INTERIM GROUP REPORT

for the period 1 January to 30 June 2021

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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.

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Further Information

INTERIM GROUP MANAGEMENT REPORT

for the period 1 January to 30 June 2021

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T 01

FINANCIAL OVERVIEW

1 January to 30 June

(in EUR million)	**2021**	2020	% Change
Revenues	**3,743**	**3,636**	**2.9**
Mobile service revenues	2,678	2,587	3.5
Operating income before depreciation and amortisation (OIBDA), adjusted for exceptional effects	**1,173**	**1,085**	**8.2**
OIBDA margin, adjusted for exceptional effects	*31.3%*	*29.8%*	*1.5%-p.*
Operating income before depreciation and amortisation (OIBDA)	**1,157**	**1,079**	**7.2**
OIBDA margin	*30.9%*	*29.7%*	*1.2%-p.*
CapEx	**(508)**	**(475)**	**6.9**
Investment ratio (CapEx/sales ratio) in %	**13.6**	**13.1**	**0.5%-p.**
Free cash flow	**382**	**316**	**21.1**
Mobile accesses (in thousands)	44,974	43,517	3.4
Net adds in mobile prepaid business (in thousands)	(18)	(773)	(97.7)
Net adds in mobile postpaid business excluding M2M (in thousands)	594	347	71.4
Total ARPU (in EUR)	**9.9**	**9.7**	**1.5**
Non-SMS data revenue over total data revenues (%)	**92.4%**	**91.6%**	**0.8%-p.**

	As of 30 June 2021	As of 31 December 2020	% Change
Net leverage ratio	**1.6x**	**1.4x**	**18.2**
Net financial debt	3,888	3,168	22.7

ECONOMIC REPORT OF THE GROUP

Overall Economic and Industry Conditions

The German economy is leaving the crisis behind [1]
The German economy continued to suffer from the COVID-19 pandemic and government measures to contain the virus in the first quarter of 2021. Figures from the Federal Statistical Office indicate that gross domestic product (GDP) fell by 1.8% in the first three months of this year compared to the previous quarter.

Since April 2021, however, COVID-19 infection rates in Germany have slowed down considerably and the situation is improving. Sharp drops in the number of cases combined with significant progress in the vaccination programme are allowing more widespread easing and re-opening. The sectors that are benefiting include many service industries such as hospitality, cultural life and retail. Holidays are now also possible again. This is resulting in rising optimism, as reflected in an improvement in consumer sentiment. GfK reports that the consumer climate index reached its highest level since August 2020.

On the other hand, economic activity is being negatively affected by some bottlenecks in the supply of intermediate goods. These are limited, however, since the latest surveys by the ifo Institute suggest that most industrial companies expect further improvement in their business activities. The IAB Forum forecasts that GDP will grow significantly again in the second quarter of 2021.

The Federal Employment Agency has reported that the situation on the labour market is also improving. The unemployment rate has dropped from 6.4% (June 2020) to 5.9% (June 2021) within the past twelve months. Firms are continuing to reduce short-time working and are increasingly looking for new staff again.

According to the Federal Statistical Office (Destatis), however, the inflation rate has been rising more rapidly since the start of 2021, standing at +2.5% in May 2021. This means that the inflation rate has risen for the fifth month in succession. The ifo Institute has identified two main factors in this trend: firstly, the rise in value added tax at the beginning of 2021, which in itself pushed the rate of inflation up by just over one percentage point in January; secondly, energy prices increased substantially compared to the previous year.

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).

Below is a presentation of the most important additions and new regulatory events relating to the disclosures made in the section “Regulatory Influences on the Telefónica Deutschland Group” in the Combined Management Report for the financial year ending 31 December 2020.

Frequencies
BNetzA continues procedure to make mobile radio frequencies available for the further expansion of high-performance telecommunications networks
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

[1] Sources: Deutsche Bundesbank “Monthly Report June 2021” (21 June 2021); GfK Consumer Climate June 2021 (26 June 2021); Federal Statistical Office: Gross domestic product: Detailed results of economic output in the 1st quarter of 2021 (25 May 2021); ifo Institute: Press release on economic forecast (16 June 2021); Federal Employment Agency: The employment market in June, Press Release № 25 and Monthly Report June 2021 (30 June 2021)

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 will issue a statement on the scenarios paper within the specified time limit of 23 August 2021.

2019 auction to provide new frequencies for the further development of digital infrastructures

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 rejected by the Cologne Administrative Court in a ruling handed down on 17 February 2020. As an appeal against this ruling was not allowed, the Telefónica Deutschland Group lodged an appeal against denial of leave to appeal with the Federal Administrative Court in Leipzig. The Federal Administrative Court allowed the appeal in a ruling handed down on 6 November 2020. The legal action will be continued in the second half of 2021.

Coverage requirements resulting from the 2015 frequency auction

On 4 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 is still reviewing the coverage data provided by the Telefónica Deutschland Group.

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 12 March 2021, the EU Commission discontinued the formal proceedings against the Telefónica Deutschland Group that had been initiated on 22 February 2019. A fine was not imposed. At that time, the EU Commission had submitted 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.

German legislature passes law on implementation of the EU Electronic Communications Code

The EU Electronic Communications Code entered into force on 20 December 2018. The national legislative process initiated by the German lawmaker to transpose it into national law was completed in May 2021. The amended Telecommunications Act will come into effect on 1 December 2021. The legislation includes extensive changes to the “Customer Protection” section, which could involve a considerable cost for the Telefónica Deutschland Group to implement. The amendment also includes provisions that the Federal Network Agency (BNetzA) for its part will have to take into ac-count in future decision-making.

German legislature passes law on fair consumer contracts

In June 2021, the legislature passed a law on fair consumer contracts. The individual provisions of this law will enter into force in stages. As the law has yet to be published in the Federal Law Ga-zette, at this point in time it is not possible to specify the exact date of its entry into force. The law includes the requirement to provide a notice period of only one month in future for contracts en-tered into for the first time. A “cancellation button” must also be made available to the consumer as an easy-to-reach online channel for cancelling the contract.

Access and price regulation

MTR and FTR – delegated act enters into force

The delegated act was published in the EU’s Official Journal on 22 April 2021. It entered into force on 1 July 2021. It provides for a glide path for MTRs (Mobile Termination Rate), according to which MTRs may not exceed EUR 0.70 cents per minute by the end of 2021, EUR 0.55 cents per minute by the end of 2022 and EUR 0.40 cents per minute by the end of 2023. From 2024, the MTR cap will be EUR 0.20 cents per minute. FTRs (Fixed Termination Rate) must not exceed EUR 0.07 cents per minute. These maximum charges will apply to all German providers of these services. In some cases, different glide paths apply to providers in other European countries. The BNetzA has abolished the current charge approval requirement so that regulated charges have been replaced by maximum charges.

EU Commission launches new version of EU Roaming Regulation

On 24 February 2021, the EU Commission presented its proposal for a new version of the EU Roaming Regulation starting from 1 July 2022. It was possible to comment on this proposal until 4 May 2021. The Telefónica Deutschland Group took part in this process through a statement issued by the Telefónica, S.A. Group.

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 (fibre to the home) accesses. Most of the agreed conditions are subject to approval by the BNetzA. The BNetzA has now approved the agreed xDSL conditions. A review of the FTTH conditions is still ongoing.

Results of Operations

T 02

CONSOLIDATED INCOME STATEMENT

1 January to 30 June

(in EUR million)	2021	2020	Change	% change
Revenues	**3,743**	**3,636**	**107**	**2.9**
Other income	57	56	1	1.8
Operating expenses	(2,644)	(2,614)	(31)	1.2
Supplies	(1,147)	(1,171)	25	(2.1)
Personnel expenses	(285)	(292)	7	(2.4)
Impairment losses in accordance with IFRS 9	(33)	(40)	7	(17.5)
Other expenses	(1,179)	(1,110)	(69)	6.2
Operating income before depreciation and amortisation (OIBDA)	**1,157**	**1,079**	**77**	**7.2**
OIBDA margin	***30.9%***	***29.7%***	**–**	***1.2%-p.***
Depreciation and amortisation	(1,186)	(1,110)	(76)	6.9
Operating income	**(29)**	**(30)**	**1**	**(3.3)**
Financial result	(33)	(32)	(1)	3.0
Result of investments accounted for using the equity method	(1)	–	(1)	>100
Profit/(loss) before tax	**(64)**	**(62)**	**(1)**	**2.0**
Income tax	(21)	(0)	*(21)*	>100
Profit/(loss) for the period	**(84)**	**(62)**	***(21)***	**35.1**

T 03

REVENUE BREAKDOWN

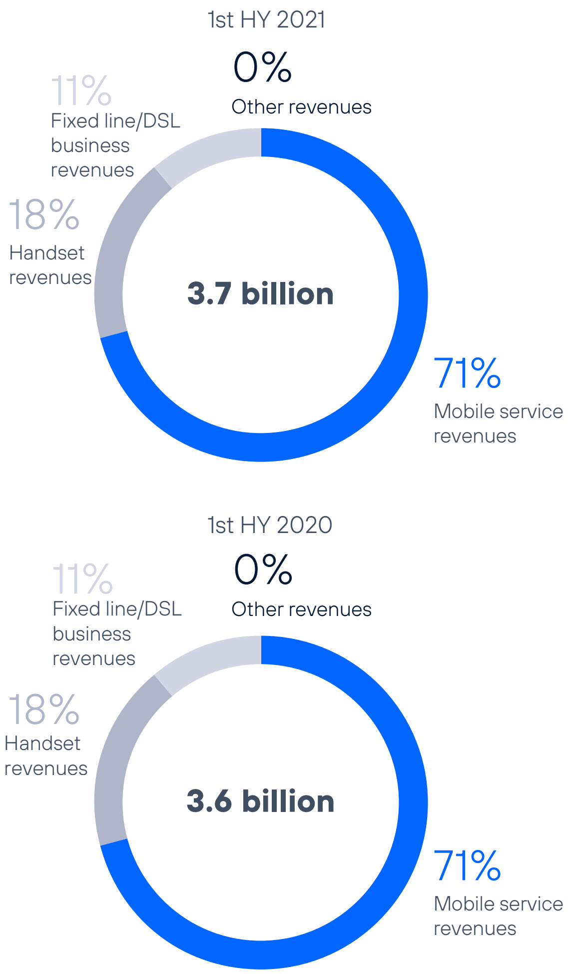
1 January to 30 June

(in EUR million)	2021	2020	Change	% change
Mobile business revenues	**3,342**	**3,248**	**95**	**2.9**
Mobile service revenues	2,678	2,587	91	3.5
Handset revenues	665	661	4	0.6
Fixed line/DSL business revenues	**400**	**386**	**14**	**3.7**
Other revenues	**1**	**3**	**(2)**	**(72.1)**
Revenues	**3,743**	**3,636**	**107**	**2.9**

Significant rise in revenues
Revenues rose significantly in the first half of 2021, mainly due to growth in revenues from mobile services and, to a lesser extent, from fixed line/DSL. In the year-on-year comparison, revenues were affected positively by negative non-recurrent special factors in 2020 and positive non-recurrent special factors in 2021 in the total amount of EUR 39 million. The COVID-19 impacts have largely become annualised at the end of the first half of the year compared to the same period of the previous year.

