

Telefónica, S.A.

Auditor's report
Annual accounts at December 31, 2021
Management report



This version of our report is a free translation of the original, which was prepared in Spanish. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

Independent auditor's report on the annual accounts

To the shareholders of Telefónica, S.A.:

Report on the annual accounts

Opinion

We have audited the annual accounts of Telefónica, S.A. (the Company), which comprise the balance sheet as at 31 December 2021, and the income statement, statement of changes in equity, cash flow statement and related notes for the year then ended.

In our opinion, the accompanying annual accounts present fairly, in all material respects, the equity and financial position of the Company as at 31 December 2021, as well as its financial performance and cash flows for the year then ended, in accordance with the applicable financial reporting framework (as identified in note 2.a of the notes to the annual accounts), and in particular, with the accounting principles and criteria included therein.

Basis for opinion

We conducted our audit in accordance with legislation governing the audit practice in Spain. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the annual accounts* section of our report.

We are independent of the Company in accordance with the ethical requirements, including those relating to independence, that are relevant to our audit of the annual accounts in Spain, in accordance with legislation governing the audit practice. In this regard, we have not rendered services other than those relating to the audit of the accounts, and situations or circumstances have not arisen that, in accordance with the provisions of the aforementioned legislation, have affected our necessary independence such that it has been compromised.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts of the current period. These matters were addressed in the context of our audit of the annual accounts as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters	How our audit addressed the key audit matters
<p>Measurement of investments in Group companies</p> <p>A relevant part of Telefónica, S.A.'s assets consist of equity investments in Group companies. As described in note 8, non-current investments in Group companies and associates (equity instruments) amount to €54,929 million at 31 December 2021.</p> <p>To assess if there is an impairment in the investments in Group companies, management conducts an impairment test at least annually or more frequently if events or circumstances indicate the carrying value might not be fully recoverable. Management determine the recoverable amount at the lower of the fair value less costs to sell and the value in use to which the investment relates.</p> <p>As described in notes 4.c) and 8.2, when the recoverable amount is determined by calculating the present value of future cash flows from the investments, management refers to the strategic plans approved by the Board of Directors. Management's cash flows projections involved significant judgements when considering key assumptions such as long-term OIBDA margin, long-term capital expenditure ratio, discount rates and perpetuity growth rates which would be significantly affected by the future trends in the economic, competitive, regulatory and technological environment in each of the countries.</p> <p>As described in note 8.2, a write down of impairment provision of €4,574 million has been recognised in the income statement for the year.</p> <p>We identify this as a key audit matter due to the significant judgements made by management when estimating the key assumptions that supports the recoverable amount of the investments in Group companies which in turn led to a high degree of auditor judgement and audit effort in evaluating these assumptions.</p>	<p>We have performed audit procedures, assisted by our valuation experts, on the process followed by the directors and management to determine the recoverable amount, fair value less cost to sell or value in use of investments in Group companies, including:</p> <ul style="list-style-type: none"> • Understanding of the control environment, assessment and verification of the relevant controls over the Telefónica Group's process for calculating the present value of future cash flows from investments in Group companies. • Verification of the consistency of the data used in the calculation of the value in use with respect to the strategic plans approved by the Board of Directors. • Analysis of the degree budget achievement. • Assessment of the significant assumptions employed to determine the recoverable amount, testing reasonableness and consistency based on a comparison with external market and industry data. • Evaluation of the adequacy of the disclosures included in the annual accounts in accordance with the applicable legislation. <p>Based on the procedures performed, we consider management's assessment to be reasonable and its conclusions on the value of investments in Group companies are consistent with the information contained in the accompanying annual accounts.</p>

Other information: Management report

Other information comprises only the management report for the 2021 financial year, the formulation of which is the responsibility of the Company's directors and does not form an integral part of the annual accounts.

Our audit opinion on the annual accounts does not cover the management report. Our responsibility regarding the management report, in accordance with legislation governing the audit practice, is to:

- a) Verify only that the certain information included in the Annual Corporate Governance Report and the Annual Report on Remuneration of the Directors, as referred to in the Auditing Act, has been provided in the manner required by applicable legislation and, if not, we are obliged to disclose that fact.
- b) Evaluate and report on the consistency between the rest of the information included in the management report and the annual accounts as a result of our knowledge of the Company obtained during the audit of the aforementioned financial statements, as well as to evaluate and report on whether the content and presentation of this part of the management report is in accordance with applicable regulations. If, based on the work we have performed, we conclude that material misstatements exist, we are required to report that fact.

On the basis of the work performed, as described above, we have verified that the information mentioned in section a) above has been provided in the manner required by applicable legislation and that the rest of the information contained in the management report is consistent with that contained in the annual accounts for the 2021 financial year, and its content and presentation are in accordance with applicable regulations.

Responsibility of the directors and the audit and control committee for the annual accounts

The directors are responsible for the preparation of the accompanying annual accounts, such that they fairly present the equity, financial position and financial performance of the Company, in accordance with the financial reporting framework applicable to the entity in Spain, and for such internal control as the aforementioned directors determine is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The audit commission is responsible for overseeing the process of preparation and presentation of the annual accounts.

Auditor's responsibilities for the audit of the annual accounts

Our objectives are to obtain reasonable assurance about whether the annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with legislation governing the audit practice in Spain will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts.

As part of an audit in accordance with legislation governing the audit practice in Spain, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual accounts, including the disclosures, and whether the annual accounts represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide the entity's audit commission with a statement that we have complied with relevant ethical requirements, including those relating to independence, and we communicate with the aforementioned those matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the entity's audit commission, we determine those matters that were of most significance in the audit of the annual accounts of the current period and are therefore the key audit matters.

We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Report on other legal and regulatory requirements

European single electronic format

We have examined the digital file of the European single electronic format (ESEF) of Telefónica, S.A. for the 2021 financial year that comprises an XHTML file of the annual accounts for the financial year, which will form part of the annual financial report.

The directors of Telefónica, S.A. are responsible for presenting the annual financial report for 2021 financial year in accordance with the formatting requirements established in the Delegated Regulation (EU) 2019/815 of 17 December 2018 of the European Commission (hereinafter the ESEF Regulation). In this regard, the Annual Corporate Governance Report and the Annual Report on Remuneration of the Directors have been incorporated by reference in the management report.

Our responsibility is to examine the digital file prepared by the Company's directors, in accordance with legislation governing the audit practice in Spain. This legislation requires that we plan and execute our audit procedures in order to verify whether the content of the annual accounts included in the aforementioned file completely agrees with that of the annual accounts that we have audited, and whether the format of these accounts has been affected, in all material respects, in accordance with the requirements established in the ESEF Regulation.

In our opinion, the digital file examined completely agrees with the audited annual accounts, and these are presented, in all material respects, in accordance with the requirements established in the ESEF Regulation.

Report to the audit and control committee

The opinion expressed in this report is consistent with the content of our additional report to the audit commission of the Company dated 22 February 2022.

Appointment period

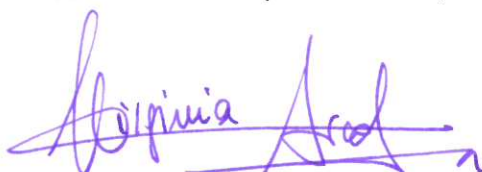
The General Ordinary Shareholders' Meeting held on 23 April 2021 appointed us as auditors for a period of one year, for the year ended 31 December 2021.

Previously, we were appointed by resolution of the General Ordinary Shareholders' Meeting for a period of three years and we have audited the accounts continuously since the year ended 31 December 2017.

Services provided

Services provided to the audited entity for services other than the audit of the accounts are disclosed in note 20.g) to the annual accounts.

PricewaterhouseCoopers Auditores, S.L. (S0242)



Virginia Arce Peralta (16096)

25 February 2022

Telefónica, S. A.



Annual financial statements and management report

for the year ended December 31, 2021

2021

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Telefónica, S.A.

Balance sheet at December 31

Millions of euros			
ASSETS	Notes	2021	2020
NON-CURRENT ASSETS		60,476	66,866
Intangible assets	5	21	20
Software		7	8
Other intangible assets		14	12
Property, plant and equipment	6	136	145
Land and buildings		85	92
Plant and other property, plant and equipment items		49	50
Property, plant and equipment under construction and prepayments		2	3
Investment property	7	314	318
Land		100	100
Buildings		214	218
Non-current investments in Group companies and associates	8	55,067	59,368
Equity instruments		54,929	58,754
Loans to Group companies and associates		131	590
Other financial assets		7	24
Financial investments	9	3,929	4,900
Equity instruments	9	348	320
Derivatives	16	2,675	3,474
Other financial assets	9	906	1,106
Deferred tax assets	17	1,009	2,115
CURRENT ASSETS		11,399	15,369
Net assets held for sale	8	—	268
Trade and other receivables	10	333	282
Current investments in Group companies and associates	8	3,698	9,608
Loans to Group companies and associates		3,641	9,550
Derivatives	16	9	19
Other financial assets		48	39
Investments	9	1,550	2,167
Loans to companies		53	1,014
Derivatives	16	751	1,149
Other financial assets		746	4
Current deferred expenses		11	14
Cash and cash equivalents		5,807	3,030
TOTAL ASSETS		71,875	82,235

The accompanying Notes 1 to 23 and Appendices I and II are an integral part of these balance sheets.

