,72
5. Composition of cash and cash equivalents		
Cash equivalents	146.064,81	163.122,72
Cash and cash equivalents at the end of the period	146.064,81	163.122,72

O2 Telefónica Deutschland Finanzierungs GmbH, Munich

Notes to the Financial Statements for the Financial Year 2021

I. GENERAL INFORMATION ON THE ANNUAL FINANCIAL STATEMENTS

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

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

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

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

The annual financial statements of TDF for the financial year 2021 have been prepared in accordance with the accounting principles of the German Commercial Code (HGB) as well as the GmbH Act.

As of 31 December 2021, the Company is classified as a large corporation in accordance with section 264d in conjunction with section 267 (3) HGB.

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

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

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

II. ACCOUNTING POLICIES

1. Principles and comparability

The accounting policies used in the preparation of the annual financial statements for the period ending 31 December 2021 are in accordance with the provisions of sections 242 to 256a and sections 264 to 288 of the HGB as well as the relevant provisions of the GmbH. The accounting policies and valuation methods have not changed compared to the previous year.

2. Fixed assets

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

3. Current assets

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

4. Prepaid expenses

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

5. Equity

Subscribed capital is carried at its nominal value. In the 2020 financial year, the shareholder made an additional payment of EUR 150,000 to the capital reserve in accordance with § 272 (2) no. 4 HGB.

6. Provisions

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

7. Liabilities

Liabilities are recognised at their settlement amount.

8. Deferred income

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

9. Other operating income

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

10. Income from financial assets - loans

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

11. Interest and similar expenses

Interest and similar expenses mainly comprise interest expenses from bonds.

III. NOTES TO THE BALANCE SHEET

1. Financial assets

The financial assets as of 31 December 2021 consist of one loan in the amount of EUR 600,000 thousand, granted by TDF to its shareholder Telefónica Germany GmbH & Co. OHG, Munich. The terms of the loan correspond to the terms of the underlying seven-year bond which TDF issued on 5 July 2018. The loan has fixed terms until the date of maturity of the underlying bond on 5 July 2025 and is repayable in one amount on the due date, including all interest and costs which have not yet been paid. The underlying interest rates is 1.750 % and is payable annually on 5 July. The loan in the amount of EUR 600,000 thousand continues to be reported under fixed assets as of 31 December 2021 due to the unchanged character. The change compared to the previous year results from the scheduled repayment of a loan in the amount of EUR 500,000 thousand by OHG on 10 February 2021.

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

Statements of Changes in Financial Assets for the Reporting Period from 1 January to 31 December 2021

	Acquisition costs				Accumulated depreciations				Carrying amounts	
	01.01.2021 EUR	Additions EUR	Disposals EUR	31.12.2021 EUR	01.01.2021 EUR	Additions EUR	Disposals EUR	31.12.2021 EUR	31.12.2021 EUR	31.12.2020 EUR
Financial Assets										
Loans to affiliated companies	1.100.000.000,00	0,00	500.000.000,00	600.000.000,00	0,00	0,00	0,00	0,00	600.000.000,00	1.100.000.000,00
	1.100.000.000,00	0,00	500.000.000,00	600.000.000,00	0,00	0,00	0,00	0,00	600.000.000,00	1.100.000.000,00

2. Receivables from affiliated companies

The receivables from affiliated companies amount to EUR 5,360 thousand (previous year: EUR 15,935 thousand), of which EUR 5,211 thousand (previous year: EUR 15,771 thousand) relates to receivables from the shareholder Telefónica Germany GmbH & Co. OHG, Munich. These comprise interest from loan issued to the shareholder in the amount of EUR 5,149 thousand (previous year: EUR 15,738 thousand).

Furthermore, EUR 146 thousand (previous year: EUR 163 thousand) are included in receivables from affiliated companies which represent receivables from Telfisa Global B.V., Amsterdam, Netherlands from the cash pooling. The maturity of these receivables is less than one year.

3. Prepaid expenses

This item includes mainly the amortised disgios of EUR 1,116 thousand (previous year: EUR 1,512 thousand) from the issuance of the seven-year bond in July 2018. The prepaid expenses will be released over the terms of the underlying bond on a straight-line basis until 5 July 2025.

4. Equity

The share capital remains unchanged, amounts to EUR 25 thousand and is fully paid. It is held entirely by Telefónica Germany GmbH & Co. OHG, Munich. In the 2020 financial year, a contribution to the capital reserve of EUR 150 thousand according to section 272 (2) no. 4 HGB was made by the shareholder.