G 01

REVENUES
(IN % AND IN EUR BILLION)



Significant increase in mobile service revenues
In the first half of 2021, the Telefónica Deutschland Group still operated in a dynamic competitive environment that has been impaired by COVID-19. The revenue mix nevertheless improved, primarily due to the increased proportion of postpaid customers and the rise in data revenues. Compared to the same period of the previous year, the development of mobile service revenues benefited overall from the special factors mentioned above. The COVID-19 impacts have largely become annualised at the end of the first half of the year compared to the same period of the previous year. The negative impact of the limited contribution from roaming as a result of travel restrictions and lower trading levels due to the temporary lockdown were largely offset by additional SMS and data traffic and higher interconnection revenues. The customer base grew substantially compared to 30 June 2020, a result of the good development of our O_2 Free portfolio and the partner brands. Accordingly our postpaid mobile customer base excluding M2M increased in the first half of financial year 2021 by 594 thousand net additions to 24.2 million (increase in the first half of 2020: 347 thousand). This led to an increase of the postpaid share of total mobile customers excluding M2M by 1.2 percentage points compared to 30 June 2020, to the current level of 53.8%. In addition, the average revenue per user (ARPU) increased to EUR 9.9 compared to the previous year (first half of 2020: EUR 9.7).

Handset revenues stable
Handset revenues are generally subject to fluctuation, as they depend on the launch of new mobile devices. Due to sustained demand for handsets in the first half of 2021, revenues from sales of devices – including to mobile service partners – remained largely stable year-on-year.

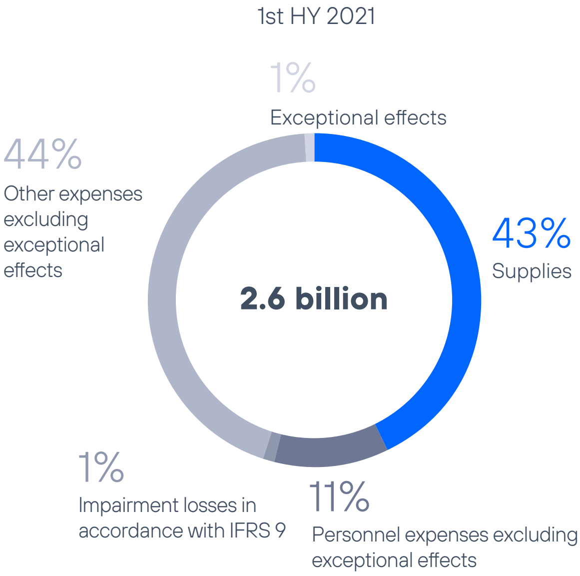
Higher fixed line/DSL business revenues
Revenues from fixed line business rose in the first half of 2021, mainly due to growth in the customer base and the sustained demand for VDSL products, together with the associated higher share of the customer base, but also due to demand for new cable and fibre-optic products.

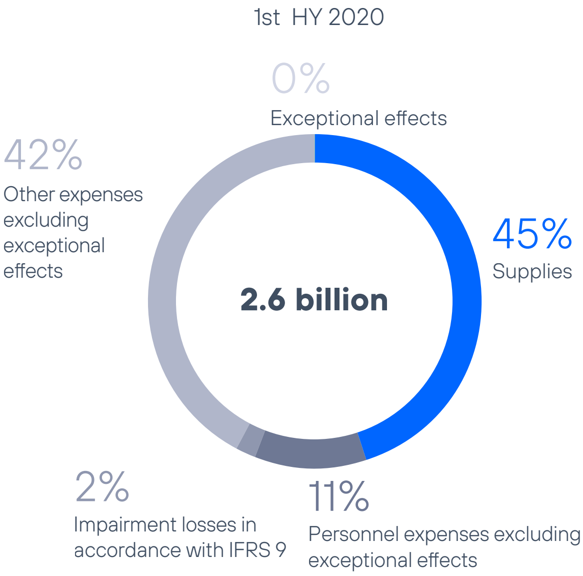
Slight rise in operating expenses

Operating expenses increased slightly in the first half of 2021 compared to the previous year, mainly due to a rise in higher expenses for selling and marketing, increased network costs primarily for 5G roll-out, and in increased restructuring expenses. Operating expenses include exceptional effects of EUR 17 million (previous year: EUR 6 million), which are mainly attributable to higher restructuring expenses. These are related in particular to the sale of customer service locations with effect from 1 July 2021. By contrast, the hardware cost of sales for handsets fell compared to the same period in the previous year.

G 02

OPERATING EXPENSES
(IN % AND IN EUR BILLION)





Decrease in supplies

In the first half of 2021, supplies were lower year-on-year, mainly due to the decreased hardware cost of sales for handsets.

Personnel expenses down year-on-year

Personnel expenses went down slightly in the first half of 2021 compared to the previous year. This is 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. This was partly offset by a slight rise in restructuring expenses of EUR 3 million compared to the previous year (first half of 2020: EUR 1 million).

Other expenses increased

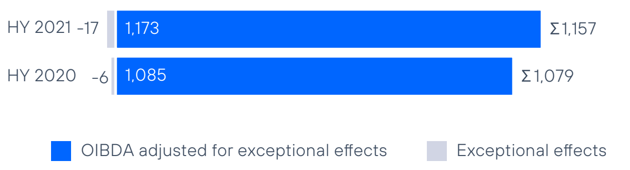
Other expenses increased in the first half of 2021. This is principally due to higher expenses for selling and marketing, increased network costs primarily for 5G roll-out, and to higher restructuring expenses of EUR 14 million (prior-year period: income of EUR 1 million), especially in connection with the sale of customer service sites completed on 1 July 2021.

Rise in OIBDA adjusted for exceptional effects

OIBDA adjusted for exceptional effects increased by 8.2% to EUR 1,173 million in the first half of 2021 compared to the same period of the previous year. This development is attributable to an improvement in the revenue mix, continuous improvement in efficiency and cost management, and to non-recurrent special factors in 2020 and 2021. By contrast, expenses for selling and marketing as well as network costs, primarily for 5G roll-out in the 'other expenses' item increased in particular. With the easing of COVID-19 restrictions and the re-opening of O_2 shops in the second quarter, the COVID-19 impacts have almost become annualised year-on-year. In the first half of 2021, exceptional effects totalling EUR 17 million were posted (first half of 2020: EUR 6 million), principally related to restructuring.

G 03

OIBDA
(IN EUR MILLION)



Increase in depreciation and amortisation

The significant increase in depreciation and amortisation is essentially due to the shortened useful lives of some assets and, to a lesser extent, to increased additions to capitalised right-of-use assets and property, plant and equipment. As the network and IT architecture is being optimised and the 3G-network switch-off is being brought forward to the end of 2021, the useful lives of the relevant parts of the fixed assets were shortened in the first half of 2021 and at the end of 2020, respectively. This resulted in higher depreciation and amortisation in the first half of 2021 compared to the same period in the previous year. This was partially offset by complete amortisation of the UMTS licences at the end of 2020.

Operating income practically unchanged

Operating income remained practically unchanged in the first half of 2021, at EUR -29 million (prior-year period: EUR -30 million). While in particular the increase in revenues and the reduction in supplies had a positive impact compared to the previous year, there was an opposite effect from higher depreciation and amortisation as well as other expenses.

Small change in financial result

The financial result saw a slight change from EUR -32 million in the prior-year period to EUR -33 million in the reporting period.

Result of investments 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 the first half of 2021 for the first time in relation to 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 -1 million in the reporting period.

Income tax

Tax expense of EUR 21 million was incurred in the first half of 2021 (prior-year period: no tax expense). This comprises the current tax expense of EUR 39 million for income tax and deferred tax income of EUR 18 million.

After proportionate offsetting against tax losses carried forward, the Telefónica Deutschland Group posted positive taxable income in the first half of 2021, consequently forming income tax liabilities on the basis of an expected tax rate. In contrast, income from deferred taxes was recognised.

Profit/(loss) for the period down slightly

The profit/(loss) for the period deteriorated slightly compared to the previous year, primarily due to higher depreciation and amortisation, and the income tax expense that was recognised. On the other hand, the rise in revenues and the improvement in OIBDA margin had a positive impact.