Millions of euros			
EQUITY AND LIABILITIES	Notes	2021	2020
EQUITY		22,754	22,948
CAPITAL AND RESERVES		22,713	23,563
Share capital	11	5,779	5,526
Share premium	11	4,233	4,538
Reserves	11	13,041	15,660
Legal & Statutory		1,096	1,101
Other reserves		11,945	14,559
Treasury shares and own equity instruments	11	(546)	(476)
Profit (Loss) for the year	3	206	(1,685)
UNREALIZED GAINS (LOSSES) RESERVE	11	41	(615)
Financial assets at fair value with changes through equity		(52)	(124)
Hedging instruments		93	(491)
NON-CURRENT LIABILITIES		38,740	45,563
Non-current provisions	18	660	705
Non-current borrowings	12	2,818	5,765
Bank borrowings	14	415	1,392
Derivatives	16	1,824	4,025
Other debts		579	348
Non-current borrowings from Group companies and associates	15	35,141	38,900
Deferred tax liabilities	17	91	151
Long term deferred revenues		30	42
CURRENT LIABILITIES		10,381	13,724
Current provisions	18	30	26
Current borrowings	12	1,782	1,206
Bonds and other marketable debt securities	13	30	269
Bank borrowings	14	1,416	318
Derivatives	16	336	578
Other financial liabilities	14	–	41
Current borrowings from Group companies and associates	15	8,364	12,263
Trade and other payables	18	191	217
Current deferred revenues		14	12
TOTAL EQUITY AND LIABILITIES		71,875	82,235

The accompanying Notes 1 to 23 and Appendices I and II are an integral part of these balance sheets.

Telefónica, S.A.

Income statements for the years ended December 31

Millions of euros	Notes	2021	2020
Revenue	19	6,426	10,750
Rendering of services to Group companies and associates		432	455
Rendering of services to non-group companies		15	17
Dividends from Group companies and associates		5,943	10,257
Interest income on loans to Group companies and associates		36	21
Impairment and gains (losses) on disposal of financial instruments	8	(4,411)	(11,133)
Impairment losses and other losses		(4,574)	(10,956)
Gains (losses) on disposal and other gains and losses		163	(177)
Other operating income	19	55	57
Non-core and other current operating revenue - Group companies and associates		36	29
Non-core and other current operating revenue - non-group companies		19	28
Employees benefits expense	19	(212)	(204)
Wages, salaries and others		(180)	(172)
Social security costs		(32)	(32)
Other operational expense		(417)	(414)
External services - Group companies and associates	19	(97)	(83)
External services - non-group companies	19	(292)	(314)
Taxes other than income tax		(28)	(17)
Depreciation and amortization	5, 6 and 7	(27)	(27)
OPERATING PROFIT (LOSS)		1,414	(971)
Finance revenue	19	423	375
Finance costs	19	(1,544)	(1,971)
Change in fair value of financial instruments		(50)	—
Loss on financial assets at fair value with changes through equity	9 and 11	(50)	—
Exchange rate gains (losses)	19	5	601
NET FINANCIAL EXPENSE		(1,166)	(995)
PROFIT (LOSS) BEFORE TAX	21	248	(1,966)
Income tax	17	(42)	281
PROFIT (LOSS) FOR THE YEAR		206	(1,685)

The accompanying Notes 1 to 23 and Appendices I and II are an integral part of these income statements

Telefónica, S.A.

Statements of changes in equity for the years ended December 31

A) Statement of recognized income and expense

Millions of euros	Notes	2021	2020
Profit (Loss) for the period		206	(1,685)
Total income and expense recognized directly in equity	11	1,218	(818)
From valuation of financial assets at fair value with impact in equity		122	(76)
From cash flow hedges		1,461	(990)
Income tax impact		(365)	248
Total amounts transferred to income statement	11	(562)	527
From valuation of financial assets at fair value with changes through equity		(50)	–
From cash flow hedges		(683)	702
Income tax impact		171	(175)
TOTAL RECOGNIZED INCOME AND EXPENSE		862	(1,976)

The accompanying Notes 1 to 23 and Appendices I and II are an integral part of these statements of changes in equity.

B) Statements of total changes in equity for the years ended December 31

Millions of euros	Share capital	Share premium and Reserves	Treasury shares	Profit (Loss) for the year	Net unrealized gains (losses) reserve	Total
Balance at December 31, 2019	5,192	14,979	(766)	5,740	(324)	24,821
Total recognized income and expense	–	–	–	(1,685)	(291)	(1,976)
Transactions with shareholders and owners	334	(1,248)	290	–	–	(624)
Dividends paid (Note 11)	334	(1,048)	–	–	–	(714)
Other transactions with shareholders and owners	–	(200)	290	–	–	90
Other movements	–	727	–	–	–	727
Appropriation of prior year profit (loss)	–	5,740	–	(5,740)	–	–
Balance at December 31, 2020	5,526	20,198	(476)	(1,685)	(615)	22,948
Total recognized income and expense	–	–	–	206	656	862
Transactions with shareholders and owners	253	(1,239)	(70)	–	–	(1,056)
Capital decreases (Note 11)	(83)	(305)	388	–	–	–
Dividends paid (Note 11)	336	(935)	–	–	–	(599)
Other transactions with shareholders and owners	–	1	(458)	–	–	(457)
Appropriation of prior year profit (loss)	–	(1,685)	–	1,685	–	–
Balance at December 31, 2021	5,779	17,274	(546)	206	41	22,754

The accompanying Notes 1 to 23 and Appendices I and II are an integral part of these statements of changes in equity.

Telefónica, S.A.
Cash flow statements for the years ended December 31

Millions of euros	Notes	2021	2020
A) CASH FLOWS FROM OPERATING ACTIVITIES		11,148	3,604
Profit (Loss) before tax		248	(1,966)
Adjustments to net results:		(331)	1,880
Depreciation and amortization	5, 6 and 7	27	27
Impairment of investments in Group companies and associates	8	4,574	10,956
Change in long term provisions		44	3
Gains on the sale of financial assets	8	(163)	177
Dividends from Group companies and associates	19	(5,943)	(10,257)
Interest income on loans to Group companies and associates	19	(36)	(21)
Net financial expense		1,166	995
Change in working capital		(26)	21
Trade and other receivables		7	23
Other current assets		(28)	17
Trade and other payables		(5)	(19)
Other cash flows from operating activities	21	11,257	3,669
Net interest paid		(1,431)	(614)
Dividends received and other		12,520	3,741
Income tax receipts		168	542
B) CASH FLOWS (USED IN) / FROM INVESTING ACTIVITIES	21	865	(880)
Payments on investments		(12,410)	(6,369)
Proceeds from disposals		13,275	5,489
C) CASH FLOWS USED IN FINANCING ACTIVITIES		(9,208)	(3,324)
Proceeds from equity instruments		—	283
(Payments) / Proceeds from financial liabilities	21	(8,113)	(2,549)
Debt issues		3,518	5,135
Repayment and redemption of debt		(11,631)	(7,684)
Acquisition of treasury shares	11	(478)	(234)
Dividends paid	21	(617)	(824)
D) NET FOREIGN EXCHANGE DIFFERENCE		(28)	(6)
E) NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS		2,777	(607)
Cash and cash equivalents at January 1		3,030	3,637
Cash and cash equivalents at December 31		5,807	3,030

The accompanying Notes 1 to 23 and Appendices I and II are an integral part of these cash flow statements.

Telefónica, S.A.

Annual financial statements for the ended December 31, 2021

Note 1. Introduction and general information

Telefónica, S.A. (“Telefónica” or “the Company”) is a public limited company incorporated for an indefinite period on April 19, 1924, under the corporate name of Compañía Telefónica Nacional de España, S.A. It adopted its present name in April 1998.

The Company’s registered office is at Gran Vía 28, Madrid (Spain) and its Employer Identification Number (CIF) is A-28/015865.

Telefónica’s basic corporate purpose, pursuant to Article 4 of its Bylaws, is the provision of all manner of public or private telecommunications services, including ancillary or complementary telecommunications services or related services. All the business activities that constitute this stated corporate purpose may be performed either in Spain or abroad and wholly or partially by the Company, either through shareholdings or equity interests in other companies or legal entities with an identical or a similar corporate purpose.

In keeping with the above, Telefónica is currently the parent company of a group that offers both fix and mobile telecommunications with the aim to turn the challenges of the new digital business into reality and being one of the most important players. The objective of the Telefónica Group is positioning as a Company with an active role in the digital business taking advantage of the opportunities of its size and industrial and strategic alliances.

