



# **TELEFONICA EUROPE B.V**

## Interim Financial Report

June 30, 2021

**Contents**

	<b>Page</b>
• Interim Managing Directors' Report.....	1
• Interim Financial Statements	
Interim Balance Sheet.....	5
Interim Statement of Income and Expenses.....	6
Notes to the Interim Financial Statements.....	7

## INTERIM MANAGING DIRECTOR'S REPORT

The management herewith submits the Interim Financial Statements of Telefonica Europe B.V. ("the Company") for the half year ended on June 30, 2021.

### Result

During the period under review, the Company recorded a **profit of EUR 1,516 thousand** (January 1, 2020 - June 30, 2020: EUR 1,185 thousand), which is set out in detail in the enclosed Interim Statement of Income and Expenses.

The financial margin has increased, from EUR 2,048 thousand on June 30, 2020 to EUR 2,519 thousand on June 30, 2021, mainly due to higher borrowed and on-lent volumes in average terms and higher extraordinary income from the early cancellation repurchased hybrids' commissions.

Operational expenses have increased by EUR 7 thousand when compared to the same period of 2020, mainly due to increases in rating agencies fees.

### Financing Activity

In regular course of business, the Company continued its financing activities by entering into several financing agreements unconditionally and irrevocably guaranteed by its parent company. The most relevant financing operations formalized during 2021 are the following:

- (i) On February 12, 2021, the Company issued **EUR 1,000,000 thousand Undated Deeply Subordinated Guaranteed Fixed Rate Reset Securities** (commonly known as hybrids) 8.25 years Non-Call and carrying an interest rate of 2.376% and
- (ii) On February 15, 2021, the Company **repurchased and cancelled EUR 757,600 thousand of its Undated Deeply Subordinated Guaranteed Fixed Rate Reset Securities** issued on September 15, 2016 with an annual coupon of 3.75%.

The notional amount repurchased and outstanding (after the cancellation of the notes) is the following:

- EUR 1,000,000 thousand issued on September 15, 2016 and with a first call date on March 15, 2022 with an annual coupon of 3.75%. Amount repurchased in 2021 EUR 757,600 thousand, amount outstanding EUR 242,400 thousand.
- (iii) In the short term, the Company continued with its issuing activity under the **EUR 5,000,000 thousand Euro Commercial Paper Programme** and, during 2021, placed among several international investors 42 ECPs denominated in euro for a notional amount of EUR 3,737,000 thousand. The notional outstanding at June 30, 2021 is EUR 1,970,000 thousand (December 31, 2020: EUR 1,248,000 thousand).

### Subsequent events

On July 12, 2021 the Company **repurchased and cancelled EUR 114,900 thousand of its Undated Deeply Subordinated Guaranteed Fixed Rate Reset Securities** issued on September 15, 2016 with an

annual coupon of 3.75%.

### Future developments

Subject to financial market conditions, the Company will continue to seek and prospect for new markets and sources of finance for the Telefónica Group in order to extend its investor base.

### Risks and uncertainties

The main risk and uncertainties the Company will face are summarized as follows:

#### Liquidity and credit risk:

Liquidity and credit risks management is implemented according to the Telefonica Group policies. As of June 30, 2021 the Company has lent the funds borrowed, to Telefónica, S.A. which guarantees most of the external debt subscribed by the Company. However, from time to time the Company could invest funds in other companies within the Group. In addition, the Company holds cash balances in several financial institutions.

In summary, any substantial credit or liquidity risk would be related to credit risk of Telefónica S.A. and its Group.

#### Interest rate and Foreign Exchange risk:

Currently, the Company lends money to Telefónica S.A. denominated in the same currency although, from time to time the Company may also lend money to other companies within the Group. At present, all loans granted are denominated in the same currency as the funds it raises on the capital markets. Therefore, the Company is implementing a natural hedge and foreign exchange fluctuation in exchange rates have very limited impact on its financial result.

However, the Company may have a limited foreign exchange risk due to the financial margin earned in several currencies different from Euro (mainly GBP, JPY and USD) and cash positions held in foreign currencies (USD, JPY and GBP).

As of today, the Company policy is to hedge any interest rate exposure arising from funding raised, by investing on the similar terms and conditions (tenors and type of interest, whether it may be floating or fixed interest rates). Nevertheless, if that would not be eventually possible, or the management may not consider it appropriate, the Company may look to mitigate any interest rate risk in other ways (by using derivatives or any other suitable instrument), or eventually decide not to hedge it.

No significant impact regarding risks and uncertainties occurred during past financial year.

Existing or worsening conditions in the financial markets may limit the Telefónica's Group ability to finance, and consequently, the ability to carry out its business plan.

The operation, expansion and improvement of the Telefónica Group's networks, the development and distribution of the Telefónica Group's services and products, the implementation of Telefónica's strategic plan and new technologies, the renewal of licenses or the expansion of the Telefónica Group's business in countries where it operates, may require a substantial amount of financing.