Financial Position

Financial Analysis

Net financial debt

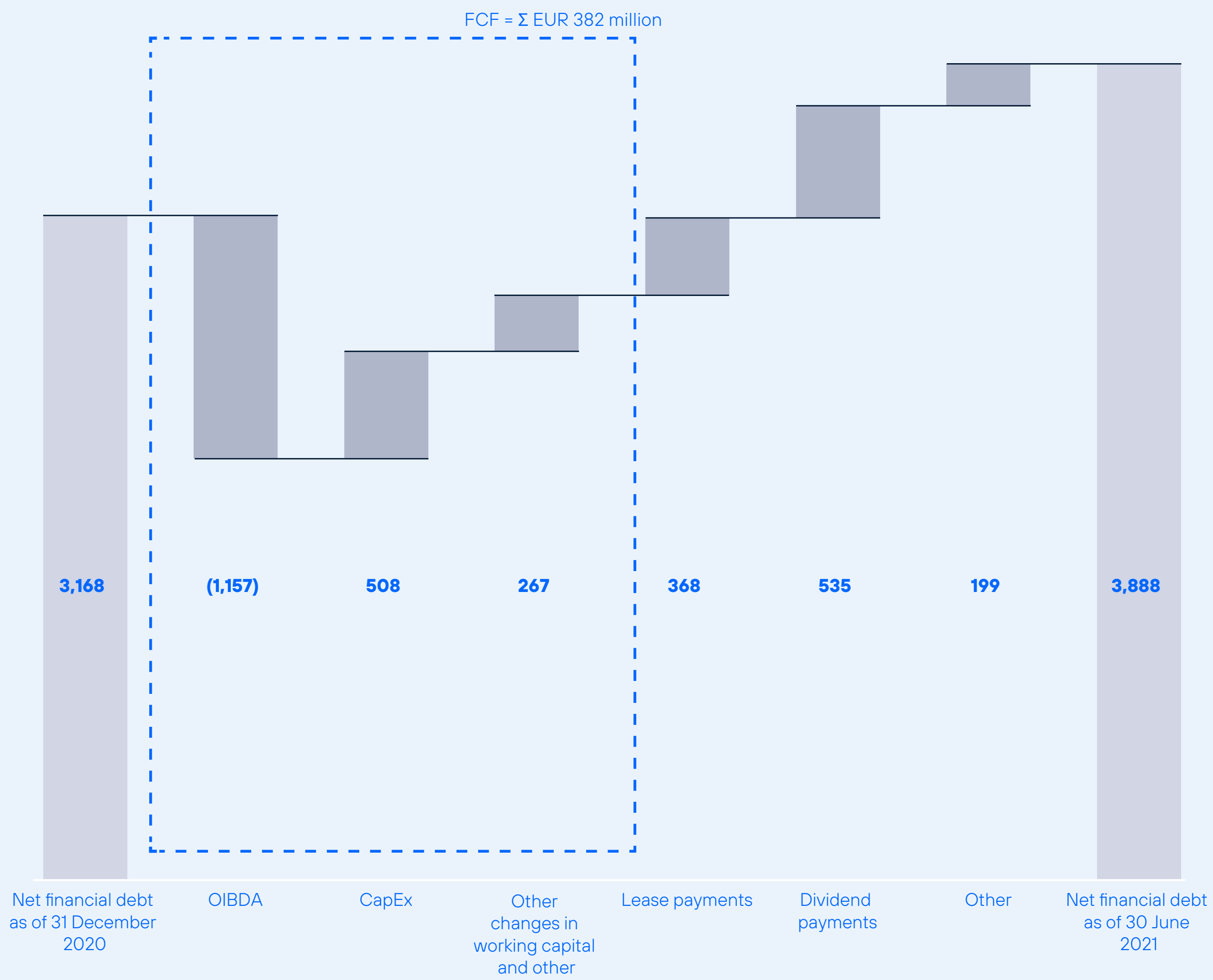
Table 4 shows the composition of net financial debt – i.e. the net amount of interest-bearing financial liabilities less any cash and cash equivalents and interest-bearing financial assets.

Net financial debt as of 30 June 2021 rose compared to 31 December 2020 by 22.7% to EUR 3,888 million. The increase was above all attributable to the dividend payout of EUR 535 million made in the reporting period for financial year 2020 and payments for lease liabilities totalling EUR 368 million. Free cash flow in the amount of EUR 382 million moved in the opposite direction.

The graphic below illustrates the development of net financial debt in the first half of 2021:

G 04

DEVELOPMENT OF NET FINANCIAL DEBT
(IN EUR MILLION)



T 04

COMPOSITION OF NET FINANCIAL DEBT

(in EUR million)	**As of 30 June 2021**	As of 31 December 2020	Change	% change
A Liquidity[1]	648	1,337	(689)	(51.5)
B Current financial assets[2]	262	304	(42)	(13.9)
C Current financial debt[3]	763	1,229	(466)	(38.0)
D=C-A-B Current net financial debt	(147)	(412)	265	(64.2)
E Non-current financial assets[2]	305	322	(18)	(5.5)
F Non-current financial debt[3]	4,341	3,903	437	11.2
G=F-E Non-current net financial debt	4,036	3,581	455	12.7
H=D+G Net financial debt[3]	3,888	3,168	720	22.7

(1) Liquidity includes cash and cash equivalents held for sale amounting to EUR 8 million as of 30 June 2021.

(2) 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.

(3) Current and non-current financial debt mainly includes lease liabilities, issued bonds, promissory notes and registered bonds as well as other loans. Financial debt as of 30 June 2021 includes EUR 126 million in lease liabilities recognised as "liabilities held for sale" and related to the contractually agreed sale of major parts of the business operations of rooftop sites to Telxius (>Note 2 SIGNIFICANT EVENTS AND TRANSACTIONS DURING THE REPORTING PERIOD). 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.

Liquidity Analysis

T 05

CONSOLIDATED STATEMENT OF CASH FLOWS

1 January to 30 June

(in EUR million)	**2021**	2020
Cash flow from operating activities	1,030	866
Cash flow from investing activities	(647)	(550)
Free cash flow (cash flow from operating activities + cash flow from investing activities)	**382**	**316**
Cash flow from financing activities	(1,071)	(873)
Less cash and cash equivalents of assets and liabilities held for sale	**(8)**	**(0)**
Net increase (decrease) in cash and cash equivalents	**(697)**	**(557)**
Cash and cash equivalents at the beginning of the period	**1,337**	**781**
Cash and cash equivalents at the end of the period	**640**	**224**

Consolidated Statement of Cash Flows

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

Significant improvement in cash flow from operating activities

Cash flow from operating activities totalled EUR 1,030 million in the first half of 2021, and was EUR 164 million or 18.9% significantly above the previous year's figure of EUR 866 million. This development is primarily due to the positive change in OIBDA and in working capital.

Cash flow from investing activities impacted by higher investment

The cash flow from investing activities in the first half of 2021 amounted to EUR -647 million (first half of 2020: EUR -550 million). Cash outflows mainly comprised investments in technical equipment and software and increased from EUR 560 million to EUR 683 million in the reporting period. Cash inflows rose by EUR 25 million compared with the same period of the previous year.

Substantial increase in free cash flow

Free cash flow therefore amounted to EUR 382 million in the first half of 2021, a substantial increase compared with the same period of the previous year (EUR 316 million).

Cash flow from financing activities reflects sharp rise in cash outflows

The cash flow from financing activities in the first six months of 2021 amounted to EUR -1,071 million (first half of 2020: EUR -873 million).

Cash outflows increased to EUR 1,676 million (prior-year period: EUR 1,385 million). They mainly comprise the dividend payment of EUR 535 million, the scheduled repayment of a bond in the amount of EUR 500 million, payments of EUR 368 million to redeem lease liabilities and the repayment of two short-term credit lines totalling EUR 219 million. In contrast, the first half of 2020 included a dividend payment of EUR 506 million, repayment of the short-term overdraft facility provided by Telfisa Global B.V. in the amount of EUR 386 million, payments of EUR 336 million to redeem lease liabilities and the repayment of EUR 113 million for promissory notes.

Cash inflows increased by EUR 93 million year-on-year to EUR 605 million. The change is due to increased financial needs and primarily involves drawing on a loan from the European Investment Bank (EIB) amounting to EUR 300 million, and taking up two short-term credit lines with LBBW in the amount of EUR 200 million and with Commerzbank in the amount of EUR 100 million; the latter was already repaid within the reporting period. On the other hand, the first half of 2020 primarily involved the utilisation of a short-term overdraft facility from Telfisa Global B.V. totalling EUR 504 million.

Decrease in cash and cash equivalents

Based on the above-mentioned cash inflows and outflows and the recognition of cash and cash equivalents in the amount of EUR 8 million as assets held for sale, cash and cash equivalents decreased by EUR 697 million compared to the previous year's reporting date and on 30 June 2021 amounted to EUR 640 million (31 December 2020: EUR 1,337 million).

Net Assets

In the following analysis of the asset and capital structure, the assets and liabilities existing as of 30 June 2021 are compared with the values as of 31 December 2020.

The net assets as of 30 June 2021 were materially affected by the comprehensive set of agreements with Telxius Telecom, S.A. ("Telxius"), an affiliated company of the Telefónica, S.A. Group, on the sale of major parts of the business operations of rooftop sites, as signed by the Telefónica Deutschland Group in the previous year.

This includes the spin-off and sale of a large part of its passive infrastructure of 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.

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 consisted 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 formed 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 and 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 and as a result, the company was renamed ATC Germany Munich GmbH.

In the third quarter of 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 formed in financial year 2020. The shares in this company were transferred to Telxius with effect from 1 August 2021 (>Note 8 NON-CURRENT ASSETS HELD FOR SALE AND DISPOSAL GROUPS). Telxius then transferred all the shares in TGZMS to ATC Germany Holdings GmbH.

Due to the specific selection of the individual transfer sites in the reporting period, the related assets and liabilities can be identified individually and the assets and liabilities to be transferred are therefore presented as "held for sale", in accordance with IFRS 5.

In the future, the Telefónica Deutschland Group will lease areas of the transferred passive infrastructure from TGZMS for the installation and operation of its active radio technology.

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

T 06

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(In EUR million)	**As of 30 June 2021**	As of 31 December 2020	Change	% change
Goodwill and other intangible assets	5,701	6,234	(533)	(8.6)
Property, plant and equipment	3,411	3,706	(295)	(8.0)
Right-of-use assets	2,924	2,852	72	2.5
Investments accounted for using the equity method	5	2	4	>100
Trade and other receivables	1,400	1,454	(54)	(3.7)
Deferred tax assets	508	473	35	7.4
Other financial assets	353	368	*(15)*	(4.0)
Other non-financial assets	646	639	7	1.1
Inventories	124	129	(5)	(4.2)
Cash and cash equivalents	640	1,337	(697)	(52.1)
Assets held for sale	523	–	523	>100
Total assets = Total equity and liabilities	**16,236**	**17,194**	**(958)**	**(5.6)**
Interest-bearing debt	2,131	2,292	(160)	(7.0)
Lease liabilities	2,846	2,841	6	0.2
Trade and other payables	2,203	2,488	(285)	(11.5)
Payables - Spectrum	1,180	1,196	*(16)*	(1.4)
Provisions	733	850	(117)	(13.8)
Other non-financial liabilities	35	50	(15)	(30.3)
Income tax liabilities	54	15	39	259.1
Deferred income	759	768	(9)	(1.2)
Deferred tax liabilities	382	365	17	4.6
Liabilities held for sale	173	–	173	>100
Equity	**5,741**	**6,330**	**(589)**	**(9.3)**

Decrease in goodwill and other intangible assets
The decrease compared with the previous year was mainly due to scheduled amortisation of other intangible assets in the amount of EUR 422 million in the first six months of the 2021 financial year and the reclassification of goodwill of EUR 256 million into “assets held for sale” on the basis of the second transaction step of the contractually agreed sale of major parts of the business operations of rooftop sites to Telxius (>Note 2 SIGNIFICANT EVENTS AND TRANSACTIONS DURING THE REPORTING PERIOD). This was partially offset by the additions to other intangible assets of EUR 145 million. These are related to investments in software for the most part.