The Company is taxed under the general tax regime established by the Spanish State, the Spanish Autonomous Communities and local governments, and files consolidated tax returns with most of the Spanish subsidiaries of its Group under the consolidated tax regime applicable to corporate groups.

Note 2. Basis of presentation

a) True and fair view

These financial statements have been prepared from Telefónica, S.A.'s accounting records by the Company's Directors in accordance with the accounting principles and standards contained in the Spanish GAAP in force approved by Royal Decree 1514/2007, on November 16 (PGC 2007), modified by Royal Decree (RD) 602/2016, dated December 2, 2016, and by Royal Decree (RD) 1/2021, dated January 12, 2021, and other prevailing legislation at the date of these financial statements, to give a true and fair view of the Company's equity, financial position, income statements and of the cash flows obtained and applied in 2021.

The accompanying financial statements for the year ended December 31, 2021 were prepared by the Company's Board of Directors at its meeting on February 23, 2022 for submission for approval at the General Shareholders' Meeting, which is expected to occur without modification.

The figures in these financial statements are expressed in millions of euros, unless indicated otherwise, and therefore may be rounded. The euro is the Company's functional currency.

b) Comparison of information

Changes in accounting policies as a result of Royal Decree 1/2021

In January 2021, Royal Decree 1/2021 ("RD 1/2021"), dated January 12, was published, amending the General Accounting Plan approved by Royal Decree 1514/2007, dated November 16 (among others). Subsequently, as a consequence of the aforementioned RD 1/2021, a resolution of the Spanish Accounting and Auditing Institute (ICAC) was published, issuing requirements for the recognition, measurement and preparation of annual financial statements of revenues from the sale of goods and rendering of services to customers (hereinafter "Resolution on revenue recognition").

The main differences between the accounting and classification requirements used in fiscal year 2020 and those applied in fiscal year 2021 under the RD 1/2021 and the Resolution on revenue recognition, which have affected the Company, are described below.

Classification and measurement of financial instruments

Under the new requirements, financial instruments are now classified on the basis of both the entity's business model for managing the financial instruments and their contractual cash flow characteristics.

Financial assets are classified in the following categories:

- **Fair value through income statement:** This category includes the previous portfolios of "Financial assets held for trading" and "Other financial assets at fair value through profit or loss" and, if applicable, those financial assets that are optionally selected at initial recognition to eliminate accounting mismatches. This category includes all financial assets unless they should be classified in another category.
- **Amortized cost:** This category includes the previous portfolios of "Loans and receivables" and "Held-to-maturity financial assets" to the extent that they are held for the purpose of collecting contractual cash flows, and the contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.
- **Fair value through equity:** This category includes those loans held within a business model whose objective is achieved by both (a) collecting contractual cash flows that are solely payments of principal and interest or (b) selling them, similarly to the previous available-for-sale financial asset category. It also includes the optional designation at initial recognition of certain investments in equity instruments that previously formed the available-for-sale financial instruments portfolio.
- **Cost:** This category mainly includes investments in Group companies, associates and jointly controlled entities.

The classification of financial liabilities has two main categories:

- **Amortized cost:** This category includes all financial liabilities except those that must be measured at fair value through profit or loss. Therefore, it includes the previous portfolios of "Loans and payables" and "Trade and non-trade payables".
- **Fair value through income statement:** This category mainly includes the previous portfolios of "Financial liabilities held for trading" and "Other financial liabilities at fair value through profit or loss".

In accordance with the transitional provisions of RD 1/2021, the Company elected to apply the new requirements considering January 1, 2021 as the transition date, without restating the 2020 figures presented in the 2021 financial statements for comparative purposes. However, in application of Transitional Provision 2, paragraph 6 e) and for presentation purposes only, the Company has reclassified the items affected in order to disclose the previous year balances adapted to the new presentation criteria. Consequently, the equity instruments previously classified as available-for-sale financial assets, amounting to 320 million euros at January 1, 2021, have been reclassified to the new category of financial assets at fair value with changes through equity (see Note 9).

In addition to this, the Company has used the following practical expedients provided for in the Second Transitional Provision of RD 1/2021:

- a. For assets and liabilities at amortized cost, the Company has opted to consider the carrying amount at the end of the previous year as their amortized cost at the beginning of the year in which the new requirements are effective.
- b. For the purposes of classifying its financial assets upon first-time adoption of the new requirements, the Company has elected to assess its business model based on the facts and circumstances present at that date and has used prospective application.

As regards derivatives and hedges, for those contracts in force at January 1, 2021 that met the requirements for hedge accounting in accordance with the previous requirements in PGC 2007 and also meet the new requirements in RD 1/2021, after taking into account any adjustment of the hedging relationship at January 1, 2021, the Company has considered these contracts as a continuation of the hedging relationships already existing at the transition date.

The application of the new classification and measurement criteria included in RD 1/2021 has had no impact on the Company's equity.

Revenues from sales and services rendered

The new requirements are based on the core principle that revenue is recognized when control of promised goods or services is transferred to a customer for an amount that reflects the consideration to which the entity expects to be entitled - thus the concept of control, as a main principle, replaces the concept of risks and rewards.

In order to apply the above core principle, these steps are followed:

1. identify the contracts with a customer;
2. identify the performance obligations;
3. determine the transaction price;
4. allocate the transaction price to the performance obligations identified; and
5. recognize revenue when (or as) the entity satisfies each performance obligation.

Due to the nature of the Company's core business, the differences between the accounting and classification requirements used in 2020 and those applied in 2021 under the new revenue recognition model are not significant, and therefore the application of the new criteria required by the Resolution on revenue recognition has had no impact on equity. The Company has considered the information to be disclosed in the notes to the financial statements regarding revenue transactions.

c) Materiality

These financial statements do not include any information or disclosures that, not requiring presentation due to their qualitative significance, have been determined as immaterial or of no relevance pursuant to the concepts of *materiality* or *relevance* defined in the PGC 2007 conceptual framework.

d) Use of estimates

The financial statements have been prepared using estimates based on historical experience and other factors considered reasonable under the circumstances. The carrying value of assets and liabilities, which is not readily apparent from other sources, was established based on these estimates. The Company periodically reviews these estimates.

A significant change in the facts and circumstances on which these estimates are based could have an impact on the Company's results and financial position.

Key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the financial statements of the following year are discussed below.

Provisions for impairment of investments in Group companies and associates

Investments in group companies, joint ventures and associates are tested for impairment at each year end to determine whether an impairment loss must be recognized in the income statement or a previously recognized impairment loss be reversed. The decision to recognize an impairment loss (or a reversal) involves estimates of the reasons for the potential impairment (or recovery), as well as the timing and amount. In Note 8.2 it is assessed the impairment of these investments.

There is a significant element of judgment involved in the estimates required to determine recoverable amount and the assumptions regarding the performance of these investments, since the timing and scope of future changes in the business are difficult to predict.

Deferred taxes

The Company assesses the recoverability of deferred tax assets based on estimates of future earnings, and of all the options available to achieve an outcome, it considers the most efficient one in terms of tax within the legal framework the Company is subject to. The ability to recover these taxes depends ultimately on the Company's ability to generate taxable earnings over the period for which the deferred tax assets remain deductible. This analysis is based on the estimated schedule for reversing deferred tax liabilities, the expected outcome from pending lawsuits affecting the estimations as well as estimates of taxable earnings, which are sourced from internal projections and are continuously updated to reflect the latest trends.

The appropriate valuation of tax assets and liabilities depends on a series of factors, including estimates as to the timing and realization of deferred tax assets and the projected tax payment schedule. Actual income tax receipts and payments could differ from the estimates made by the Company as a result of changes in tax legislation, the outcome of ongoing tax proceedings or unforeseen future transactions that could affect tax balances. The information about deferred tax assets and unused tax credits for loss carryforwards, whose effect has been registered when necessary in balance, is included in Note 17.

Note 3. Proposed appropriation of net results

Telefónica, S.A. obtained 206 million euros of profit in 2021.

Accordingly, the Company's Board of Directors will submit the following proposed appropriation of 2021 net results for approval at the Shareholders' Meeting:

Millions of euros	
Proposed appropriation:	
Profit for the year	206
Distribution to:	
Legal reserve	21
Unrestricted reserves	185

Note 4. Recognition and measurement accounting policies

As stated in Note 2, the Company's financial statements have been prepared in accordance with the accounting principles and standards contained in the Código de Comercio, which are further developed in the Plan General de Contabilidad currently in force (PGC 2007), modified by RD 602/2016 and RD 1/2021 as well as any commercial regulation in force at the reporting date.

Accordingly, only the most significant accounting policies used in preparing the accompanying financial statements are set out below, in light of the nature of the Company's activities as a holding.

a) Intangible assets

Intangible assets are stated at acquisition or production cost, less any accumulated amortization or any accumulated impairment losses.

Intangible assets are amortized on a straight-line basis over their useful lives. The most significant items included in this caption are computer software licenses, which are generally amortized on a straight-line basis over three years.

b) Property, plant and equipment and investment property

Property, plant and equipment is stated at cost, net of accumulated depreciation and any accumulated impairment in value.