A decrease in the liquidity of either the Company or Telefónica, or a difficulty in refinancing maturing debt or raising new funds as debt or equity could force Telefónica to use resources allocated to investments or other

commitments to pay its financial debt, which could have a negative effect on the Group's business, financial condition, and results of operations and/or cash flows.

Funding could be more difficult and costlier for the Company in the event of a significant deterioration of conditions in the international or local financial markets due to monetary policies set by central banks, including increases in interest rates and/or balance sheet reductions, and oil price instability, or if there is an eventual deterioration in the solvency or operating performance of the Telefónica Group.

*Worsening of the economic and political environment could negatively affect Telefonica's Group business.*

Telefónica's international presence enables the diversification of its activities across countries and regions, but it exposes Telefónica to diverse legislation, as well as to the political and economic environments of the countries in which it operates. Any adverse developments in this regard, including exchange rate or sovereign-risk fluctuations, may adversely affect Telefónica's business, financial position, cash flows and results of operations and/or the performance of some or all of the Group's financial indicators.

In Europe, there are several risks of both an economic and health nature. Among the latter is the possibility of a new outbreak of the pandemic due to the emergence of a Covid vaccine-resistant variant or because vaccination campaigns are unable to reach levels that guarantee herd immunity. Among the economic risks, we would highlight the negative impact of this new health emergency situation, but also the consequences of an excessive tightening of financing conditions, both for the private and public sectors, with a negative impact on disposable income that could even lead to episodes of financial stress. The catalyst for this scenario could be either global factors derived from an unforeseen increase in inflation, or domestic factors such as a worsening of fiscal sustainability in a European country (e.g. Spain or Italy), which would affect the economic conditions of the countries in which we operate.

In Spain, there are several local sources of risks. One of them stems from the economic policies to be implemented from 2021 onwards, given the high level of parliamentary fragmentation and the lack of agreement on key issues. This applies especially to the European Recovery Fund management. Regarding the use of these resources, a potential risk is that implementation could be slower (or lower) than expected, with a consequent negative impact on growth forecasts. Secondly, there is a risk of wider negative economic impact from the pandemic, resulting in a larger proportion of foreclosures, business closures and/or higher unemployment levels. Third, as one of the most open countries in the world, from a commercial point of view, being among the top ten countries in respect of capital outflows and inflows globally, any situation of protectionist backlash could have significant implications. Lastly, the high public debt levels accumulated in recent quarters and the poor light on how the fiscal adjustment will be in the future, could put the country in a compromising situation in the event of financial stress.

The pandemic has made us realize our vulnerability, but also our resilience. The response of both the public sector and Central Banks, with historic programs to sustain activity and employment, and the private sector with the discovery of vaccines in record time, have cushioned the effects of the economic crisis. However, the COVID-19 pandemic and future similar events may significantly affect our operations through different channels. Economic growth has been negatively affected by various adverse supply-side shocks (disruptions in integrated production and supply chains, business closures and immobilization of productive resources) and demand-side shocks (deterioration in confidence and expectations, negative income and wealth effects) resulting from a substantial deterioration in financial markets, unprecedented drops in commodity prices, a sharp slowdown in commercial activity or severe restrictions on transportation. The final impact of COVID-19 on the Group's business is difficult to predict due to the uncertainty surrounding the duration of the pandemic and the resilience of the economies of the countries in which the Group operates.

**Signing of the interim financial statements**

The members of the Management Board have signed these interim financial statements pursuant to their statutory obligations under art. 5:25d(2) Financial Markets Supervision Act. To the best of their knowledge, the financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the company in accordance with Title 9 Book 2 of the Dutch Civil Code, and the management board's report gives a true and fair view of the position and performance of the business of the company, and reflects the significant risks related to the business.

Amsterdam, July 28, 2021

/s/

Mr. C.D. Maroto Sobrado

/s/

Mr. François Vincent N. Declève

/s/

Mr. Miguel Angel Contreras Contreras

/s/

Mrs. Ilaria De Lucia

**INTERIM BALANCE SHEET**  
**AS AT 30 JUNE 2021**  
**(before appropriation of result)**

*Unaudited figures (Euros in thousands)*

ASSETS	Note	30/06/2021	31/12/2020
Fixed Assets			
Tangible fixed assets	1	1	1
Financial fixed assets	2	9,418,644	9,150,280
<b>Total Fixed Assets</b>		<b>9,418,645</b>	<b>9,150,281</b>
Current Assets			
Loans receivable	3	1,974,127	1,250,016
Interest receivable		152,270	219,473
Other current assets		1,213	157
Cash at bank	4	4,680	3,431
<b>Total Current Assets</b>		<b>2,132,290</b>	<b>1,473,077</b>
<b>TOTAL ASSETS</b>		<b>11,550,935</b>	<b>10,623,358</b>
<b>SHAREHOLDER'S EQUITY AND LIABILITIES</b>			
<b>Shareholder's Equity</b>			
Issued share capital	5	46	46
Retained earnings		5,110	2,640
Result for the year		1,516	2,470
<b>Total Shareholder's Equity</b>		<b>6,672</b>	<b>5,156</b>
<b>Long Term Liabilities</b>			
Bonds and loans	6	9,418,862	9,150,479
<b>Total Long Term Liabilities</b>		<b>9,418,862</b>	<b>9,150,479</b>
<b>Current Liabilities</b>			
Short term loans and bonds	7	1,974,127	1,250,016
Interest payable		150,578	217,451
Taxes payable		58	61
Other debts and accrued liabilities		638	195
<b>Total Current Liabilities</b>		<b>2,125,401</b>	<b>1,467,723</b>
<b>TOTAL EQUITY &amp; LIABILITIES</b>		<b>11,550,935</b>	<b>10,623,358</b>