Decrease in property, plant and equipment
The decrease in property, plant and equipment was largely due to depreciation of EUR 478 million and to reclassification of property, plant and equipment assets in the amount of EUR 124 million into “assets held for sale” on the basis of the second transaction step of the contractually agreed sale of major parts of the business operations of rooftop sites to Telxius (>Note 2 SIGNIFICANT EVENTS AND TRANSACTIONS DURING THE REPORTING PERIOD). This was partially offset by additions of EUR 363 million in the first six months of the 2021 financial year relating primarily to network investments (technical equipment).

Slight rise in right-of-use assets as defined in IFRS 16
The slight rise in right-of-use assets is primarily due to additions in the amount of EUR 532 million in the reporting period, relating especially to technical equipment. This was partially offset by scheduled depreciation of EUR 286 million and to reclassification of the right-of-use assets in the amount of EUR 133 million into “assets held for sale” on the basis of the second transaction step of the contractually agreed sale of major parts of the business operations of rooftop sites and related lease agreements to Telxius (>Note 2 SIGNIFICANT EVENTS AND TRANSACTIONS DURING THE REPORTING PERIOD).

Increased investment ratio (CapEx/sales ratio)
Investments (CapEx) rose in the first half of 2021 to EUR 508 million, compared to EUR 475 million in the comparison period 2020, mainly due to increased investment in expanding 5G and in optimising the network. The investment ratio amounted to 13.6% in the reporting period (first half of 2020: 13.1%).

Investments accounted for using the equity method
The investments accounted for using the equity method amounting to EUR 5 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.

Trade and other receivables decreased slightly
The decline was mainly due to an increase in factoring transactions and lower voucher sales in the first half of 2021.

Rise in deferred tax assets
Deferred tax assets rose in the first half of 2021, from EUR 473 million to EUR 508 million. The deferred tax income comprises the proportionate use of the tax losses carried forward on the basis of the expected tax rate.

Inventories of mobile devices almost stable
The inventories of mobile devices remained almost stable.

Significant decline in cash and cash equivalents
The significant decline of EUR 697 million or 52.1% is attributable to several factors that are presented in more detail in the >FINANCIAL POSITION chapter.

Assets and liabilities held for sale
The assets and liabilities held for sale are largely related to the second transaction step agreed in the set of agreements signed in the previous year concerning the sale of major parts of the business operations of rooftop sites to Telxius (>Note 2 SIGNIFICANT EVENTS AND TRANSACTIONS DURING THE REPORTING PERIOD and Note 8 NON-CURRENT ASSETS HELD FOR SALE AND DISPOSAL GROUPS). Assets held for sale amounting to EUR 8 million and liabilities held for sale totalling EUR 2 million are associated with the sale of some customer service locations completed on 1 July 2021.

Interest-bearing debt down on previous year
The decline of EUR 160 million in the first half of 2021 was primarily due to the scheduled repayment of a bond in the amount of EUR 500 million, repayment of a credit line from DZ Bank amounting to EUR 119 million and partial repayment of a loan from the European Investment Bank (EIB) in the amount of EUR 33 million. This was partially offset by the drawing of a loan from the EIB amounting to EUR 300 million and by taking up a short-term credit line from LBBW in the amount of EUR 200 million.

Small rise in lease liabilities
The small rise in lease liabilities of EUR 6 million is mainly due to additions resulting from extensions to various location lease agreements. This was almost completely offset by repayments of lease liabilities amounting to EUR 368 million and by reclassification of lease liabilities in the amount of EUR 126 million into “liabilities held for sale” on the basis of the second transaction step of the contractually agreed sale of major parts of the business operations of rooftop sites and related lease agreements to Telxius (>Note 2 SIGNIFICANT EVENTS AND TRANSACTIONS DURING THE REPORTING PERIOD).

Decrease in trade and other payables
This development is mainly due to a decrease in liabilities as a result of 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 were reduced compared to 31 December 2020 largely due to the instalment payment made in the first half of the year.

Provisions down year-on-year
The decrease in provisions was primarily due to reduced asset retirement obligations as a result of the increased discount rate in the first half of 2021, as well as reclassification of asset retirement obligations amounting to EUR 44 million into "liabilities held for sale" on the basis of the second transaction step of the contractually agreed sale of major parts of the business operations of rooftop sites to Telxius (>Note 2 SIGNIFICANT EVENTS AND TRANSACTIONS DURING THE REPORTING PERIOD). Pension provisions also declined by EUR 28 million as a consequence of the interest rate movement in the reporting period. In contrast, restructuring provisions increased by EUR 9 million.

Other non-financial liabilities
The decline mainly results from a lower liability for value added tax.

Income tax liabilities
This item comprises recognition of income tax totalling EUR 54 million, which has applied since the second half of 2020. The EUR 39 million rise compared to 31 December 2020 is the result of applying the tax rate to IFRS pre-tax income, while at the same time reversing taxable temporary differences in intangible fixed assets.

Deferred income down slightly
Deferred income fell marginally by 1.2% or EUR 9 million.

Increase in deferred tax liabilities
The EUR 17 million increase in the first half of 2021, from EUR 365 million to EUR 382 million, is attributable to the realisation of taxable temporary differences. These include lower tax GAAP amortisation on account of longer amortisation periods for tax purposes in connection with intangible assets, which were realised.

Equity below prior-year level
The changes to equity mainly result from the dividend payment of EUR 535 million implemented on 26 May 2021 and the negative result for the period of EUR -84 million.

REPORT ON RISKS AND OPPORTUNITIES

In the Combined Management Report for the 2020 financial year, we have presented certain risks that could have significant adverse effects on our business, net assets, financial position, results of operations and reputation. In addition, we there describe our most important opportunities and the structure of our risk management system.

Risk Management

During the reporting period we have not identified any other material risks and opportunities apart from those presented in the Combined Management Report for the 2020 financial year.

In the case of the following risk, however, there have been changes with regard to the assessment and/or the likelihood of occurrence compared to the 2020 financial year.

COVID-19 pandemic
The restrictions caused by the pandemic in many countries continue to affect international travel and retail. Due to the more positive starting position compared to last year, especially due to the available vaccines, we do not expect to be affected to the same extent.

With a lower potential loss volume, we no longer classify the risk as critical, but as high.

Opportunity Management

The opportunities for focusing on our business activities and growth strategy improved further in the first half of 2021.

The contractually agreed sale of major parts of the business operations of rooftop sites to Telxius in the previous year has significantly increased the Telefónica Deutschland Group's financial flexibility, giving it much greater freedom in its business operations. The first part of the transaction was completed on 1 September 2020, when 6,033 sites were successfully transferred. The transaction was completed as it became effective on 1 August 2021, when a further 4,080 sites were transferred to Telxius (>Note 2 SIGNIFICANT EVENTS AND TRANSACTIONS DURING THE REPORTING PERIOD).

In addition to the risks mentioned, the COVID-19 pandemic also presents opportunities due to accelerated digitalisation among consumer 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.

REPORT ON EXPECTED DEVELOPMENTS

Economic Outlook

The Deutsche Bundesbank expects that the German economy will leave the pandemic-related crisis behind and currently stands at the start of a strong upswing. A key driver of economic performance will be consumer spending, which experts believe will expand sharply in the rest of this year and in 2022. It will receive an additional boost from consumers spending some of the savings involuntarily put away during the pandemic. The recovery will also be driven by exports. Under these conditions, the Deutsche Bundesbank expects gross domestic product (GDP), adjusted for calendar effects, to grow in real terms by 3.7% in 2021 and by 5.2% in 2022.

The inflation rate will rise at a faster pace temporarily, from +0.6% last year to an estimated +2.6% in 2021. The main factors in this respect are higher energy prices and the rise in value added tax. The increase in consumer prices is then expected to level off again at +1.9% in 2022.

The further course of the pandemic and its macroeconomic consequences remain very difficult to assess. According to the Deutsche Bundesbank, however, the uncertainty in this respect has already declined considerably, due primarily to the ongoing vaccination campaign. Setbacks could nevertheless occur throughout the entire foreseeable period if the virus mutates in a way that substantially reduces the effectiveness of the vaccines. This risk is all the greater the longer it takes to conquer the pandemic worldwide. In addition to weaker demand from abroad, direct protective measures could again adversely affect the German economy.[2]

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GDP GROWTH 2020 – 2022 (GERMANY, CALENDAR-ADJUSTED)

In % compared to previous year	2020	2021	2022
Germany	-5.1	3.7	5.2

Market Expectations

The COVID-19 pandemic has changed everyday life and the world of work. The acceptance of digital solutions and their use for work, leisure and shopping have increased further. The importance of digitalisation for consumers and businesses has received a boost as a result, with this trend likely to accelerate. A survey by digital association Bitkom indicates that 61% of companies intend to push ahead with digitalisation over the long term as a consequence of COVID-19, while 62% see a trigger to innovation for their own firm. According to a study by the German Federal Office for Information Security (BSI), home office working will play a much greater role than was the case before COVID-19: even after the crisis, 58% of companies intend to retain home office working, teleworking and mobile working to the current extent, or even extend the options. Only one in six firms wishes to then discontinue home office arrangements.[3] Modern methods of payment have also been boosted by the COVID-19 pandemic: a Postbank study reveals that 56% of Germans now make contactless payments using their bank card, smartphone (mobile payment) or both. It was only 47% in the previous year. Experts at Postbank expect that Germans will continue to use contactless methods of payment even after the pandemic. This is because the advantages outweigh the disadvantages and there is less need for cash due to the rise of online shopping.[4]

[2] Source: Deutsche Bundesbank: Monthly Report June 2021: "Outlook for the German economy in the period 2021 to 2023" (21 June 2021)

[3] Sources: Bitkom: Press releases "Digitalisierung findet mehr Zuspruch" (Digitalisation gains more popularity) (16 June 2020) and "Corona leads to boost for digitalisation in German industry" (7 April 2021); German Federal Office for Information Security (BSI): Press release for the study entitled "IT security in the home office in 2020" (15 April 2021)

[4] Source: Press release on Postbank study: "More than half of Germans use contactless payment methods" (8 July 2021)

Financial Outlook 2021

Telefónica Deutschland Group delivered strong operational and financial momentum in a dynamic yet rational market environment in the first half of 2021. The focused execution of the company's growth-oriented investment programme is bearing fruit, while COVID-19 related restrictions weighed on commercial activities and international roaming revenues particularly in the first four months of the year. Telefónica Deutschland Group registered strong trading momentum especially in the second quarter of the year with continued traction of the O_2 Free portfolio leveraging online channels and historic low churn rates. The dynamic was reinforced by the gradual reopening of the O_2 shops and the accompanying network quality marketing campaign. Also, performance of partner brands was solid.