The Company depreciates its property, plant and equipment once the assets are in full working conditions using the straight-line method based on the assets' estimated useful lives, calculated in accordance with technical studies which are revised periodically based on technological advances and the rate of dismantling, as follows:

Estimated useful life	Years
Buildings	40
Plant and machinery	3 - 25
Other plant or equipment, furniture and office equipment	10
Other items of property, plant and equipment	4 - 10

Investment property is measured and depreciated using the same criteria described for land and buildings for own use.

c) Impairment of non-current assets

Non-current assets are assessed at each reporting date for indicators of impairment. Where such indicators exist, or in the case of assets which are subject to an annual impairment test, the Company estimates the asset's recoverable amount as the higher of its fair value less costs to sell and its value in use. In assessing value in use, the estimated future post-tax cash flows deriving from the use of the asset or its cash generating unit, as applicable, are discounted to their present value, using a post-tax discount rate reflecting current market assessments of the time value of money and the risks specific to the asset, whenever the result obtained is the same that would be obtained by discounting pre-tax cash flows at a pre-tax discount rate.

Telefónica bases the calculation of impairment on the business plans of the various companies approved by the Board of Directors' of Telefónica, S.A. to which the assets are allocated. The projected cash flows, based on strategic business plans, cover a period of five years not including the present year when the analysis is calculated. Starting with the sixth year, an expected constant growth rate is applied.

d) Financial assets and liabilities

The crisis originated by the COVID-19 pandemic has transformed the macroeconomic scenario raising the uncertainty over the future economic outlook. During 2021, even if the areas where significant judgement needs to be applied are unchanged, the Company has continued reviewing the impact of the pandemic.

The main future assumptions as well as other uncertainties related to estimations at year end which could cause a significant effect in the financial statements are disclosed below.

Financial investments

All regular way purchases and sales of financial assets are recognized on the trade date, i.e. the date that the Company commits to purchase or sell the asset.

"Investments in group companies, joint ventures and associates" are classified into a category of the same name and are shown at cost less any impairment loss (see Note 4.c). Group companies are those over which the Company exercises control, either by exercising effective control or by virtue of agreements with the other shareholders. Joint ventures are companies which

are jointly controlled with third parties. Associates are companies in which there is significant influence, but not control or joint control with third parties. Telefónica assesses the existence of significant influence not only in terms of percentage ownership but also in qualitative terms such as presence on the board of directors, involvement in decision-making, the exchange of management personnel, and access to technical information.

Financial investments which the Company intends to hold for an unspecified period of time and could be sold at any time to meet specific liquidity requirements or in response to interest rate movements and which have not been included in the other categories of financial assets defined in the RD 1/2021, which amends PGC 2007 (see Note 2), are classified as *financial assets at fair value through equity*. These investments are recorded under "Non-current assets," unless it is probable and feasible that they will be sold within 12 months.

Derivative financial instruments and hedge accounting

When Telefónica chooses not to apply hedge accounting criteria but economic hedging, gains or losses resulting from changes in the fair value of derivatives are taken directly to the income statement.

e) Revenue and expenses

Revenue and expenses are recognized on the income statement based on an accrual basis; i.e. when the goods or services represented by them take place, regardless of when actual payment or collection occurs.

A distribution of unrestricted reserves is considered as dividend distribution, and therefore, is registered as dividend revenue in the accounting of the receiving Company whenever the distributing company and/or any of its group's subsidiaries have gathered profits above the amount of equity distributed.

When the Company receives free-allotment rights, known as scrip dividends, that can be used to acquire new shares at no cost or be sold in the market or to the distributing company, it accounts for the concept as dividend revenue with a counterpart of account receivable on the distribution date.

The income obtained by the Company in dividends received from Group companies and associates, and from the interest accrued on loans and credits given to them, are included in revenue in compliance with the provisions of consultation No. 2 of BOICAC 79, published on September 30, 2009.

f) Related party transactions

In business merger or spin-off transactions involving the parent company and its direct or indirect subsidiary, as well as in the case of non-monetary contributions of businesses between Group companies and in the case of dividend distributions, when an exemption from preparing consolidated financial statements in accordance with the Standards on Preparing Consolidated Financial Statements (Spanish "NOFCAC") applies, the assets and liabilities may be measured at their pre-transaction carrying amount in the individual financial statements, although there is also the option of using consolidated values in under IFRS as adopted by the European Union, provided that this consolidated information does not differ significantly from that obtained by applying NOFCAC. In addition, the Company may also opt to use the values resulting from a reconciliation to NOFCAC.

In the particular case of a contribution to a group company of the shares of another group company, the pre-transaction carrying amount in the standalone financial statements of the contributing company may be used, unless the net equity amount is higher, in which case this amount is used.

The change in value arising in the contributing company as a result of the above accounting treatment is recognized in reserves.

g) Financial guarantees

The Company has provided guarantees to a number of subsidiaries to secure their transactions with third parties (see Note 20.a). Where financial guarantees provided have a counter-guarantee on the Company's balance sheet, the value of the counter-guarantee is estimated to be equal to the guarantee given, with no additional liability recognized as a result.

Guarantees provided for which there is no item on the Company's balance sheet acting as a counter-guarantee are initially measured at fair value which, unless there is evidence to the contrary, is the same as the premium received plus the present value of any premiums receivable. After initial recognition, these are subsequently measured at the higher of:

- i) The amount resulting from the application of the rules for measuring provisions and contingencies.
- ii) The amount initially recognized less, when applicable, any amounts taken to the income statement corresponding to accrued income.

h) Consolidated data

As required under prevailing legislation, the Company has prepared separate consolidated annual financial statements, drawn up in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The balances of the main headings of the Telefónica Group's consolidated financial statements for 2021 and 2020 are as follows:

Millions of euros		
Item	2021	2020
Total assets	109,213	105,051
Equity:		
Attributable to equity holders of the parent	22,207	11,235
Attributable to minority interests	6,477	7,025
Revenue from operations	39,277	43,076
Profit for the year:		
Attributable to equity holders of the parent	8,137	1,582
Attributable to minority interests	2,580	375

Note 5. Intangible assets

The movements in the items composing intangible assets and the related accumulated amortization in 2021 and 2020 are as follows:

2021					
Millions of euros	Opening balance	Additions and allowances	Disposals	Transfers	Closing balance
INTANGIBLE ASSETS, GROSS	262	10	(3)	–	269
Software	163	4	(1)	1	167
Other intangible assets	99	6	(2)	(1)	102
ACCUMULATED AMORTIZATION	(242)	(7)	1	–	(248)
Software	(155)	(5)	–	–	(160)
Other intangible assets	(87)	(2)	1	–	(88)
NET CARRYING AMOUNT	20	3	(2)	–	21

2020					
Millions of euros	Opening balance	Additions and allowances	Disposals	Transfers	Closing balance
INTANGIBLE ASSETS, GROSS	259	7	(3)	(1)	262
Software	159	4	(1)	1	163
Other intangible assets	100	3	(2)	(2)	99
ACCUMULATED AMORTIZATION	(235)	(8)	1	–	(242)
Software	(150)	(6)	1	–	(155)
Other intangible assets	(85)	(2)	–	–	(87)
NET CARRYING AMOUNT	24	(1)	(2)	(1)	20

As of December 31, 2021 and 2020 commitments to acquire intangible assets amount to 3.8 and 0.5 million euros.

As of December 31, 2021 and 2020, the Company had 231 and 225 million euros, respectively, of fully amortized intangible assets.

Note 6. Property, plant and equipment

The movements in the items composing property, plant and equipment (PP&E) and the related accumulated depreciation in 2021 and 2020 are as follows:

2021					
Millions of euros	Opening balance	Additions and allowances	Disposals	Transfers	Closing balance
PROPERTY, PLANT AND EQUIPMENT, GROSS	548	8	(1)	(4)	551
Land and buildings	203	1	–	(3)	201
Plant and other PP&E items	342	5	(1)	2	348
PP&E under construction and prepayments	3	2	–	(3)	2
ACCUMULATED DEPRECIATION	(403)	(12)	–	–	(415)
Buildings	(111)	(5)	–	–	(116)
Plant and other PP&E items	(292)	(7)	–	–	(299)
NET CARRYING AMOUNT	145	(4)	(1)	(4)	136

2020					
Millions of euros	Opening balance	Additions and allowances	Disposals	Transfers	Closing balance
PROPERTY, PLANT AND EQUIPMENT, GROSS	541	12	(7)	2	548
Land and buildings	198	4	–	1	203
Plant and other PP&E items	339	7	(7)	3	342
PP&E under construction and prepayments	4	1	–	(2)	3
ACCUMULATED DEPRECIATION	(405)	(10)	7	5	(403)
Buildings	(112)	(4)	–	5	(111)
Plant and other PP&E items	(293)	(6)	7	–	(292)
NET CARRYING AMOUNT	136	2	–	7	145

Firm commitments to acquire property, plant and equipment at December 31, 2021 and 2020 amounted to 1.2 and 0.7 million euros, respectively.