**INTERIM STATEMENT OF INCOME AND EXPENSES  
FOR THE PERIOD ENDED 30 JUNE 2021**

*Unaudited figures (Euros in thousands)*

	Note	30/06/2021	30/06/2020
Financial Income and Expenses			
Interest Income		235,795	253,732
Interest Expense		(233,280)	(251,687)
Currency Exchange result		4	3
<b>Net financial result</b>	<b>8</b>	<b>2,519</b>	<b>2,048</b>
Operational Expenses			
Personnel expenses		(96)	(95)
Administrative expenses	9	(458)	(451)
<b>Result from ordinary activities before taxation</b>		<b>1,965</b>	<b>1,502</b>
Taxation	10	(449)	(317)
<b>RESULT AFTER TAXATION</b>		<b>1,516</b>	<b>1,185</b>

**NOTES TO THE INTERIM FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 JUNE 2021****General Information and Principal Activities**

Telefónica Europe B.V. ("the Company"), having its statutory seat and registered office in Amsterdam, The Netherlands, and registered with the Dutch Chamber of Commerce under number 24263798 is engaged in holding and financing activities for related companies. The home member state selected by the Company is Ireland. The offices of the Company are located in Zuidplein 112, 1077XV, Amsterdam (The Netherlands). The Company was incorporated on October 31, 1996.

The authorized share capital of the Company consists of 100 shares with a par value of EUR 460 each (EUR 46,000). On June 30, 2021 and December 31, 2020, the issued capital of the Company consists of 100 shares, which have been fully paid and which represent a total paid up capital in the amount of EUR 46,000.

**Group Affiliation**

The Company is a wholly-owned subsidiary of Telefónica, S.A., located in Madrid, Spain. Direct or indirect subsidiaries of Telefónica, S.A. are referred to as related companies.

At June 30, 2021 and December 31, 2020, the Company does not own, directly or indirectly, any capital stock or other equity interests in any subsidiary.

**Basis of Presentation**

The interim financial information should be read in conjunction with the Annual Report for the year ended December 31, 2020. The Annual Report and the Interim Financial Report are drawn up in accordance with the provisions of Title 9, Book 2 of the Dutch Civil Code and the firm pronouncements in the Dutch Accounting Standards, as published by the Dutch Accounting Standards Board ('Raad voor de Jaarverslaggeving').

As most of its activities are carried out in the Eurozone and the Company is domiciled in the Netherlands, the functional currency is the Euro. Therefore, these financial statements are presented in Euro.

**Comparison with prior period**

In line with more common practice in The Netherlands the balance sheet of last year end is taken up as the comparative balance sheet, rather than the balance sheet as at the interim date of the previous year.

**Euro Medium Term Note Debt Programme**

In 1996, the Company entered into a USD 1,500,000 thousand EMTN Debt Issuance Programme, arranged by Morgan Stanley & Co. International Limited, unconditionally and irrevocably guaranteed by Telefónica, S.A. Under the Programme, the Company may from time to time issue instruments in different currencies up to a maximum aggregate principal amount of USD 1,500,000 thousand. The total maximum aggregate principal amount was increased in 1998 to USD 2,000,000 thousand. In 2000, the total maximum aggregate principal amount was increased to EUR 8,000,000 thousand and finally, in July 2003, the maximum aggregate principal amount was increased again to EUR 10,000,000 thousand. The notes are listed on the Irish Stock Exchange. The Company has not issued any notes under this programme since 2003. The proceeds of the notes issued are lent to the parent company or to other related companies within the group of the parent company (Telefónica, S.A.).

As at June 30, 2021, the EMTN Debt Issuance Programme includes:

– Euro Notes due 2033	EUR	500,000,000
-----------------------	-----	-------------

### Global bonds

On September 21, 2000, Telefónica Europe B.V. issued notes for the notional amounts and coupons of USD 1,250,000 thousand 7.35% and EUR 1,000,000 thousand 6.125% due and repaid in 2005, USD 2,500,000 thousand 7.75% due and repaid in 2010 and USD 1,250,000 thousand 8.25% due 2030. These bonds are fully and unconditionally guaranteed by the parent company.

As at June 30, 2021, there is only one outstanding note under the programme (USD 1,250,000 thousand carrying a semi-annual coupon of 8.25% and maturing on September 2030) and is quoted in Frankfurt and New York.