Consequently, Telefónica Deutschland Group posted good operational and financial performance with progress in underlying trends as the company continued to focus on profitable growth. COVID-19 related impacts have mostly annualized with pandemic related measures being gradually lifted over the course of the second quarter. All O_2 shops are open again since the beginning of June. Travel restrictions limiting roaming activities saw a gradual easing towards the start of the German school holiday season.

At the same time, Telefónica Deutschland Group continues to pursue its path of digital transformation to make its business model 'simpler, faster and better' and to benefit from revenue 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 carbon emissions by no later than 2025.

Against this background, as part of the Annual Report 2020, Telefónica Deutschland Group is updating its financial year 2021 outlook as below (see the "Financial outlook 2021" table):

Financial year 2021 total revenues and OIBDA adjusted for exceptional effects are both expected to be 'slightly positive' year-on-year.

The company's CapEx deployment comes with backend-loaded phasing in 2021 as Telefónica Deutschland Group is executing its network-focused investment programme to capture available revenue and OIBDA growth opportunities. The expected Capex to Sales ratio remains unchanged at 17% – 18% in financial year 2021.

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 further COVID-19 developments.

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FINANCIAL OUTLOOK 2021

	Baseline 2020	Outlook 2021[5]	Actuals H1 2021 (development year-on-year)	Updated Outlook 2021
Revenues	EUR 7,532 million	Flat to slightly positive year-on-year	EUR 3,743 million (+2.9%)[6]	Slightly positive year-on-year
OIBDA adjusted for exceptional effects	EUR 2,319 million	Broadly stable to slightly positive year-on-year	EUR 1,173 million (+8.2%)[7]	Slightly positive year-on-year
Capex/sales ratio	14.5%	17 – 18%	13.6%	17 – 18% (no adjustment)

[5] Financial outlook 2021 published on 3 March 2021 as part of the 2020 Annual Report.
[6] Includes tailwinds from non-recurrent special factors in the amount of EUR -25 million and EUR +14 million in Q2 2020 and Q2 2021, respectively.
[7] Includes tailwinds from non-recurrent special factors in the amount of EUR -25 million and EUR +12 million in Q2 2020 and Q2 2021, respectively, as well as received social security payments.

Munich, 12 August 2021

Telefónica Deutschland Holding AG

The Management Board

Markus Haas

Markus Rolle

Valentina Daiber

Nicole Gerhardt

Alfons Lösing

Wolfgang Metze

Mallik Rao

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the period 1 January to 30 June 2021

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Interim Condensed Consolidated Financial Statements
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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Assets (in EUR million)	Notes	**As of 30 June 2021**	As of 31 December 2020
A) Non-current assets		**13,177**	**13,913**
Goodwill	[5a]	1,360	1,616
Other intangible assets	[5b]	4,340	4,617
Property, plant and equipment	[5c]	3,411	3,706
Right-of-use assets	[5d]	2,924	2,852
Investments accounted for using the equity method		5	2
Trade and other receivables	[5e]	134	157
Other financial assets		322	301
Other non-financial assets	[5f]	171	188
Deferred tax assets		508	473
B) Current assets		**3,059**	**3,281**
Inventories		124	129
Trade and other receivables	[5e]	1,265	1,297
Other financial assets		31	67
Other non-financial assets	[5f]	476	451
Cash and cash equivalents		640	1,337
Assets held for sale	[8]	523	–
Total assets (A+B)		**16,236**	**17,194**

Equity and liabilities (in EUR million)	Notes	**As of 30 June 2021**	As of 31 December 2020
A) Equity		**5,741**	**6,330**
Subscribed capital		2,975	2,975
Additional paid-in capital		4,512	4,512
Retained earnings		(1,745)	(1,156)
Total equity attributable to owners of the parent company		5,741	6,330
B) Non-current liabilities		**6,571**	**6,373**
Interest-bearing debt	[5g]	1,844	1,577
Lease liabilities	[5h]	2,396	2,326
Trade and other payables	[5i]	8	12
Payables – Spectrum	[5j]	1,072	1,089
Provisions	[5k]	652	784
Deferred income	[5i]	216	219
Deferred tax liabilities		382	365
C) Current liabilities		**3,924**	**4,491**
Interest-bearing debt	[5g]	288	715
Lease liabilities	[5h]	450	514
Trade and other payables	[5i]	2,194	2,475
Payables – Spectrum	[5j]	108	107
Provisions	[5k]	81	66
Other non-financial liabilities		35	50
Income tax liabilities		54	15
Deferred income	[5i]	542	548
Liabilities held for sale	[8]	173	–
Total assets (A+B+C)		**16,236**	**17,194**

CONSOLIDATED INCOME STATEMENT

1 January to 30 June

(in EUR million)	Notes	2021	2020
Revenues	[6a]	3,743	3,636
Other income		57	56
Supplies		(1,147)	(1,171)
Personnel expenses		(285)	(292)
Impairment losses in accordance with IFRS 9		(33)	(40)
Other expenses	[6b]	(1,179)	(1,110)
Operating income before depreciation and amortisation (OIBDA)		**1,157**	**1,079**
Depreciation and amortisation	[6c]	(1,186)	(1,110)
Operating income		**(29)**	**(30)**
Finance income		4	1
Exchange gains		0	0
Finance costs		(37)	(33)
Exchange losses		(0)	(0)
Financial result		**(33)**	**(32)**
Result from investments accounted for using the equity method		**(1)**	**–**
Profit/(loss) before tax		**(64)**	**(62)**
Income tax		(21)	(0)
Profit/(loss) for the period		**(84)**	**(62)**
Profit/(loss) for the period attributable to owners of the parent		**(84)**	**(62)**
Profit/(loss) for the period		**(84)**	**(62)**
Earnings per share			
Basic earnings per share in EUR		**(0.03)**	**(0.02)**
Diluted earnings per share in EUR		**(0.03)**	**(0.02)**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

1 January to 30 June

(in EUR million)	**2021**	2020
Profit/(loss) for the period	**(84)**	**(62)**
Items that will not be reclassified to profit/(loss)		
Remeasurement of benefits after termination of employment	30	(2)
Other comprehensive income/(loss)	**30**	**(2)**
Total comprehensive income/(loss)	**(54)**	**(64)**
Total comprehensive income/(loss) attributable to owners of the parent	(54)	(64)
Total comprehensive income/(loss)	**(54)**	**(64)**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(in EUR million)	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	–	–	(62)	(62)	(62)
Other comprehensive income/(loss)	–	–	(2)	(2)	(2)
Total comprehensive income/(loss)	**–**	**–**	**(64)**	**(64)**	**(64)**
Dividends	–	–	(506)	(506)	(506)
Financial position as of 30 June 2020	**2,975**	**4,800**	**(1,810)**	**5,965**	**5,965**
Financial position as of 1 January 2021	**2,975**	**4,512**	**(1,156)**	**6,330**	**6,330**
Profit/(loss) for the period	–	–	(84)	(84)	(84)
Other comprehensive income/(loss)	–	–	30	30	30
Total comprehensive income/(loss)	**–**	**–**	**(54)**	**(54)**	**(54)**
Dividends	–	–	(535)	(535)	(535)
Financial position as of 30 June 2021	**2,975**	**4,512**	**(1,745)**	**5,741**	**5,741**

CONSOLIDATED STATEMENT OF CASH FLOWS

1 January to 30 June

(in EUR million)	Notes	2021	2020
Cash flow from operating activities			
Profit/(loss) for the period		**(84)**	**(62)**
Adjustments to profit/(loss)			
Financial result		33	32
Gains/(losses) from the disposal of assets		3	5
Income taxes		21	0
Depreciation and amortisation	[6c]	1,186	1,110
Gains/(losses) from companies accounted for using the equity method		1	–
Change in working capital and others			
Other non-current assets	[5e], [5f]	31	58
Other current assets	[5e], [5f]	33	92
Other non-current liabilities and provisions	[5i], [5k]	(11)	13
Other current liabilities and provisions	[5i], [5k]	(148)	(354)
Others			
Interest received		3	4
Interest paid		(38)	(32)
Cash flow from operating activities		**1,030**	**866**
Cash flow from investing activities			
Proceeds from disposals of property, plant and equipment and intangible assets		2	5
Payments on investments in property, plant and equipment and intangible assets	[5b], [5c]	(666)	(548)
Proceeds from disposal of companies		33	–
Payments on investments in associated companies		(7)	(1)
Proceeds from financial assets		0	5
Payments for financial assets		(10)	(12)
Cash flow from investing activities		**(647)**	**(550)**

1 January to 30 June

(in EUR million)	Notes	2021	2020
Cash flow from financing activities			
Repayments of lease liabilities	[5h]	(368)	(336)
Payments made for investments relating to frequency auctions	[5i]	(21)	–
Proceeds from interest-bearing debt	[5g]	600	504
Repayments of interest-bearing debt	[5g]	(752)	(543)
Dividends paid		(535)	(506)
Other proceeds/(payments) relating to financing activities		5	7
Cash flow from financing activities		**(1,071)**	**(873)**
Less cash and cash equivalents of assets and liabilities held for sale	**[8]**	**(8)**	**(0)**
Net increase/(decrease) in cash and cash equivalents		**(697)**	**(557)**
Cash and cash equivalents at the beginning of the period		**1,337**	**781**
Cash and cash equivalents at the end of the period		**640**	**224**