5. Bonds

The category Bonds includes one bond with a nominal value of EUR 600,000 thousand (previous year: 1,100,000 thousand). The bond is guaranteed by Telefónica Deutschland Holding AG, Munich. The seven-year bond issued in 2014 in the amount of EUR 500,000 thousand was repaid as scheduled on 10 February 2021.

6. Other liabilities

The other liabilities include short-term interest payables in relation to the bond in the amount of EUR 5,149 thousand (previous year: EUR 15,738 thousand).

7. Deferred income

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

IV. NOTES TO THE INCOME STATEMENT

Financial result

Income from financial assets – loans in the amount of EUR 11,786 thousand (previous year: EUR 22,389 thousand) result from interest income, the existing loan at the end of the reporting period as well as from interest income until the scheduled repayment of a loan on 10 February 2021 from Telefónica Germany GmbH & Co. OHG, Munich.

Interest and similar expenses in the amount of EUR 12,183 thousand (previous year: EUR 23,173 thousand) include mainly interest expense in the amount of EUR 11,786 thousand (previous year: EUR 22,389 thousand) from the bond existing at the end of the reporting period and from interest expenses until the scheduled repayment of a bond on 10 February 2021.

V. ADDITIONAL DISCLOSURES TO THE NOTES

Additional disclosures to the cash flow statement

Cash equivalents with a maximum term of three months relate to cash-pooling receivables from Telfisa Global B.V, Amsterdam, the Netherlands recognised as receivables from affiliated companies.

Employees

In financial year 2021 and in 2020 the Company had no employees.

Management

The Managing Directors in the financial year were:

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

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

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

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

Audit committee

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

Dieter, Gauglitz

Chairman

German public auditor

Resident in Munich

Eckart, Kurze

Board member

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

Resident in Munich

Marcel, Ritter

Board member

General Counsel, Telefónica Germany GmbH & Co. OHG, Munich

Resident in Duisburg

Remuneration of governing bodies

The members of the Audit Committee received a total remuneration of EUR 15 thousand (previous year: EUR 15 thousand) for their work in 2021.

Auditor's fee

In accordance with section 285 no. 17 HGB, the total fee for the auditor of TDF will not be disclosed as the Company is part of the consolidation group of Telefónica Deutschland Holding AG, Munich, (Telefónica Deutschland Group) and the information is already included in the Consolidated Financial Statements.

Subsequent events

There were no significant events after the end of the reporting period 31 December 2021 which would need to be disclosed.

Consolidated financial statements

The company that prepares the consolidated financial statements for the smallest group of companies in which the Company is included is Telefónica Deutschland Holding AG, Munich. The consolidated financial statements are published in the Federal Gazette and are available there and at the www.telefonica.de website. The consolidated financial statements of Telefónica Deutschland Holding AG, Munich are included in the consolidated financial statements of the Spanish parent company Telefónica S.A., Madrid, Spain. Telefónica S.A., Madrid, Spain prepares the consolidated financial statements for the largest group of companies. These consolidated financial statements are available from Telefónica S.A., Madrid, Spain, and are published online at www.telefonica.com.

Cost reimbursement agreement

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

Profit and loss transfer agreement

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

Munich, 18 March 2022

O2 Telefónica Deutschland Finanzierungs GmbH

- Management -

Markus Haas

Markus Rolle

Albert Graf

Declaration of the Statutory Representatives

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

Munich, 18 March 2022

O2 Telefónica Deutschland Finanzierungs GmbH

- Management -

Managing Director

Markus Haas

Managing Director

Markus Rolle

Managing Director

Albert Graf

INDEPENDENT AUDITOR'S REPORT

To O2 Telefónica Deutschland Finanzierungs GmbH, Munich

REPORT ON THE AUDIT OF THE ANNUAL FINANCIAL STATEMENTS AND OF THE MANAGEMENT REPORT

Audit Opinions

We have audited the annual financial statements of O2 Telefónica Deutschland Finanzierungs GmbH, Munich, which comprise the balance sheet as at 31 December 2021, the statement of profit and loss, cash flow statement and statement of changes in equity for the financial year from 1 January to 31 December 2021 and notes to the financial statements, including the presentation of the recognition and measurement policies. In addition, we have audited the management report of O2 Telefónica Deutschland Finanzierungs GmbH for the financial year from 1 January to 31 December 2021.