### Euro Commercial Paper Programme (ECP Programme)

On June 29, 2000, the Company entered into a Euro Commercial Paper Programme with a maximum aggregate principal amount of EUR 2,000,000 thousand or its equivalent in alternative currencies. The Programme was updated in May 2005 and in May 2012, when its maximum aggregate principal amount outstanding (limit of the programme) was raised from EUR 2,000,000 thousand to EUR 3,000,000 thousand or its equivalent in alternative currencies. On April 22, 2016, the limit of the Programme was increased again by fixing this maximum outstanding principal amount into EUR 5,000,000 thousand or its equivalent in the alternative currencies. On December 17, 2019 the Company entered into an amended and restated agreement with no impact on the limit of the programme fixed on April 22, 2016.

The parent company guarantees in an unconditional and irrevocable basis all issues made under the ECP Programme. Notes may have any denomination, subject to compliance with any applicable legal and regulatory requirements. The minimum denominations are EUR 500,000, USD 500,000, JPY 100,000,000, and GBP 100,000. The tenor of the notes shall be not less than one or more than 365 days.

The notional outstanding amount as at June 30, 2021 is EUR 1,970,000 thousand. In the balance sheet the outstanding ECP issues are stated at their discounted notional amounts and were accounted for EUR 1,974,127 thousand at June 30, 2021.

### JPY Dual Currency Loan

The Company borrowed JPY 15,000,000 thousand in three loans from a Japanese investor with a maturity on July 2037. Under this agreement interests are payable in USD on a semi-annual basis at a fixed annual rate of 4.75%.

### Undated Deeply Subordinated Guaranteed Fixed Rate Reset Securities in EUR and in GBP

On September 18, 2013, the Company issued two tranches of Undated Deeply Subordinated Guaranteed Fixed Rate Reset Securities (“Hybrids”) of EUR 1,125,000 thousand and EUR 625,000 thousand respectively. A third issue of GBP 600,000 thousand was completed on November 26, 2013.

On March 31, 2014 the Company issued two tranches of Hybrids of EUR 750,000 thousand and EUR 1,000,000 thousand. On December 4, 2014 the Company issued a new tranche of Hybrids of EUR 850,000 thousand.

On September 15, 2016, the Company issued a new tranche of Hybrids of EUR 1,000,000 thousand.

On December 7, 2017, the Company issued a new tranche of Hybrids of EUR 1,000,000 thousand of Hybrids.

On March 22, 2018, the Company issued two additional tranches of Hybrids of EUR 1,250,000 thousand and EUR 1,000,000 thousand.

On March 23, 2018 the company repurchased and cancelled EUR 1,287,400 thousand and GBP 428,500 thousand (equivalent to EUR 490,848 thousand) across four Euro denominated and one British Sterling denominated hybrid securities. On September 18, 2018, coinciding with the first call date, the Company cancelled EUR 473,300 thousand of the EUR 1,125,000 thousand issued on September 18, 2013 carrying an annual coupon of 6.50%. After this cancellation no amount was due from this hybrid securities, since the Company had already repurchased and cancelled EUR 651,700 thousand in a partial repurchase executed on March 23, 2018.

On March 14, 2019, the Company issued a new tranche of Hybrids of EUR 1,300,000 thousand. On March 15, 2019 the company repurchased and cancelled EUR 934,700 thousand of hybrid securities. On May 7, 2019, the Company called (following a substantial purchase event) and cancelled EUR 118,300 thousand of the EUR 850,000 thousand hybrid securities issued on December 4, 2014 that were originally issued with a first call date on December 4, 2019 and carried an annual coupon of 4.2%. After this cancellation no amount was due from this hybrid securities, since the Company had already repurchased and cancelled EUR 145,200 thousand in a partial repurchase (on March 23, 2018) and EUR 586,500 thousand in another partial repurchase (on March 15, 2019). On September 24, 2019, the Company issued a new tranche of Non-Call 8 years Hybrids of EUR 500,000 thousand and carrying an interest rate of 2.875%.

On February 5, 2020, the Company issued a new tranche of Non-Call 7.25 years Hybrids of EUR 500,000 thousand and carrying an interest rate of 2.502%. On February 6, 2020 the Company repurchased and cancelled EUR 232,000 thousand and GBP 128,200 thousand (equivalent to EUR 151,055 thousand) across one Euro denominated and one British Sterling denominated hybrid securities. After the liquidation and cancellation of the repurchased hybrids, and as agreed in the terms and conditions, the Company announced the option to exercise the clean-up call of both series (equivalent to EUR 111,719 thousand). On March 31, 2020, the Company called (following a Substantial Purchase Event contemplated in the Terms and conditions of the instruments) and cancelled in full the total outstanding amount EUR 292,700 thousand of its Hybrids issued on March 31, 2014 with an annual coupon of 5.0%.