CONDENSED NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

for the period 1 January to 30 June 2021

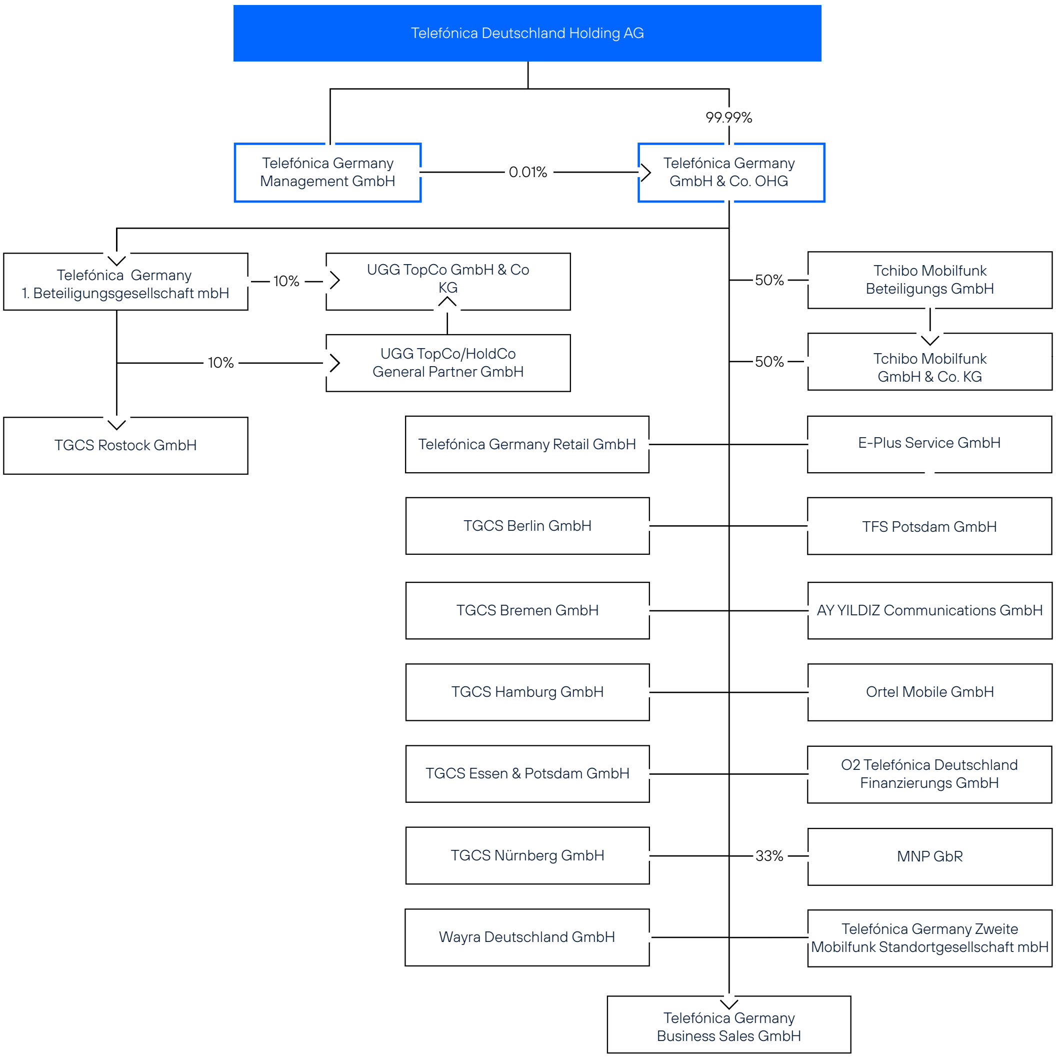
1. Reporting Entity

The Interim Condensed Consolidated Financial Statements (hereinafter "Interim Consolidated Financial Statements") of Telefónica Deutschland Holding AG have been prepared for the period from 1 January to 30 June 2021 and comprise Telefónica Deutschland Holding AG (also referred to as "Telefónica Deutschland") 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 30 June 2021, 30.8% of the shares were in free float. 69.2% were held by Telefónica Germany Holdings Limited, Slough, United Kingdom (Telefónica Germany Holdings Limited), an indirect wholly owned subsidiary of Telefónica, S.A., Madrid, Spain (Telefónica, S.A.).

As of 30 June 2021, the companies included in the Interim 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%.

2. Significant Events and Transactions during the Reporting Period

Annual General Meeting, dividends and new authorised capital

The virtual Annual General Meeting for the 2020 financial year was held on 20 May 2021. In addition to the presentation of the Annual Financial Statements and Consolidated Financial Statements of Telefónica Deutschland, a dividend payment of EUR 0.18 per entitled share, totalling EUR 535,419,898.74, was approved. The dividend for the financial year 2020 was paid to shareholders on 26 May 2021.

Stefanie Oeschger and Ernesto Gardelliano were elected to the Supervisory Board as shareholder representatives by resolution of the Annual General Meeting dated 20 May 2021.

The remuneration systems for Management Board and Supervisory Board were also approved, as well as Supervisory Board remuneration.

In addition, the Annual General Meeting approved 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, with the authorisation to exclude subscription rights, together with the relevant change to the articles of association.

Repayment of bond from O2 Telefónica Deutschland Finanzierungs GmbH

On 10 February 2021, O2 Telefónica Deutschland Finanzierungs GmbH repaid, in full and on schedule, an unsecured seven-year bond (senior unsecured bond) issued on the regulated market of the Luxembourg Stock Exchange at a nominal amount of EUR 500 million.

Drawing on a loan from the European Investment Bank

On 17 June 2021, Telefónica Germany GmbH & Co. OHG drew in full on the loan agreed in 2019 of EUR 300 million from the European Investment Bank (EIB).

Letter of intent with Deutsche Telekom and Vodafone concerning shared network usage at “grey spots” and decision on network expansion at “white spots”

On 19 January 2021, Telefónica Deutschland announced a bilateral letter of intent with Deutsche Telekom and a corresponding agreement with Vodafone on active shared network usage at “grey spots”. Overall, the companies intend to share at least 1,600 sites. Telefónica Deutschland is also participating in the trilateral passive sharing agreement among German mobile network operators aimed at joint fulfilment of the industry coverage requirements resulting from the spectrum auction in 2019. As announced in November 2019, each of the three parties will build the same proportion of up to 6,000 sites in “white spots”.

National Roaming with 1&1 Group

On 21 May 2021, a National Roaming Agreement was entered into with the 1&1 Group (formerly: 1&1 Drillisch Group). As part of the overall agreement, the price review procedures initiated by the 1&1 Group under the MBA MVNO will be discontinued when the agreement is signed. The agreement has an initial contract period of 5 years, retroactively starting 1 July 2020, and may be extended twice. First, the 1&1 Group has an option to extend until mid-2029. For the period thereafter, a further extension for up to five years is possible.

The National Roaming Agreement comprises the available 2G/3G/4G network coverage, while MBA MVNO services still include the available 2G/3G/4G/5G network coverage provided by Telefónica Deutschland. Starting from 1 January 2026, access restrictions to Telefónica Deutschland’s 4G mobile communications network will apply in contractually defined areas.

After a defined transition period to migrate existing customers to its own 5G network, the 1&1 Group relies on its own 5G coverage.

The National Roaming and MBA MVNO services will operate in parallel until the migration of existing 1&1 Group customers has been completed. The commercial terms and conditions stipulated in the National Roaming Agreement will apply to both services.

COVID-19 pandemic

The COVID-19 pandemic continued to have a strongly negative impact on the global economy in the first half of 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 trading. 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.

At this point in time, 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.

Sale of major parts of the business operations of rooftop sites

In the previous year, the Telefónica Deutschland Group concluded a comprehensive set of agreements with Telxius Telecom, S.A. ("Telxius"), an affiliated company of the Telefónica, S.A. Group, on the sale of major parts of the business operations of 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 up to 76 tower sites, in particular 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.

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 consisted 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 formed 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, with a merger 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.

In the third quarter of 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 formed in financial year 2020. The shares in this company were likewise transferred to Telxius with effect from 1 August 2021. Telxius then transferred all the shares in TGZMS to ATC Germany Holdings GmbH.

The way in which each transmission site was specifically selected in the reporting period enables the related assets and liabilities to be identified individually; as a result, the assets and liabilities to be transferred are presented as "held for sale", as defined in IFRS 5.

Going forward, the Telefónica Deutschland Group will lease areas of the transferred passive infrastructure from TGZMS for the installation and operation of its active radio technology.

3. Basis of Preparation

The Interim Consolidated Financial Statements of Telefónica Deutschland Holding AG were prepared in accordance with the IFRS applicable to interim financial reporting as issued by the IASB and as adopted by the EU. Accordingly, the Interim Consolidated Financial Statements do not include all the information and disclosures required in complete consolidated financial statements and should therefore be read in conjunction with the Consolidated Financial Statements for the year ended 31 December 2020 (see Note 2, BASIS OF PREPARATION).

These Interim Consolidated Financial Statements as of 30 June 2021 have not been audited.

Functional currency and presentation currency

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

Unless stated otherwise, the figures in these Interim Consolidated Financial Statements are presented in millions of euros (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.

Other

The preparation of the Interim Consolidated Financial Statements requires the Management Board to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. A significant change in the facts and circumstances on which these evaluations, estimates, assumptions and the related judgements are based could have a material impact on the Telefónica Deutschland Group's net assets, financial position and results of operations.

For further information, please refer to the Consolidated Financial Statements for the financial year ended 31 December 2020 (see Note 3, ACCOUNTING POLICIES).

Comparative information

The Consolidated Statement of Financial Position presented in these Interim Consolidated Financial Statements relates to information as of 30 June 2021, which is compared with information as of 31 December 2020.

The Consolidated Income Statement and the Consolidated Statement of Comprehensive Income compare the completed six-month periods as of 30 June 2021 and 30 June 2020. The Consolidated Statement of Cash Flows and the Consolidated Statement of Changes in Equity compare the completed six-month periods in 2021 and 2020.

Seasonal business
The earnings performance to date shows no indication that business activity is subject to significant fluctuations due to seasonal influences.

4. Accounting Policies

The significant estimates, assumptions and judgements made by the management in preparing the Interim Consolidated Financial Statements of the Telefónica Deutschland Group do not in principle differ in terms of potential estimation uncertainty from the assumptions included in the Consolidated Financial Statements for the financial year ended 31 December 2020 (> Note 5, SELECTED NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION, and Note 6, SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED INCOME STATEMENT). If there are material changes to estimates, assumptions and judgements, they are described in the relevant chapters (> Note 5, SELECTED NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION, and Note 6, SELECTED EXPLANATORY NOTES TO THE CONSOLIDATED INCOME STATEMENT).

The following should be added to the above-mentioned principal accounting policies applied in preparing the Consolidated Financial Statements in the Annual Report as of 31 December 2020 (> Note 4.2, SIGNIFICANT ACCOUNTING POLICIES):

Non-current Assets Held for Sale and Disposal Groups
The Telefónica Deutschland Group classifies non-current assets or disposal groups as held for sale if the relevant carrying amount is realised mainly through the asset's sale rather than through its continuous 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.

At the time of publication of the Interim Consolidated Financial Statements, the following standards and interpretations were published, but their application was not yet mandatory.

Standards, interpretations and amendments		Mandatory application for financial years beginning on or after
Amendments to IFRS 16	To the COVID-19 pandemic-related rent concessions after 30 June 2021	1 April 2021[1]
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]

[1] Endorsement by EU still outstanding, information for mandatory application under IASB.

For a comprehensive description of the new standards, amendments to standards and interpretations relevant to the Group, please refer to the disclosures in the Consolidated Financial Statements for the year ended 31 December 2020 (> Note 4.2, SIGNIFICANT ACCOUNTING POLICIES). An assessment is made there of the expected effects on the net assets, financial position and results of operations of the Group, which will continue to apply to the Interim Consolidated Financial Statements as of 30 June 2021.