At December 31, 2021 and 2020, the Company had 261 and 258 million euros, respectively, of fully depreciated items of property, plant and equipment.

Telefónica, S.A. has taken on insurance policies with appropriate limits to cover the potential risks which could affect its property, plant and equipment.

“Property, plant and equipment” includes the net carrying amount of the land and buildings occupied by Telefónica, S.A. at its Distrito Telefónica headquarters, amounting to 65 million euros at both 2021 and 2020 year-ends. It also includes the net carrying amount of the remaining assets in this site (mainly property, plant and equipment items) of 16 and 15 million euros at December 31, 2021 and 2020, respectively.

Note 7. Investment properties

The movements in the items composing investment properties in 2021 and 2020 and the related accumulated depreciation are as follows:

2021					
Millions of euros	Opening balance	Additions and allowances	Disposals	Transfers	Closing balance
INVESTMENT PROPERTIES, GROSS	432	–	–	4	436
Land	100	–	–	–	100
Buildings	332	–	–	4	336
ACCUMULATED DEPRECIATION	(114)	(8)	–	–	(122)
Buildings	(114)	(8)	–	–	(122)
NET CARRYING AMOUNT	318	(8)	–	4	314

2020					
Millions of euros	Opening balance	Additions and allowances	Disposals	Transfers	Closing balance
INVESTMENT PROPERTIES, GROSS	432	1	–	(1)	432
Land	100	–	–	–	100
Buildings	332	1	–	(1)	332
ACCUMULATED DEPRECIATION	(100)	(9)	–	(5)	(114)
Buildings	(100)	(9)	–	(5)	(114)
NET CARRYING AMOUNT	332	(8)	–	(6)	318

“Investment properties” mainly includes in both 2021 and 2020 the value of land and buildings leased by Telefónica, S.A. to other Group companies at Distrito Telefónica, headquarters in Madrid.

In 2021, the Company has buildings with a total area of 334,499 square meters (327,920 square meters in 2020) leased to several Telefónica Group companies, equivalent to an occupancy rate of 94.31% of the buildings it has earmarked for lease (93.94% in 2020).

Total income from leased buildings in 2021 and 2020 (see Note 19.1.a) amounted to 42 and 43 million euros respectively.

Future minimum rentals receivable under non-cancellable leases are as follows:

	2021	2020
Millions of euros	Future minimum recoveries	Future minimum recoveries
Up to one year	31	38
Between two and five years	–	1
Total	31	39

The most significant lease contracts held with subsidiaries occupying Distrito Telefónica have been renewed in 2021 for a non-cancellable period of 12 months.

The main operating leases in which Telefónica, S.A. acts as lessee are described in Note 19.5.

Note 8. Investments in group companies and associates

8.1. Detail and evolution of investment in group companies and associates:

2021									
Millions of euros	Opening balance	Additions	Disposals	Transfers	Exchange rate impacts	Dividends	Net investment hedges	Closing balance	Fair value
Equity instruments (Net) (1)	58,754	4,404	(2)	(1)	—	(8,620)	394	54,929	63,894
Equity instruments (Cost)	93,285	8,978	(13)	(38)	—	(8,620)	394	93,986	
Impairment losses	(34,531)	(4,574)	11	37	—	—	—	(39,057)	
Loans to Group companies and associates	590	1	(360)	(100)	—	—	—	131	136
Other financial assets	24	10	—	(27)	—	—	—	7	7
Total non-current investment in Group companies and associates	59,368	4,415	(362)	(128)	—	(8,620)	394	55,067	64,037
Loans to Group companies and associates	9,550	7,224	(13,477)	100	244	—	—	3,641	3,643
Derivatives	19	—	(10)	—	—	—	—	9	9
Other financial assets	39	32	(50)	27	—	—	—	48	48
Total current investments in Group companies and associates	9,608	7,256	(13,537)	127	244	—	—	3,698	3,700

(1) Fair value at December 31, 2021 of Group companies and associates quoted in an active market (Telefónica Brasil, S.A. and Telefónica Deutschland Holding, A.G.) was calculated taking the listing of the investments on the last day of the year; the rest of the shareholdings are stated at the value of discounted cash flows based on those entities business plans.

2020									
Millions of euros	Opening balance	Additions	Disposals	Transfers	Exchange losses	Dividends	Net investment hedges	Closing balance	Fair value
Equity instruments (Net) (1)	69,267	(8,164)	(2,017)	–	–	(47)	(285)	58,754	96,059
Equity instruments (Cost)	93,267	2,792	(2,291)	(151)	–	(47)	(285)	93,285	
Impairment losses	(24,000)	(10,956)	274	151	–	–	–	(34,531)	
Loans to Group companies and associates	831	–	(241)	–	–	–	–	590	587
Other financial assets	32	12	–	(20)	–	–	–	24	24
Total non-current investment in Group companies and associates	70,130	(8,152)	(2,258)	(20)	–	(47)	(285)	59,368	96,670
Loans to Group companies and associates	2,777	9,702	(2,934)	–	5	–	–	9,550	9,550
Derivatives	61	–	(42)	–	–	–	–	19	19
Other financial assets	15	10	(6)	20	–	–	–	39	39
Total current investments in Group companies and associates	2,853	9,712	(2,982)	20	5	–	–	9,608	9,608

(1) Fair value at December 31, 2020 of Group companies and associates quoted in an active market (Telefónica Brasil, S.A.) was calculated taking the listing of the investments on the last day of the year; the rest of the shareholdings are stated at the value of discounted cash flows based on those entities business plans.

The most significant transactions occurred in 2021 and 2020 as well as their accounting impacts are described below:

2021

On July 30, 2020, Telefónica reached an agreement with Liberty Latin America Ltd. for the sale of the entire share capital of Telefónica de Costa Rica TC, S.A. On August 9, 2021, after the satisfaction of the closing conditions and obtaining the relevant regulatory approvals, the entire share capital of Telefónica de Costa Rica TC, S.A. was transferred to Liberty Latin America Ltd. for an amount of 538 million dollars, approximately 457 million euros. The net carrying value of the investment was included under the caption "Net assets held for sale" and the net profit of the transaction, 163 million euros, is shown as "gains on disposals" in the 2021 income statement.

On September 27, 2021 the deed of merger between Telefónica Innovación Alpha, S.L. (absorbed company) and Telefónica Open Innovation, S.L. (merging company) was filed to the Madrid Companies' Register. The absorbed company was 100% directly owned by Telefónica, S.A. and after the transaction, its net book value amounting to 38 million euros was reclassified as an investment in Telefónica Digital España, S.L., the parent company of the merging entity, which is also a direct investment of Telefónica, S.A. This transaction has had no impact in the income statement, and it is shown as Transfers in 2021 chart of movements.

2020

In November 2019 the Board of Directors of Telefónica, S.A. designed a scheme for a reorganization of the Group's operations in Latin America. Subsequently, Telefónica Hispanoamérica, S.A.U. (previously Latin American Cellular Holdings, S.L.U.) has obtained direct and indirect ownership in the Group's operators in Chile, Colombia, Ecuador, México, Perú, Venezuela and Uruguay. Telefónica, S.A. is its sole shareholder.

On March 31, 2020 Telefónica, S.A. and Telefónica Latinoamérica Holding, S.L.U. agreed to a capital increase in Telefónica Hispanoamérica, S.A.U. ("T. Hispam"). The share capital increased by 473 million euros and was fully subscribed by Telefónica, S.A. and paid with an in-kind contribution of 3,000 shares of Telefónica Chile Holdings, S.L.U. Telefónica, S.A. registered the new investment amounting to 1,209 million euros equivalent to the equity value of Telefónica Chile Holdings, S.L.U. whose net carrying value was 473 million euros. The difference between both figures amounting to 736 million euros was registered as unrestricted reserves (Note 11) in Telefónica, S.A.. The Company gained a 68.58% ownership in the above mentioned subsidiary and shown in the additions column in 2020 chart of movements.

Moreover, on March 31, 2020 Telefónica, S.A. signed several sale agreements with T. Hispam to transfer the investments in Colombia Telecomunicaciones, S.A. E.S.P., Telefónica Venezolana, C.A., Comtel Comunicaciones Telefónicas, S.A., Fisatel México S.A. de C.V., and Telefónica Móviles Chile, S.A. The net carrying value of the investments was 503 million euros and a loss in the sale of investments was registered by 177 million euros.

These transactions are shown as disposals in 2020 chart of movements.

On October 20, 2020 Telefónica, S.A. fully purchased the 54,000 stocks of T. Hispam (31.42% of its share capital) from Telefónica Latinoamérica Holding, S.L.U. for 974 million euros, reaching the 100% of ownership in the subsidiary.