On February 12, 2021, the Company issued a new tranche of Non-Call 8.25 years Hybrids of EUR 1,000,000 thousand and carrying an interest rate of 2.376%. On February 15, 2021 the Company repurchased and cancelled EUR 757,600 thousand of hybrid securities. The notional amount repurchased (and cancelled) and premium paid was the following:

*Unaudited figures (Euros in thousands)*

ISIN	Description	Repurchase Notional amount	Premium	Total amount paid*
XS1490960942	EUR 1,000,000,000 3.75% perpetual (non-call 5.5 years) Hybrid Securities	EUR 757,600	EUR 25,077	EUR 782,677
<b>Total Euro denominated Hybrid securities</b>		<b>EUR 757,600</b>	<b>EUR 25,077</b>	<b>EUR 782,677</b>

\*Excluding accrued coupons.

The hybrid securities outstanding at June 30, 2021, amounted a total notional amount equivalent to EUR 7,792,400 thousand. At June 30, 2021 all hybrid securities issued by the Company are listed for trading on the Irish Stock Exchange.

The main terms of the tranches currently outstanding at June, 30, 2021 are the following:

- i. EUR 1,000,000 thousand issued on March 31, 2014 and with a first call date on March 31, 2024 with an annual coupon of 5.875% (ISIN: XS1050461034);
- ii. EUR 1,000,000 thousand issued on September 15, 2016 and with a first call date on March 15, 2022 with an annual coupon of 3.75% (ISIN: XS1490960942). The notional outstanding amount as of June 30, 2021 is EUR 242,400 thousand;
- iii. EUR 1,000,000 thousand issued on December 7, 2017 and with a first call on June 7, 2023 with an annual coupon of 2.625% (ISIN: XS1731823255);
- iv. EUR 1,250,000 thousand issued on March 22, 2018 and with a first call on December 4, 2023 with an annual coupon of 3.000% (ISIN: XS1795406575);
- v. EUR 1,000,000 thousand issued on March 22, 2018 and with a first call on September 22, 2026 with an annual coupon of 3.875% (ISIN: XS1795406658);
- vi. EUR 1,300,000 thousand issued on March 14, 2019 and with a first call on March 14, 2025 with an annual coupon of 4.375% (ISIN: XS1933828433);
- vii. EUR 500,000 thousand issued on September 24, 2019 and with a first call on September 24, 2027 with an annual coupon of 2.875% (ISIN: XS2056371334);
- viii. EUR 500,000 thousand issued on February 5, 2020 and with a first call on May 5, 2027 with an annual coupon of 2.502% (ISIN: XS2109819859) and
- ix. EUR 1,000,000 thousand issued on February 12, 2021 and with a first call on May 12, 2029 with an annual coupon of 2.376% (ISIN: XS2293060658).

The annual coupon included for all the securities is until the first call date. After that, they will be reset depending on the swap rates as disclosed in each security listed documentation. The securities are listed on the Irish Stock Exchange.

### Investments of the Company

Substantially all the net proceeds from the principal or notional amounts obtained or borrowed by the Company under its financing activities have been lent on to the parent company.

### Cash flow statement

No cash flow statement is presented in this interim financial report, as the Company's cash flows are included in the consolidated cash flow statement in the financial statements of the ultimate parent company Telefónica, S.A. This exemption is provided in DAS 360.104.

## ACCOUNTING POLICIES

### **General**

The accounting principles of the Company are summarized below. These accounting principles have all been applied consistently throughout the year and the preceding year unless otherwise indicated.

### **Foreign currencies**

Assets and liabilities denominated in foreign currencies are translated into the presentation currency at exchange rates prevailing at the Balance Sheet date. Any resulting exchange differences are recorded in the Statement of Income and Expenses.

Revenues and expenses in the year under review, which are denominated in foreign currencies, are translated into the reporting currency at exchange rates in effect on the transaction date.

### Accounting policies in respect of the Balance Sheet

#### **Tangible fixed assets**

Tangible fixed assets are stated at their historical cost less accumulated depreciation. Depreciation is provided over the expected useful life of the related asset under the straight-line depreciation method. The estimated useful lives are:

Furniture and office equipment: 3 to 5 years

#### **Long term receivables from related companies**

At its initial recognition in the Balance Sheet, long term receivables from related companies are measured at its fair value, which is the transaction price plus the transaction costs that are directly attributable to the issue of the financial asset.

Subsequently, long term receivables from related companies are carried at amortized cost using the effective interest rate method, except where otherwise stated in these notes. Gains and losses are recognized in the income statement when the loans are derecognized or impaired, as well as through the amortization process.

#### **Transactions with related parties**

Transactions with related parties are disclosed in the notes insofar as they are not transacted under normal market conditions. The nature, extent and other information is disclosed if this is necessary in order to provide the required insight.

Currently the Company doesn't have any subsidiary. All legal entities that can be controlled, jointly controlled or significantly influenced would be considered to be a related party. Also, entities which can control the Company are considered to be a related party. In addition, statutory directors, other key management of the Company or the ultimate parent company and close relatives are regarded as related parties.