5. Selected Notes to the Consolidated Statement of Financial Position

For an explanation of the changes in the following items, please refer to Net Assets in the Management Report.

a) Goodwill

(in EUR million)	**2021**	2020
Carrying amount of goodwill at 1 January	**1,616**	**1,964**
Reclassifications (see Note 8, NON-CURRENT ASSETS HELD FOR SALE AND DISPOSAL GROUPS)	(256)	(347)
Carrying amount of goodwill as of 30 June	**1,360**	**1,616**

b) Other intangible assets

Other intangible assets are comprised of the following:

(in EUR million)	Service concession arrangements and licences	Customer bases	Software	Brand names	Others	Construction in progress/ prepayments on intangible assets	**Other intangible assets**
Net book value							
As of 31 December 2020	2,775	958	447	39	1	398	4,617
As of 30 June 2021	**2,839**	**817**	**452**	**38**	**1**	**193**	**4,340**

c) 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 optimisation of the network and IT architecture resulted in a shortening of useful lives for mobile access network hardware, with an additional EUR 48 million applicable to depreciation and amortisation in the first half of 2021.

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**
Net book value					
As of 31 December 2020	51	3,386	60	210	3,706
As of 30 June 2021	**45**	**3,144**	**59**	**164**	**3,411**

We refer to Note 8, NON-CURRENT ASSETS HELD FOR SALE AND DISPOSAL GROUPS, for changes related to the reclassification of assets and liabilities resulting from the contractually agreed sale of major parts of the business operations of rooftop sites.

d) Right-of-use assets

Right-of-use assets comprise of the following:

(in EUR million)	Land and buildings	Plant and machinery	Other	**Right-of-use assets**
Net book value				
As of 31 December 2020	657	2,082	113	2,852
As of 30 June 2021	**524**	**2,287**	**114**	**2,924**

We refer to Note 8, NON-CURRENT ASSETS HELD FOR SALE AND DISPOSAL GROUPS, for changes related to the reclassification of assets and liabilities resulting from the contractually agreed sale of major parts of the business operations of rooftop sites and related lease agreements.

e) Trade and other receivables

The breakdown of this item included in the Consolidated Statement of Financial Position is as follows:

	As of 30 June 2021		As of 31 December 2020	
(in EUR million)	**Non-current**	**Current**	Non-current	Current
Trade receivables	134	1,222	157	1,268
Receivables from related parties	–	21	–	26
Other receivables	–	69	–	60
Loss allowance	–	(47)	–	(57)
Trade and other receivables	**134**	**1,265**	**157**	**1,297**

f) Other non-financial assets

The breakdown of this item included in the Consolidated Statement of Financial Position is as follows:

(in EUR million)	**As of 30 June 2021** Non-current	**Current**	As of 31 December 2020 Non-current	Current
Prepayments	67	109	72	67
Prepayments to related parties	–	6	–	1
Capitalised costs of obtaining contracts	103	342	115	363
Contract asset	1	19	2	20
Other tax receivables	–	0	–	0
Other non-financial assets	**171**	**476**	**188**	**451**

Other non-financial assets primarily relate to the capitalised costs of obtaining contracts, prepayments of incidental rental costs for lines, antenna sites, service and IT support agreements.

g) Interest-bearing debt

The breakdown of this item included in the Consolidated Statement of Financial Position is as follows:

(in EUR million)	**As of 30 June 2021** Non-current	**Current**	As of 31 December 2020 Non-current	Current
Bonds	597	10	597	516
Promissory notes and registered bonds	722	2	721	5
Loans payable	525	275	258	194
Interest-bearing debt	**1,844**	**288**	**1,577**	**715**

Bonds

In February 2014, Telefónica Deutschland Group placed a bond with a nominal value of EUR 500 million. The bond was repaid on 10 February 2021 as scheduled.

Loans payable

On 18 December 2019, Telefónica Germany GmbH & Co. OHG and the European Investment Bank (EIB) concluded a EUR 300 million loan agreement. The loan has now been called in full. As of 30 June 2021, EUR 300 million had been drawn down.

In addition, Telefónica Germany GmbH & Co. OHG had drawn on short-term bank loans of EUR 200 million as of 30 June 2021.

h) Lease liabilities

(in EUR million)	**As of 30 June 2021** Non-current	**Current**	As of 31 December 2020 Non-current	Current
Lease liabilities to third parties	2,396	450	1,429	405
Lease liabilities to related parties	–	–	897	110
Lease liabilities	**2,396**	**450**	**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 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.

We refer to > Note 8, NON-CURRENT ASSETS HELD FOR SALE AND DISPOSAL GROUPS, for changes related to the reclassification of assets and liabilities resulting from the contractually agreed sale of major parts of the business operations of rooftop sites and related lease agreements.

i) Trade and other payables and deferred income

Trade and other payables and deferred income consist of the following:

	As of 30 June 2021		As of 31 December 2020	
(in EUR million)	**Non-current**	**Current**	Non-current	Current
Trade payables to third parties	–	1,075	–	1,358
Accruals	6	795	10	772
Payables to related parties	–	8	–	34
Trade payables	**6**	**1,878**	**10**	**2,163**
Other non-trade payables	–	233	–	223
Other payables to related parties	2	43	2	44
Miscellaneous payables	–	40	–	45
Other payables	**2**	**316**	**2**	**312**
Trade and other payables	**8**	**2,194**	**12**	**2,475**
Deferred income	**216**	**542**	**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.

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 payments that were made by customers before the contractual services have been fully performed.

It furthermore includes the obligation arising from customer payments received in connection with the Mobile Bitstream Access Mobile Virtual Network Operator (MBA MVNO) contract. 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.

j) Payables - Spectrum

	As of 30 June 2021		As of 31 December 2020	
(in EUR million)	Non-current	Current	Non-current	Current
Payables – Spectrum	**1,072**	**108**	1,089	107

k) Provisions

Provisions consist of the following:

	As of 30 June 2021		As of 31 December 2020	
(in EUR million)	Non-current	Current	Non-current	Current
Pension obligations	234	–	261	–
Restructuring	11	34	9	27
Asset retirement obligations	374	21	480	24
Other provisions	33	26	34	16
Provisions	**652**	**81**	**784**	**66**

We refer to Note 8, NON-CURRENT ASSETS HELD FOR SALE AND DISPOSAL GROUPS, for changes related to asset retirement obligations resulting from the contractually agreed sale of major parts of the business operations of rooftop sites and related lease agreements.

6. Selected Explanatory Notes to the Consolidated Income Statement

For an explanation of the changes in the following items, please refer to Results of Operations in the Management Report.

a) Revenues

Revenues are comprised of the following:

1 January to 30 June

(in EUR million)	2021	2020
Mobile business revenues	3,342	3,248
Mobile service revenues	2,678	2,587
Handset revenues	665	661
Fixed line/DSL business revenues	400	386
Other revenues	1	3
Revenues	**3,743**	**3,636**

Revenues from the rendering of services include mobile service revenues as well as revenues from fixed line/DSL business. Other revenues include handset revenues and miscellaneous other revenues.

None of the Telefónica Deutschland Group's customers accounts for more than 10% of total revenues.

b) Other expenses

1 January to 30 June

(in EUR million)	**2021**	2020
Other third-party services	996	950
Other operating expenses	55	35
Allowance for current assets	1	2
Advertising	127	122
Other expenses	**1,179**	**1,110**

Other third-party services mainly include commissions, expenses for external services to maintain ongoing business operations, repair and maintenance expenses, expenditure for operating equipment and fees for consulting services.

c) Depreciation and amortisation

Depreciation and amortisation are as follows:

1 January to 30 June

(in EUR million)	**2021**	2020
Property, plant and equipment	478	348
Intangible assets	422	494
Right-of-use assets	286	268
Depreciation and amortisation	**1,186**	**1,110**

7. Measurement Categories of 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.

For further information, please refer to the Consolidated Financial Statements for the financial year ended 31 December 2020 (see Note 9, FURTHER INFORMATION ON FINANCIAL ASSETS AND FINANCIAL LIABILITIES).

As of 30 June 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 30 June 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 e)	–	–	134	–	–	134	–	134	–	134
Other non-current financial assets	–	2	–	221	100	322	–	234	2	236
thereof: derivatives	–	–	–	–	–	–	–	–	–	-
thereof: investments in start-ups	–	*2*	–	–	–	*2*	–	–	*2*	*2*
thereof: net investment in the lease	–	–	–	–	*15*	*15*	–	*15*	–	*15*
thereof: other	–	–	–	*221*	*85*	*305*	–	*219*	–	*219*
Current trade and other receivables (Note 5 e)	–	–	720	540	5	1,265	–	720	–	n.a.(*)
Other current financial assets	–	5	–	26	–	31	–	–	–	n.a.(*)
thereof: derivatives	–	–	–	–	–	–	–	–	–	*n.a.(*)*
thereof: net investment in the lease	–	*5*	–	–	*5*	–	–	–	–	*n.a.(*)*
thereof: other	–	–	–	*26*	–	–	–	–	–	*n.a.(*)*
Cash and cash equivalents	–	–	–	640	–	640	–	–	–	n.a.(*)
Total	**–**	**7**	**854**	**1,427**	**104**	**2,393**	**–**	**1,088**	**2**	**370**

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 e)	–	–	157	–	–	157	–	157	–	157
Other non-current financial assets	–	1	–	209	91	301	–	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 e)	–	–	587	708	1	1,297	–	587	–	n.a.(*)
Other current financial assets	2	–	–	60	5	67	–	2	–	n.a.(*)
thereof: derivatives	*2*	–	–	–	–	*2*	–	*2*	–	*n.a.(*)*
thereof: net investment in the lease	–	–	–	–	*5*	*5*	–	–	–	-
thereof: other	–	–	–	*60*	–	*60*	–	–	–	*n.a.(*)*
Cash and cash equivalents	–	–	–	1,337	–	1,337	–	–	–	n.a.(*)
Total	**2**	**1**	**744**	**2,314**	**99**	**3,160**	**–**	**972**	**1**	**384**

(*) These instruments are not included in the calculation of fair value.