On February 20, 2019 the Board of Directors of Telefónica, S.A. authorized the sale of the Group operators in Central América. The direct ownership in Costa Rica amounted to 291 million euros and it was transferred to "Net assets held for sale". As of December 31, 2020, Telefónica de Costa Rica TC, S.A. redeemed reserves paying its shareholder an amount of 17,370 million colones (equivalent to 23 million euros). This amount decreased the amount in "Net assets held for sale".

Other movements

In May 2021 Telefónica, S.A. carried out capital increases in its subsidiaries O2 (Europe) Ltd. by 5,656 million euros and Telefónica O2 Holdings, Ltd. by 1,631 million euros in order to enable these companies to pay back the intercompany loans granted to them by Telfin Ireland, Ltd. On July 21, 2021 the Board of Directors of Telfin Ireland, Ltd. approved the distribution of reserves amounting to 8,269 million euros. Out of this figure, 8,189 million euros correspond to contribution payback and have been shown as "Dividends" in 2021 chart of movements. The rest of the amount has been registered as "Dividend revenue" (see Note 19).

On December 10, 2021 the General Shareholders' Meeting of Pontel, S.L. agreed to a distribution of reserves amounting to 751 million euros. On the same date the Board of Directors of the company approved a dividend distribution of 2,400 million euros. Telefónica, S.A. has received 2,627 million euros pro-rata its percentage of ownership. Out of this figure, 431 million euros correspond to contribution payback, shown as "Dividends" in 2021 chart of movements. The rest of the amount has been registered as "Dividend revenue" (see Note 19).

On May 7, 2020, Telefónica reached an agreement with Liberty Global plc to combine into a 50-50 joint venture their operating businesses in the United Kingdom (O2 Holdings Ltd. and Virgin Media UK, respectively). On June 1, 2021 after obtaining the relevant regulatory approvals, consummation of the necessary recapitalisations and satisfaction of other closing conditions, the closing of the transaction was carried out, resulting in the combination of both businesses into the joint venture called VMED O2 UK Ltd. Telefónica, S.A. has an indirect ownership through its subsidiary Telefónica O2 Holdings, Ltd. (see Note 20 d).

On October 15, 2020 Telefónica Centroamérica Inversiones, S.L. distributed reserves to its shareholders. The Company recognized 47 million euros as a decrease in the cost of the investment for this concept and it is shown as "Dividends" in the 2020 chart of movements.

On July 10, 2020 the deed of the partial division of Telefónica Ingeniería de Seguridad, S.A.U. contributed to the newly-created company Telefónica Cybersecurity & Cloud Tech, S.L. (previously Telefónica Cybersecurity Tech, S.L.) was filed in the Madrid Companies' Register. The net carrying value of the split-off investment was 5 million euros. The transaction is shown as "Transfers" in the 2020 chart above.

On August 7, 2020 the deed of the partial division of Telefónica Digital España, S.A.U. contributed to Telefónica Cybersecurity & Cloud Tech, S.L. was filed in the Madrid Companies' Register. The net carrying value of the split-off investment was 24 million euros. The transaction is shown as "Transfers" in the 2020 chart above.

On August 18, 2020, the deed of the merger between Taetel, S.L. and Telefónica Gestión Integral de Edificios y Servicios, S.L.U. (a subsidiary of Telefónica Servicios Globales, S.L.U.) was filed in the Madrid Companies' Register. The net book value of the merging entity amounted to 67 million euros and it is included as "Transfers" in the 2020 chart of movements.

"Transfers" of "Loans to Group Companies and Associates" in 2021 includes the reclassification from long-term to current of the loans granted to Telxius Telecom, S.A.U. which are due in 2022.

a) Acquisitions of investments and capital increases (Additions):

Millions of euros		
Companies	2021	2020
Telefónica Hispanoamérica, S.A.U.	370	2,183
Telefónica O2 Holdings, Ltd	1,631	—
Telefónica Digital España, S.L.U.	185	157
O2 (Europe), Ltd.	5,656	—
Telefónica Móviles México, S.A. de C.V.	—	122
Telefónica Cybersecurity Tech&Cloud, S.L	750	—
Pontel Participaciones, S.L.	—	323
Telefónica Infra, S.L.	197	—
Telefónica de Argentina, S.A	75	—
Telefónica Tech, S.L.	52	—
Telefónica Deutschland Holdings, A.G.	51	—
Others	11	7
Total group and associated companies	8,978	2,792

2021

On January 28, 2021 the deed of the capital increase of T. Hispam amounting to 370 million euros was filed in the Companies' Register. It has been fully subscribed and paid by Telefónica, S.A.

On May 26, 2021 Telefónica O2 Holdings, Ltd. has carried out a capital increase of 1,631 million euros fully subscribed and disbursed by the Company, within the framework detailed at the beginning of this note.

On January 13, 2021 the deed of the capital increase of Telefónica Digital España, S.L.U. amounting to 185 million euros was filed in the Companies' Register. It has been fully subscribed and paid by the Company.

On May 26, 2021 O2, Ltd. has carried out a capital increase of 5,656 million euros fully subscribed and disbursed by the Company within the framework detailed at the beginning of this note.

On March 25, 2021 Telefónica Cybersecurity Tech & Cloud, S.L. has carried out a capital increase of 530 million euros. On September 28, 2021, the subsidiary carried out a second capital increase of 220 million euros. Both transactions were fully subscribed and paid by Telefónica, S.A.

On June 14, 2021 the deed of capital increase of Telefónica Infra, S.L. by 197 million euros was filed in the Companies' Register. It had been fully subscribed and disbursed by the Company.

In 2021 Telefónica has decided to partly cancel the accounts receivable that the subsidiaries had with the Group companies in Argentina. Telefónica, S.A. has purchased these accounts receivable and the funds collected have been used to carry out capital increases in Telefónica de Argentina, S.A. After the transactions the percentage of ownership in the subsidiary has raised to 11.43%.

On December 23, 2021 Telefónica Tech, S.L. carried out a capital increase amounting to 52 million euros totally subscribed and paid by Telefónica, S.A.

During the second half of 2021 the Company has acquired in the stock market 21,3 million shares of Telefónica Deutschland Holding, A.G. obtaining a 0,71% direct ownership in the subsidiary as shown in Appendix I of these financial statements.

2020

The additions carried out with T. Hispam have been detailed at the beginning of this note.

On January 9, 2020, Telefónica Digital España, S.L.U. carried out a capital increase of 157 million euros fully subscribed and paid by Telefónica, S.A.

On February 7, 2020, Telefónica Móviles México, S.A. de C.V. carried out a capital increase of 2,500 million Mexican pesos (equivalent to 122 million euros) fully subscribed and paid by the Company.

On October 20, 2020 the deed of the capital increase of Pontel Participaciones, S.L. was filed to the Madrid Companies' Register. This capital increase was subscribed by the shareholders on June 8, 2020 but the payment was subject to the achievement of certain conditions. Once the conditions were fulfilled, the Company disbursed pro-rata its ownership an amount of 323 million euros.

b) Disposals of investments and capital decreases:

Millions of euros		
Companies	2021	2020
Jubii Europe, N.V.	13	—
Telefónica Global Technology, S.A.U.	—	231
Fisatel México, S.A. de C.V.	—	196
Telefónica Móviles México, S.A. de C.V.	—	891
Colombia Telecomunicaciones, S.A. ESP	—	272
Telefónica Venezolana, C.A.	—	123
Telefónica Chile Holdings, S.L.U.	—	473
Telefónica Móviles Chile, S.A.	—	89
Other companies	—	16
Total group and associated companies:	13	2,291

2021

In June 2021 the deed of liquidation of Jubii Europe, N.V. has filed with a disbursement to its shareholders' by 0,022 euros per class AA and AB share. Telefónica, S.A. has received 2,2 million euros and the liquidation has had no effect in the income statement.

2020

Transactions related with Fisatel México, S.A. de C.V., Colombia Telecomunicaciones, S.A., ESP, Telefónica Venezolana, C.A., Telefónica Chile Holdings, S.L.U. and Telefónica Móviles Chile, S.A. have been detailed at the beginning of this note.

On May 28, 2020 Telefónica Móviles México, S.A. de C.V., using the proceeds collected from the restructuring of its investments, reduced its share capital paying out its shareholder 891 million euros shown as a decrease in the investment on this company.

On December 23, 2020 the Company sold Telefónica Global Technology, S.A.U. to Telefónica de Contenidos, S.A.U. by an amount equivalent to the net book value at the transaction date of 150 million euros.

8.2. Assessment of impairment of investments in group companies, joint ventures and associates

At each year end, the Company re-estimates the future cash flows derived from its investments in Group companies and associates. The estimate is based on the expected cash flows to be received from each subsidiary in its functional currency, discounted using the appropriate rate, net of the liabilities associated with each investment (mainly net debt), considering the percentage of ownership in each subsidiary and translated to euros at the official closing rate of each currency at December 31. The main assessments used to determine the discounted cash flows are the long term OIBDA margin, the long term investment ratio, the weighted average cost of capital (WACC) and the perpetual growth rate, indicators employed by the Group in its investments valuation.