**Impairment of financial assets**

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, or indications that a debtor or issuer will enter bankruptcy.

The Company considers evidence of impairment for receivables at both a specific and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired, together with receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against receivables. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

**Current loans receivables and other payables**

As from its initial recognition current loans receivables and payables are carried at amortized cost using the effective interest rate method, except where otherwise stated in these notes.

**Interest receivables and interest payables**

The Company accrues interest income and expenses in the balance sheet current assets or current liabilities, as it is applicable, when such interests are receivable/due according to the terms and conditions of the instruments subscribed. Following an interest payment, the accrual of interest is derecognized (in the same amount) in balance sheet.

**Cash at banks**

Cash at banks represent cash in bank balances and deposits with terms of less than twelve months. Overdrafts at banks are recognised as part of debts to lending institutions under current liabilities. Cash at banks is carried at nominal value.

**Bonds and loans**

At its initially recognition in the Balance Sheet, bonds and loans are measured at its fair value, which is the price of the transaction minus the transaction costs that are directly attributable to the issue of the financial liability.

Subsequently, bonds and loans are carried at amortized cost using the effective interest rate method, except where otherwise stated in these notes. Gains and losses are recognized in the Statement of Income and Expense when the liabilities are derecognized as well as through the amortization process.

**Estimates**

In applying the principles and policies for drawing up the financial statements, the directors of Telefonica Europe B.V. make different estimates and judgments that may be essential to the amounts disclosed in the financial statements. If it is necessary in order to provide the true and fair view required under Book 2, article 362, paragraph 1, the nature of these estimates and judgments, including related assumptions, is disclosed in the notes to the relevant financial statement item.

**Accounting policies in respect of result determination****Interest incomes and expenses**

Interest income and expense are recognized in profit or loss using the effective interest rate method. The effective interest rate includes all fees and basis points paid or received that are an integral part of the effective interest rate. This includes transaction costs that are directly attributable to the acquisition or issue of financial assets or liabilities.

Costs and revenues are recognized in the year to which they refer regardless of when paid or received, in accordance with the accrual basis. Differences between amounts received and paid and the corresponding revenue and costs are recognized under the correspondent caption of financial assets or financial liabilities.

Operational income and expenses are based on the historical cost convention and attributed to the financial year to which they pertain.

**Taxation**

Taxation is calculated on the reported pre-tax result, at the prevailing tax rates, taking account of any losses carried forward from previous financial years and tax-exempt items and non-deductible expenses and using tax facilities.

Temporary differences between taxation on the result as shown in the Statement of Income and Expense and the taxation on the fiscal result are added or deducted from the provision for deferred taxation.

**Accounting policies in respect of Financial Instruments****General**

The information included in the notes for financial instruments is useful to estimate the extent of risks relating to on-balance sheet financial instruments. The Company's primary financial instruments, not being derivatives, serve to finance the Telefonica's Group operating activities. The principal risks, arising from the Company's financing operations are, liquidity, credit, interest and foreign exchange risks. These risks are set out in detail below:

*i. Liquidity and credit risk*

Liquidity and credit risk management is implemented according to the Telefonica Group policies. As of June, 30, 2021 the Company has invested the funds borrowed, in Telefónica, S.A. which guarantees most of the external debt subscribed by the Company. However, from time to time the Company could also invest the funds in other companies within the Group. In addition, the Company holds cash balances in several financial institutions. In summary, as any substantial credit or liquidity risk would be related to credit risk of Telefónica, S.A. and its Group.

As of June 30, 2021 and Telefónica, S.A. and Telefónica Europe B.V. have been granted the same company credit ratings. These ratings are the following:

- Moody's Investors Services: Baa3 for the long term rating and P-3 for the short term rating. Outlook stable and last review November 7, 2016.
- Fitch Ratings: BBB for the long term rating and F-2 for the short term rating. Outlook stable and last review September 5, 2016.
- Standard and Poor's: BBB- for the long term rating and A-3 for the short term rating. Outlook stable and last review November 20, 2020.

*ii. Interest rate and Foreign Exchange risk*

Currently, the Company lends money to Telefónica S.A. although, from time to time, the Company may also lend money to other companies within the Telefonica Group. At present, all loans granted are denominated in the same currency as the funds it raises on the capital markets. Therefore, the Company is implementing a natural hedge. Consequently, foreign exchange fluctuation in exchange rates have a limited impact on its financial result.

However, the Company may have a limited foreign exchange risk due to the financial margin earned in several currencies different from Euro (mainly US Dollar and British Pound) and also due to some cash positions held in foreign currencies (US Dollar and British Pound).

Currently, the Company's policy is to hedge any interest rate exposure coming from funding raised by investing on similar terms and conditions (tenors and type of interest, whether it may be floating or fixed interest rates). Nevertheless, if that would not eventually be possible, or the management may not consider it appropriate, the Company may look to mitigate any interest rate risk in other ways (by using derivatives or any other suitable instrument) or eventually may decide not to hedge it.