As of 30 June 2021
Financial liabilities

Measurement hierarchy

(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 carrying amount**	**Total fair value**
Non-current interest-bearing debt (Note 5 g)	1,844	–	1,844	636	1,248	–	1,844	1,884
Non-current trade and other payables (Note 5 i)	6	2	8	–	6	–	8	6
Non-current payables - Spectrum (Note 5 j)	1,072	–	1,072	–	1,102	–	1,072	1,102
Current interest-bearing debt (Note 5 g)	288	–	288	–	–	–	288	n.a.(*)
Current trade and other payables (Note 5 i)	2,171	23	2,194	–	–	–	2,194	n.a.(*)
Current payables - Spectrum (Note 5 j)	108	–	108	–	–	–	108	n.a.(*)
Total	**5,488**	**25**	**5,513**	**636**	**2,355**	**–**	**5,513**	**2,992**

As of 31 December 2020
Financial liabilities

Measurement hierarchy

(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 carrying amount	Total fair value
Non-current interest-bearing debt (Note 5 g)	1,577	–	1,577	639	1,026	–	1,577	1,665
Non-current trade and other payables (Note 5 i)	10	2	12	–	10	–	12	10
Non-current payables - Spectrum (Note 5 j)	1,089	–	1,089	–	1,129	–	1,089	1,129
Current interest-bearing debt (Note 5 g)	715	–	715	501	–	–	715	n.a.(*)
Current trade and other payables (Note 5 i)	2,433	41	2,474	–	–	–	2,474	n.a.(*)
Current payables - Spectrum (Note 5 j)	107	–	107	–	–	–	107	–
Total	**5,931**	**43**	**5,974**	**1,140**	**2,165**	**–**	**8,815**	**2,804**

(*) These instruments are not included in the calculation of fair value.

As of 31 December 2020, EUR 150 million of the current interest-bearing debt was included in a hedging accounting relationship. This also includes a bond that was accounted for with an interest rate swap as a fair value hedge. On 10 February 2021 this bond was repaid, with the hedge coming to an end.

The fair value of the bond still in place (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 determined by discounting the future cash flows using current market interest rates.

In addition to the bond, non-current and current interest-bearing debt as of 30 June 2021 included promissory notes and registered bonds with a total fair value of EUR 724 million (31 December 2020: EUR 727 million), a loan from the European Investment Bank (EIB) of EUR 600 million (31 December 2020: EUR 333 million) and the utilisation of short-term credit lines in the amount of EUR 200 million (31 December 2020: EUR 119 million).

The non-current and current trade and other payables, and the non-current and current payables - Spectrum are categorised as financial liabilities measured at amortised cost.

8. Non-current Assets Held for Sale and Disposal Groups

As of 30 June 2021, there are two planned transactions in the Telefónica Deutschland Group that lead to recognition as being "held for sale":

Sale of major parts of the business operations of rooftop sites

As a result of the contractually agreed sale of major parts of the business operations of rooftop sites in the previous year (see Note 2, SIGNIFICANT EVENTS AND TRANSACTIONS DURING THE REPORTING PERIOD), the assets and liabilities to be transferred as part of the second transaction step are reclassified to the category "held for sale" as follows:

(in EUR million)	As of 30 June 2021	As of 30 June 2020
Goodwill	256	347
Property, plant and equipment	124	206
Right-of-use assets	133	189
Trade and other receivables	0	0
Other non-financial assets	2	6
Cash and cash equivalents	0	0
Assets held for sale	**515**	**749**
Lease liabilities	(126)	(184)
Provisions	(44)	(78)
Trade and other payables	(0)	(0)
Deferred income	(1)	(0)
Liabilities held for sale	**(171)**	**(262)**
Net amount of assets and liabilities held for sale	**344**	**487**

The property, plant and equipment reported under assets held for sale relates solely to "plant and machinery".

Sale of two customer service companies

With the sale of TGCS Essen & Potsdam GmbH following spin-off of the Potsdam operational site, along with TGCS Berlin GmbH, Telefónica has reduced the number of its own call centres from seven to five. One site in Essen with currently around 500 employees and one in Berlin with approximately 100 employees have been sold to Transcom WorldWide GmbH. The transaction WorldWide GmbH became effective on 1 July 2021. The following assets and liabilities were transferred to Swedish service provider Transcom as part of a share deal:

(in EUR million)	**As of 30 June 2021**
Trade and other receivables	0
Cash and cash equivalents	8
Deferred income	0
Assets held for sale	**8**
Provisions	(0)
Trade and other payables	(2)
Liabilities held for sale	**(2)**
Net amount of assets and liabilities held for sale	**6**

9. 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.

For further information, please refer to the Consolidated Financial Statements as of 31 December 2020 (see Note 17, CONTINGENT ASSETS AND LIABILITIES). The first half of 2021 saw no material changes compared to the disclosures provided in the Consolidated Financial Statements as of 31 December 2020.

10. Purchase and other Contractual Obligations

The following expected maturities apply to purchase and other contractual obligations:

(in EUR million)	**As of 30 June 2021**	As of 31 December 2020
Less than 1 year	1,564	1,630
1 to 5 years	1,835	1,103
Over 5 years	835	152
Purchase and other contractual obligations	**4,234**	**2,885**

The year-on-year increase is mainly due to extension and expansion of the fixed line cooperation with Telekom Deutschland and the associated obligations to purchase VDSL, vectoring and fibre-optic wholesale products.

11. Subsequent Events

Sale of the companies TGCS Berlin GmbH and TGCS Essen & Potsdam GmbH
As of 1 July 2021, all shares of 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 with the Telefónica Deutschland Group and has been spun off to TFS Potsdam GmbH with retroactive effect to 1 January 2021.

Sale of major parts of the business activities of rooftop sites
The second transaction step in the comprehensive set of agreements with Telxius, as concluded in the previous year, was completed through the spin-off of 4,062 rooftop sites and 18 tower sites to Telefónica Germany Zweite Mobilfunk Standortgesellschaft mbH in the third quarter of 2021, as well as the transfer of the shares in this company to Telxius with effect from 1 August 2021.

Drawing on a further loan from the European Investment Bank
On 14 July 2021, Telefónica Germany GmbH & Co. OHG drew in full on the loan agreed in 2020 of EUR 150 million from the European Investment Bank (EIB).

No other events subject to disclosure requirements occurred after the end of the reporting period.

Munich, 12 August 2021

Telefónica Deutschland Holding AG

The Management Board

Markus Haas

Mallik Rao

Markus Rolle

Valentina Daiber

Nicole Gerhardt

Alfons Lösing

Wolfgang Metze

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TELEFÓNICA DEUTSCHLAND HOLDING AG

Declaration of the Statutory Representatives

To the best of our knowledge, and in accordance with the applicable reporting principles for interim financial reporting and with generally accepted accounting principles, the Interim Condensed Consolidated Financial Statements give a true and fair view of the net assets, financial position and results of operations of the Group, and the Interim Condensed Group 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 for the remaining months of the financial year.

Munich, 12 August 2021

Telefónica Deutschland Holding AG

The Management Board

Markus Haas

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Review Report

To Telefónica Deutschland Holding AG, Munich

We have reviewed the condensed consolidated interim financial statements comprising the consolidated statement of financial position, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of cash flows, the consolidated statement of changes in equity and selected explanatory notes - and the interim group management report of Telefónica Deutschland Holding AG for the period from January 1, 2021 to June 30, 2021 which are part of the half-year financial report pursuant to § (Article) 115 WpHG ("Wertpapierhandelsgesetz": German Securities Trading Act). The preparation of the condensed consolidated interim financial statements in accordance with the IFRS applicable to interim financial reporting as adopted by the EU and of the interim group management report in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports is the responsibility of the parent Company's Board of Managing Directors. Our responsibility is to issue a review report on the condensed consolidated interim financial statements and on the interim group management report based on our review.

We conducted our review of the condensed consolidated interim financial statements and the interim group management report in accordance with German generally accepted standards for the review of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW) and additionally observed the International Standard on Review Engagements "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" (ISRE 2410). Those standards require that we plan and perform the review so that we can preclude through critical evaluation, with moderate assurance, that the condensed consolidated interim financial statements have not been prepared, in all material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU and that the interim group management report has not been prepared, in all material respects, in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports. A review is limited primarily to inquiries of company personnel and analytical procedures and therefore does not provide the assurance attainable in a financial statement audit. Since, in accordance with our engagement, we have not performed a financial statement audit, we cannot express an audit opinion.

Based on our review, no matters have come to our attention that cause us to presume that the condensed consolidated interim financial statements have not been prepared, in all material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU nor that the interim group management report has not been prepared, in all material respects, in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports.

Munich, August 12, 2021

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

sgd. Stefano Mulas
Wirtschaftsprüfer
(German Public Auditor)

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

GLOSSARY

The glossary also contains abbreviations as used in the Group Management Report.

ARPU	Average Revenue per User
ATC	American Tower Corporation
Bitkom	Bundesverband Informationswirtschaft, Telekommunikation und neue Medien e.V., Berlin, Germany
BNetzA	Bundesnetzagentur
CapEx	Capital Expenditure: investments in property, plant and equipment and intangible assets excluding investments in mobile frequency licenses and business combinations.
CapEx/Sales-Ratio	Investment ratio - investments as a percentage share of revenues
Churn	Loss of customers
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
FTR	Fixed Termination Rate
FTTH	Fibre to the home
GDP	Gross domestic product
GfK	Growth for Knowledge
GHz	Gigahertz
Handset	Mobile phone
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
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
M2M	Machine-to-Machine communication: automatic exchange of information between machines
MBA	Mobile Bitstream Access
MHz	Megahertz
MSR	Mobile service revenue
MTR	Mobile Network Termination Rate

MVNO	Mobile Virtual Network Operator: Virtual network operator
O_2 Free	The O_2 Free data plan allows customers to remain online with speeds of up to 1 Mbit/s even after they have used all of their high-speed data
O_2 My Handy	Monthly payment model for mobile phones and other devices
OIBDA	Operating Income before Depreciation and Amortisation
Postpaid/Prepaid	Unlike postpaid contracts, prepaid contracts purchase the credit balance in advance without a fixed contractual commitment
Roaming	Using a communication device or subscriber identity in a different network other than one's home network
Spectrum	Frequency rights of use / Mobile communications licences
Telefónica Deutschland	Telefónica Deutschland Holding AG, Munich, Germany
Telefónica Deutschland Group	The companies included in the Consolidated Financial Statements of Telefónica Deutschland
Telefónica, S.A.	Telefónica S.A., Madrid, Spain
Telxius	Telxius Telecom, S.A. – affiliated company of Telefónica, S.A. Group, Madrid, Spain
UGG	Unsere Grüne Glasfaser
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.
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.
Wholesale	Selling services to third parties who sell them to their own end customers either directly or after further processing
xDSL	Collective term for the different kinds of DSL technologies such as e.g. ADSL and VDSL (see also DSL).

IMPRINT

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