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

- the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law and give a true and fair view of the assets, liabilities and financial position of the Company as at 31 December 2021 and of its financial performance for the financial year from 1 January to 31 December 2021 in compliance with German Legally Required Accounting Principles, and
- the accompanying management report as a whole provides an appropriate view of the Company's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

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

Basis for the Audit Opinions

We conducted our audit of the annual financial statements and of the management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Management Report" section of our auditor's report. We are independent of the Company in accordance with the requirements of European law and German commercial and professional law,

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

Key Audit Matters in the Audit of the Annual Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual financial statements for the financial year from 1 January to 31 December 2021. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

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

① Recoverability of loans to affiliated companies

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

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

Hereinafter we present the key audit matter:

① Recoverability of loans to affiliated companies

- ① In the Company's annual financial statements, loans to affiliated companies amounting to € 600 million (99% of total assets) are reported under the "Financial assets" balance sheet item. This relates to the loan granted to the sole shareholder Telefónica Germany GmbH & Co. OHG, Munich, with a nominal value of € 600 million that is due for repayment in July 2025. The conditions and amount of the loan corresponds to the underlying seven-year bonds, which is reported on the liabilities side under the balance sheet item "Bonds" in the amount of € 600 million (99% of total assets). Loans to affiliated companies are measured in accordance with German commercial law based on the acquisition cost or, provided there are indications for an impairment, based on the lower fair value. Indications for an impairment of other loans are deemed to exist if there are signs for a deterioration in the economic situation of Telefónica Germany GmbH & Co. OHG, Munich, that result in liquidity or solvency in relation to the bonds being limited. Recoverability is evaluated primarily on the basis of the assessment of the operational business as well as the solvency of Telefónica Germany GmbH & Co. OHG, Munich. Because the estimates of the executive directors are required for the assessment of

the loans and due to their significance in terms of the amount for the assets, liabilities and financial performance of the Company, this matter was of particular importance for our audit.

- ② As part of our audit, we examined and assessed, among other matters, the procedure for evaluating and assessing the presence of indications for an impairment of the loans to affiliated companies held. We also assessed, in particular, the information upon which the executive directors based their assessment. In addition, we have examined the anticipated future income from the operating business activities using the business plan of Telefónica Germany GmbH & Co. OHG, Munich. In doing so, we assessed the appropriateness of the assumptions and expectations underlying the business plan, including, in particular, with respect to the further implementation of planned measures and the anticipated growth rate, and considered whether the business plan was drawn up properly on this basis. Furthermore, we assessed the possibilities for the financing of the Telefónica Deutschland Group and especially of Telefónica Germany GmbH & Co. OHG, Munich, including, in particular, against the backdrop of the availability of credit lines not drawn down (unutilized credit facilities). Based on the audit procedures performed, we were able to satisfy ourselves that the information underlying the measurement assumptions made by the executive directors is, on the whole, suitable for carrying out an assessment on the presence of indications for value impairments of the loans to affiliated companies in an appropriate manner.
- ③ The Company's disclosures relating to the financial assets are contained in section "III/1. Financial assets" of the notes to the financial statements.

Responsibilities of the Executive Directors and the Audit Committee for the Annual Financial Statements and the Management Report

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

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

Furthermore, the executive directors are responsible for the preparation of the management report that as a whole provides an appropriate view of the Company's position and is, in all material respects, consistent with the annual financial statements, complies with German legal requirements,

and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the management report.

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

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

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

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

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

- Identify and assess the risks of material misstatement of the annual financial statements and of the management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal control relevant to the audit of the annual financial statements and of arrangements and measures (systems) relevant to the audit of the management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems of the Company.

- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the annual financial statements and in the management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles.
- Evaluate the consistency of the management report with the annual financial statements, its conformity with German law, and the view of the Company's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

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

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

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

OTHER LEGAL AND REGULATORY REQUIREMENTS

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as auditor by the Shareholder meeting on 23 November 2021. We were engaged by the audit committee on 24 November 2021. We have been the auditor of the O2 Telefónica Deutschland Finanzierungs GmbH, Munich, without interruption since the financial year 2017.

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

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

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

Munich, March 18, 2022

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

(sgd. Stefano Mulas)
Wirtschaftsprüfer
(German Public Auditor)

(sgd. ppa. Birgit Wicke)
Wirtschaftsprüferin
(German Public Auditor)