**1. Tangible Fixed Assets**

The tangible fixed assets are comprised as follows:

	<i>Unaudited figures (Euros in thousands)</i>	
	<b>30/06/2021</b>	<b>31/12/2020</b>
Tangible fixed assets	1	1

The movement in the tangible fixed assets is as follows:

	<i>Unaudited figures (Euros in thousands)</i>	
	<b>30/06/2021</b>	<b>31/12/2020</b>
Carrying value		
Balance January 1	95	94
Additions	-	1
<b>Balance</b>	<b>95</b>	<b>95</b>
Accumulated depreciation		
Balance January 1	(94)	(93)
Change for the period	-	(1)
<b>Balance</b>	<b>(94)</b>	<b>(94)</b>
<b>Net book value</b>	<b>1</b>	<b>1</b>

**2. Financial fixed assets**

	<i>Unaudited figures (Euros in thousands)</i>	
	<b>30/06/2021</b>	<b>31/12/2020</b>
Long term receivables from related companies	9,418,644	9,150,280
<b>Financial Fixed assets</b>	<b>9,418,644</b>	<b>9,150,280</b>

The movement in the financial fixed assets is as follows:

	<i>Unaudited figures (Euros in thousands)</i>	
	<b>30/06/2021</b>	<b>31/12/2020</b>
Balance January 1	9,150,280	9,480,891
Deferred Commissions amortization	4,308	8,359
Repayments	(757,600)	(736,244)
New Loans	994,200	496,950
Foreign Exchange result	27,456	(99,676)
Reclassification to short term	-	-
<b>Balance</b>	<b>9,418,644</b>	<b>9,150,280</b>

The fair value for the long term receivables from the related companies are not substantially different to the fair value of the long term bonds and loans (disclosed at in note 6), since the terms and conditions of these long term receivables are almost equal to the terms and conditions of the bonds and loans issued.

The calculation of the fair value for the long term receivables from the related companies has been calculated by applying level 2 (of the hierarchy disclosed in note 6) after discounting the cash flows of the loans using an estimated credit spread curve for each applicable currency.

### 3. Loans receivable

The loans receivable comprises short-term loans due by the shareholder (granted by means of loan agreement dated May 10, 2012) and other related companies (if any) and amounted EUR 1,974,127 thousand on June 30, 2021 (EUR 1,250,016 thousand on December 31, 2020).

	<i>Unaudited figures (Euros in thousands)</i>	
	<b>30/06/2021</b>	<b>31/12/2020</b>
Short Term Loans to Telefónica, S.A.	1,974,127	1,250,016
<b>Total loans receivable</b>	<b>1,974,127</b>	<b>1,250,016</b>

The fair value of the short term loans to Telefónica does not substantially differ from the book value. Given the short term nature, the impact of the discount is not significant.

### 4. Cash at bank

The cash at bank is freely disposable and there are not interests obtained from the bank accounts. All the external banks we work with have BBB+ credit rating or higher. The balances on June 30, 2021 and December 31, 2020 are comprised as follows:

	<i>Unaudited figures (Euros in thousands)</i>	
	<b>30/06/2021</b>	<b>31/12/2020</b>
<b>Current bank account balances</b>	<b>4,680</b>	<b>3,431</b>

### 5. Shareholder's equity

The movements in the Shareholder's Equity are comprised as follows:

Unaudited figures (Euros in thousands)

	Issued share capital	Retained earnings	Result for the period	Total Shareholder's Equity
Balance as at January 1, 2020	46	4,700	2,356	7,102
Allocation of result	-	2,356	(2,356)	-
Result for the period	-	-	2,470	2,470
Dividend payment	-	(4,416)	-	(4,416)
<b>Balance as at December 31, 2020</b>	<b>46</b>	<b>2,640</b>	<b>2,470</b>	<b>5,156</b>
Balance as at January 1, 2021	46	2,640	2,470	5,156
Allocation of result	-	2,470	(2,470)	-
Result for the period	-	-	1,516	1,516
Dividend payment	-	-	-	-
<b>Balance as at June 30, 2021</b>	<b>46</b>	<b>5,110</b>	<b>1,516</b>	<b>6,672</b>

## 6. Bonds and loans

The long term bonds and loans balance is the following:

Unaudited figures (Euros in thousands)

	30/06/2021	31/12/2020
<b>Long term bonds and loans</b>	<b>9,418,862</b>	<b>9,150,479</b>

The movement in long term liabilities is as follows:

Unaudited figures (Euros in thousands)

	30/06/2021	31/12/2020
Balance January 1	9,150,479	9,480,899
Prepaid Commissions amortization	4,028	8,251
Repayments	(757,600)	(736,244)
New loans	994,500	497,250
Foreign Exchange result	27,455	(99,677)
Reclassification to short term	-	-
<b>Balance</b>	<b>9,418,862</b>	<b>9,150,479</b>

The fair value of the long term loans and bonds subscribed by the Company at June 30, 2021 totals **EUR 10,635,927 thousand** (EUR 10,473,684 thousand at 31 December, 2020).