Moreover, and only for the companies where discounted cash flow analysis is not available due to the specific nature of their businesses, the impairment is calculated by comparing their equity figure as of the end of the period and the net book value of those investments. With respect to the investment in Telefónica Móviles México, S.A. de C.V., after the sale of its investments to T. Hispam in 2020, this method of valuation has been considered the most appropriate both in 2020 and 2021.

As a result of these estimations and the effect of the net investment hedge in 2021, a write down of impairment provision of 4,574 million euros was recognized (write-off of 10,956 million euros in 2020). This amount derives mainly from the following companies:

- a. a write down, net of hedges, of 2,790 million euros for Telefónica O2 Holdings, Ltd. (write down of 3,581 million euros, net of hedges, was registered in 2020);
- b. a write down, net of hedges, of 588 million euros for Telefônica Brasil, S.A. (write down amounting to 2,593 million euros in 2020) and a write down of 64 million euros for Sao Paulo Telecomunicações, Ltda (write down amounting to 551 million euros in 2020);
- c. a write down by 1,008 million euros for Telefónica Hispanoamérica, S.A. mainly caused by the decrease in the estimated cash flows proceeds from Peru.
- d. a write down of 227 million euros for Telefónica Latinoamérica Holding, S.L.U. (write down by 3,321 million euros in 2020). The write down is mainly originated by the decrease in the estimated cash flows from the Brazilian subsidiaries.
- e. a write down reversal of 155 million euros for Telefónica Móviles de Argentina, S.A. (a write down by 509 million euros in 2020).

- f. a write down of 22 million euros for Telefónica Digital España, S.L.U. (a write down of 100 million euros in 2020).
- g. In 2020 it was registered a write down by 334 million euros for Telefónica Móviles México, S.A. de C.V. mainly due to the impact of the exchange rate devaluation of the Mexican peso in the transfer transactions carried out in its restructuring process. There is no additional write-off in 2021.

Main assumptions used for the calculation of the discounted cash flows of investments

In 2021 United Kingdom succeeded at reaching the same economic activity level it had prior to Covid, exceeding the main European countries, thanks to a quick and efficient vaccination strategy and mobility restriction measures which were softened through the year. Notwithstanding, the short and medium term scenario is still surrounded by uncertainties regarding the lack of vision in the Brexit agreement negotiation and the worsening of the financial conditions caused by the high inflation rate and a tense workforce market. As far as the revenues are concerned, the UK business plan envisages an improvement trend in the projections aligned with the evolution of the group's analysts expectation. Moreover, the long-term OIBDA margin two-year estimates for VMED O2 UK are in a range within 34% to 36%. With respect to the long-term investment over revenues ratio, the investment needs are forecasted to be around 19%. The WACC (Weighted average cost of capital) is 6.8%.

The year 2021 casted lights and shadows over Brazil. On the one hand, the dynamic situation in the first half. Brazil was one of the first countries to regain the same activity level prior to Covid pandemic. However, there has been an economic stagnation in the second half of the year caused by the rise in the inflation rate, the interest rates increase, a stricter tax expense policy and the uncertainty regarding future economic measures. As for the long-term OIBDA margin two-year estimates of Telefónica's Group analysts for the operator in Brazil, it is in a range within 41% to 46%. Regarding investments, the operator will invest a percentage within the range of the investment needs forecasted by analysts (around 19%). The interest rates increase has resulted in an increase in the cost of debt of the company, and the WACC has risen from 11,1% in 2020 to 12% in 2021. The perpetuity growth rate is within the range of the estimations of the analysts, and it is consistent with the Brazilian Central Bank's medium-term inflation target (within a range between 1.5% and 4.5%) and it is below the forecasted nominal GDP growth rate (which oscillates around 6%).

The economic activity in Argentina has boosted during the year thanks to a successful vaccination program designed to contain Covid pandemic and home policies enhancing economic growth. Within this scenario, the conversations with the International Monetary Fund to reschedule the debt repayments have resulted in an agreement that might be considered the milestone to a

more sustainable future growth. As unsolved issue, the reduction of inflation rate which in 2021 was higher than 50% and partially hindered the sustained improvement obtained since 2019. The WACC in local currency is considering that inflation rate impacts the cash flows over the plan horizon with a discount rate of 23% as of perpetuity. The perpetuity growth rate of 10% is consistent with the inflation rate estimated for the same period. With respect to operating ratios, a long term OIBDA of 26% is being used which is below analysts' estimations for peers and the investment over revenues ratio is around 10%.

With respect to the Peruvian macroeconomic scenario, the political uncertainty after a complicated electoral process resulting in an insufficient majority in the parliament needed to assess the governance, damaged the investment expectations in the short and medium term. The WACC used is around 10% and the perpetuity rate remains stable in 2,4%. The accelerated monetary normalization designed to offset the increase in the inflation rate and political instability have negatively impacted the cost of capital. In this scenario, with respect to the operations, the business plan envisages an intense competition and a gradual starting up of measures in order to continue the efficiency improvement.

8.3. Detail of subsidiaries and associates

The detail of subsidiaries and associates is shown in Appendix I.

8.4. Transactions protected for tax purposes

Transactions carried out in 2021 that qualify for special tax regime, as defined in Articles 76 and 87, as applicable, of Chapter VII of Title VII of Legislative Royal Decree 27/2014 of November 27 approving the Spanish Corporate Income Tax Law, are detailed in the following paragraphs. Transactions qualified for special tax regime carried out in prior years are disclosed in the financial statements for those years.

As of June 25, 2021 the Boards of Directors of Telefónica Open Innovation, S.L. (previously Wayra Investigación y Desarrollo, S.L.) and Telefónica Innovación Alpha, S.L.U., agreed to the merger by absorption with the consequent dissolution of the latter entity and the full transfer of its corporate assets to Telefónica Open Innovation, S.L. which, as the absorbing company, acquired by universal succession the rights and obligations of the absorbed entity. The deed of merger was filed in the Madrid Companies' Register on September 27, 2021.

On June 30, 2021 the Boards of Directors of Govertis Advisory Services, S.L.U and Ace & Niu Consulting, S.L.U., agreed to the merger by absorption with the consequent dissolution of the latter entity and the full transfer of its corporate assets to the merging company which acquired by universal succession the rights and obligations of the absorbed entity. The deed of merger was filed in the Madrid Companies' Register on October 28, 2021.

On June 30, 2021 the Boards of Directors of Telefónica Cybersecurity IOT & Cloud Tech, S.L.U. and Cyberrange, S.L., agreed to the merger by absorption with the consequent dissolution of the latter entity and the full transfer of its corporate assets to the merging company which acquired by universal succession the rights and obligations of the absorbed entity. The deed of merger was filed in the Madrid Companies' Register on October 15, 2021.

8.5. Maturity of loans to Group companies and associates

The breakdown and maturity of loans to Group companies and associates in 2021 and 2020 are as follows:

2021							
Millions of euros							
Company	2022	2023	2024	2025	2026	2027 and subsequent years	Final balance, current and non-current
Telefónica Móviles España, S.A.U.	785	—	—	—	—	—	785
Telefónica O2 Holdings, Ltd.	1,190	—	—	—	—	—	1,190
Telfisa Global, B.V.	364	—	—	—	—	—	364
Telefónica de España, S.A.U.	402	—	—	—	—	—	402
Telxius Telecom, S.A.	100	—	50	—	50	—	200
Telefónica Brasil, S.A.	181	—	—	—	—	—	181
Telefónica Finanzas, S.A.U.	101	—	—	—	—	—	101
Telefónica Hispanoamérica, S.A.	397	—	—	—	—	—	397
Other companies	121	—	—	—	—	31	152
Total	3,641	—	50	—	50	31	3,772

2020							
Millions of euros							
Company	2021	2022	2023	2024	2025	2026 and subsequent years	Final balance, current and non-current
Telefónica Móviles España, S.A.U.	2,192	—	—	—	—	—	2,192
Telefónica O2 Holding, Ltd.	3,837	—	—	—	—	—	3,837
Telfisa Global, B.V.	1,364	—	—	—	—	—	1,364
Telefónica de España, S.A.U.	1,311	—	—	—	—	—	1,311
Telxius Telecom, S.A.U.	—	280	—	140	—	140	560
Telefónica Brasil, S.A.	221	—	—	—	—	—	221
Telefónica Finanzas, S.A.U.	199	—	—	—	—	—	199
Other companies	426	—	—	—	—	30	456
Total	9,550	280	—	140	—	170	10,140

The main loans granted to Group and associated companies are described below:

- The outstanding balance with Telefónica Móviles España, S.A.U. in 2021 includes dividends distributed and uncollected as of December 2021 amounting to 560 million euros (1,949 million euros in 2020).

Moreover, 225 million euros of tax balances are receivable from this subsidiary for its tax expense declared in the consolidated tax return (243 million euros in 2020).