The Company calculates the fair value of the long term loans and bonds using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

- Level 1: Inputs that are quoted market prices (unadjusted) in active markets for either: (i) the instruments issued by the Company or (ii) identical instruments to those issued by the company.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using:

quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

- Level 3: Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments but for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The Company has calculated the fair value for the bonds issued by applying level 1 of the above hierarchy. The bonds fair value has been calculated using the market price at balance sheet date as published at the stock exchange where the bonds are admitted for trading.

The fair value of the Loans subscribed by the Company has been calculated by applying level 2 of the above hierarchy, after discounting the cash flows of the Loans using an estimated credit spread curve for each applicable currency.

## 7. Short term loans and bonds

As at June 30, 2021, the loans and bonds payable comprises the amount due under the Company's EUR 5,000,000 thousand Euro Commercial Paper Program. The balance on June 30, 2021 totals **EUR 1,974,127 thousand** (EUR 1,250,016 thousand at December 31, 2020).

*Unaudited figures (Euros in thousands)*

	30/06/2021	31/12/2020
EUR 5,000,000,000 ST European Commercial Paper Programme	1,974,127	1,250,016
<b>Balance</b>	<b>1,974,127</b>	<b>1,250,016</b>

The fair value of the short term bonds and loans does not substantially differ from the book value. Given the short term nature of the loans and bonds, the impact of discount is not relevant.

## 8. Net Financial Result

The Net Financial Result is comprised as follows:

*Unaudited figures (Euros in thousands)*

	30/06/2021	30/06/2020
Interest income	235,795	253,732
Interest expense	(233,280)	(251,687)
Currency exchange result	4	3
<b>Net Financial Result</b>	<b>2,519</b>	<b>2,048</b>

Interest income fully derives from related companies as all loans receivable have been granted to related companies. During both years it also includes a one-off impact to P&L for the repurchase and cancellation of hybrid securities that took place on February 6, 2020 and February 15, 2021.

**9. Administrative expenses**

At June 30, 2021 the administrative expenses total EUR 458 thousand (EUR 451 thousand at June 30, 2020). The decrease in administrative expenses at June 30, 2021 (when compared to the same period of the prior year) is mainly due to increases in rating agencies fees.

*Unaudited figures (Euros in thousands)*

	<b>30/06/2021</b>	<b>30/06/2020</b>
Administrative expenses	(458)	(451)
<b>Total</b>	<b>(458)</b>	<b>(451)</b>

**10. Taxation**

The tax charge on the profit can be broken down as follows:

*Unaudited figures (Euros in thousands)*

	<b>30/06/2021</b>	<b>30/06/2020</b>
Corporate income tax 2021	449	-
Corporate income tax 2020	-	386
Corporate income tax 2019	-	27
Corporate income tax 2018	-	(96)
<b>Total</b>	<b>449</b>	<b>317</b>

The Company is subject to Dutch taxation and tax calculations are made in accordance with a Transfer Pricing report prepared by Ernst & Young.

The main features of this report are the establishment of a minimum financial margin for the transactions registered between Telefónica, S.A. and the Company as well as a capped yearly amount of operational expenses.

The effective and applicable tax rates do not differ significantly from those of previous fiscal year.

The applicable tax rate for the current financial statements is 25% (2020: 25%) and the effective tax rate is 23% (2020: 21%).

**OTHER INFORMATION****Board of directors**

The Company's board of directors consists of 4 directors at June, 2021 (June, 2020: 2), who don't receive remuneration as at June 30, 2021 (June, 2020: EUR 5 thousand).

**Auditor's report**

This Interim Financial Report has not been audited by the external independent auditors of the Company.

**Subsequent events**

On July 12, 2021 the Company **repurchased and cancelled EUR 114,900 thousand of its Undated Deeply Subordinated Guaranteed Fixed Rate Reset Securities** issued on September 15, 2016 with an annual coupon of 3.75%.

**Average number of employees**

During the period under review the Company employed on average 2 persons (2020: 3), none of them working outside The Netherlands.

Amsterdam, July 28, 2021

/s/

Mr. C.D. Maroto Sobrado

/s/

Mr. François Vincent N. Declève

/s/

Mr. Miguel Angel Contreras Contreras

/s/

Mrs. Ilaria De Lucia





**Telefonica Europe B.V.**

**RESPONSIBILITY STATEMENT FOR THE INTERIM FINANCIAL REPORT**

The members of the Telefónica Europe, B.V. Board of Directors hereby declare that, to the best of their knowledge, the interim financial statements for the half-year ended June 30, 2021, are prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of Telefónica Europe, B.V., and the management report includes a fair review of the development and performance of the business and the position of Telefónica Europe, B.V. and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that Telefónica Europe, B.V. faces.

Amsterdam, July 28, 2021

/s/

Mr. C.D. Maroto Sobrado

/s/

Mr. François Vincent N. Declève

/s/

Mr. Miguel Angel Contreras Contreras

/s/

Mrs. Ilaria De Lucia