- The receivable with Telefónica O2 Holdings, Ltd. includes dividends distributed and uncollected as of December 2021 amounting to 1,000 million pounds sterling (equivalent to 1,190 million euros).
- In December 2021, Telfisa Global, B.V. has approved the distribution of dividends totaling 357 million euros that remain unpaid as of the formulation date of these financial statements (1,364 million euros in 2020).

Moreover, 7 million euros of tax balances are receivable from this subsidiary for its tax expense declared in the consolidated tax return. There was no such concept for this subsidiary in 2020 chart of movements.

- The balance of Telefónica de España, S.A.U. includes an amount of 301 million euros in dividends distributed in December 2020 that are outstanding as of December 31, 2021.

Additionally, there is also a balance of 101 million euros comprising tax receivables from the subsidiary for its tax expense declared in the consolidated tax return (104 million euros in 2020).

- On May 27, 2016, the Company granted its subsidiary, Telxius Telecom, S.A. with a credit of 280 million euros at a fix interest rate and maturity in 2022, a credit of 140 million euros at a fix interest rate and maturity in 2024, a credit of 140 million euros at a fix rate and maturity in 2026. In 2021 there has been an early partial cancellation of these credits. At year end, the outstanding amount is 100 million euros with maturity date in 2022 and 50 million euros for each of the credits with maturity in 2024 and 2026.
- The balance totaling 181 million euros shown in 2021 with Telefônica Brasil, S.A. entirely corresponds to dividends agreed by the subsidiary and unpaid at year end (221 million euros in December 2020).
- The balance of Telefónica Finanzas, S.A.U. in December 2021 amounting to 67 million euros includes dividends distributed and uncollected at year end (178 million euros in 2020).
- The balance of Telefónica Hispanoamérica, S.A. in 2021 fully relates to the tax receivables from the subsidiary for its tax expense declared in the consolidated tax return.
- Once the sale of the business in México to Telefónica Hispanoamérica, S.A.U. was completed, the credit still unpaid amounted to 4,700 million Mexican pesos equivalent to 221 million euros, was fully cancelled on March 31, 2020.

Additionally, there is also a balance of 34 million euros comprising tax receivables from the subsidiary for its tax expense declared in the consolidated tax return (21 million euros in 2020).

In the 2021 chart of movements, additions of current loans to group companies and associates comprise 873 million euros (549 million euros in 2020) of loans in connection with the taxation of Telefónica, S.A. as the head of the tax group pursuant to the consolidated tax regime applicable to corporate groups (see Note 17). The most significant amounts have already been disclosed through this note. All these amounts fall due in the short term.

Disposals of current loans to group companies and associates includes the cancellation of balances receivable from subsidiaries on account of their membership of Telefónica, S.A.'s tax group totaling 549 million euros (247 million euros in 2020).

Total accrued interest receivable at December 31, 2021 and 2020 included under "Current loans to group companies and associates" amount to 0.5 and 1 million euros, respectively.

8.6. Other financial assets with Group companies and associates

This includes rights to collect amounts from other Group companies related to share-based payment plans involving Telefónica, S.A. shares offered by subsidiaries to their employees.

Invoices of share plans that were already vested and are outstanding at year end are shown as other current financial assets. Amounts derived from the new share plans launched in 2020 and 2021 with a maturity date longer than 2022 are included as other non-current financial assets (see Note 19.3).

Note 9. Financial investments

9.1. The breakdown of “Financial investments” at December 31, 2021 and 2020 is as follows:

2021	Assets at fair value							Assets at amortized cost					
	Financial Assets at fair value with changes through equity	Financial assets at fair value with changes through income statement	Hedges with changes through equity	Subtotal assets at fair value	Measurement hierarchy			Financial assets at amortized cost	Other financial assets at amortized cost	Subtotal financial assets at amortized cost	Fair value	Total carrying amount	Total fair value
					Level 1: quoted prices	Level 2: Estimates based on other directly observable market inputs	Level 3: Estimates not based on observable market data						
Millions of euros													
Non-current financial investments	348	779	1,896	3,023	320	2,675	—	39	867	906	906	3,929	3,929
Equity instruments	348	—	—	348	320	—	—	—	—	—	—	348	348
Derivatives (Note 16)	—	779	1,896	2,675	—	2,675	—	—	—	—	—	2,675	2,675
Loans to third parties and other financial assets	—	—	—	—	—	—	—	39	867	906	906	906	906
Current financial investments	—	88	663	751	—	751	—	53	746	799	800	1,550	1,551
Loans to third parties and other financial assets	—	—	—	—	—	—	—	53	746	799	800	799	800
Derivatives (Note 16)	—	88	663	751	—	751	—	—	—	—	—	751	751
Total financial investments	348	867	2,559	3,774	320	3,426	—	92	1,613	1,705	1,706	5,479	5,480

2020

Millions of euros	Assets at fair value					Assets at amortized cost					Fair value	Total carrying amount	Total fair value
	Financial Assets at fair value with changes through equity	Financial assets at fair value with changes through income statement	Hedges with changes through equity	Subtotal assets at fair value	Measurement hierarchy			Financial assets at amortized cost	Other financial assets at amortized cost	Subtotal assets at amortized cost			
					Level 1: quoted prices	Level 2: Estimates based on other directly observable market inputs	Level 3: Estimates not based on observable market data						
Non-current financial investments	320	1,054	2,420	3,794	320	3,474	–	–	1,106	1,106	1,112	4,900	4,906
Equity instruments	320	–	–	320	320	–	–	–	–	–	–	320	320
Derivatives (Note 16)	–	1,054	2,420	3,474	–	3,474	–	–	–	–	–	3,474	3,474
Loans to third parties and other financial assets	–	–	–	–	–	–	–	–	1,106	1,106	1,112	1,106	1,112
Current financial investments	–	459	690	1,149	–	1,149	–	1,014	4	1,018	1,018	2,167	2,167
Loans to third parties and other financial assets	–	–	–	–	–	–	–	1,014	4	1,018	1,018	1,018	1,018
Derivatives (Note 16)	–	459	690	1,149	–	1,149	–	–	–	–	–	1,149	1,149
Total financial investments	320	1,513	3,110	4,943	320	4,623	–	1,014	1,110	2,124	2,130	7,067	7,073

The categories of financial assets in 2020 chart of movements have been renamed pursuant to RD 1/21 and Transitional Provision 2, paragraph 6 e) as detailed in Note 2.

Derivatives are measured using the valuation techniques and models normally used in the market, based on money-market curves and volatility prices available in the market.

Additionally, on this valuation, the credit valuation adjustment or CVA net for counterparty (CVA + DVA), which is the methodology used to measure the credit risk of the counterparties and of Telefónica itself is calculated to adjust the fair value determination of the derivatives. This adjustment reflects the possibility of insolvency or deterioration of the credit quality of the counterparty and Telefónica.

9.2 Financial assets at fair value with changes through income statement and hedges with changes through equity

These two categories include the fair value of outstanding derivative financial instruments at December 31, 2021 and 2020 (see Note 16).

9.3 Financial assets at fair value with changes through equity

This category mainly includes the fair value of investments in listed companies (equity instruments) over which the Company does not have significant control or influence. The movement of items composing this category at December 31, 2021 and 2020 are as follows:

December 31, 2021

Millions of euros	Opening balance	Additions	Disposals	Fair value adjustments	Closing balance
Banco Bilbao Vizcaya Argentaria, S.A.	178	—	—	54	232
China Unicom (Hong Kong), Ltd.	85	—	—	(5)	80
Promotora de Informaciones, S.A. (PRISA)	57	—	(50)	29	36
Total	320	—	(50)	78	348

December 31, 2020

Millions of euros	Opening balance	Additions	Disposals	Fair value adjustments	Closing balance
Banco Bilbao Vizcaya Argentaria, S.A.	220	—	—	(42)	178
China Unicom (Hong Kong), Ltd.	—	92	—	(7)	85
Promotora de Informaciones, S.A. (PRISA)	94	—	—	(37)	57
Total	314	92	—	(86)	320

In accordance with the change introduced in 2017 by the article 21 of Income Tax Law 27/2014 with respect to the non-deductible nature of the net losses generated by the sale of some investments with certain characteristics, the Company is not accruing the tax impacts of the fair value adjustments in its available-for-sale investments.

Banco Bilbao Vizcaya Argentaria, S.A. (BBVA)

At December 31, 2021 and 2020 Telefónica, S.A.'s investment in BBVA represents 0.66% of that company's share capital.

Promotora de Informaciones, S.A. (Prisa)

At December 31, 2021 and 2020 Telefónica, S.A.'s investment in Prisa represents 9.03% of its share capital.

In 2021 the Company has registered a write-off on this investment amounting to 50 million euros under the caption "Loss on financial assets at fair value with changes through equity" caused by the significant drop in the quotation of Prisa's shares.

China Unicom (Hong Kong), Ltd.

On March 27, 2020 Telefónica Hispanoamérica, S.A.U. transferred its investment (182 million shares) in China Unicom (Hong Kong), Ltd. to Telefónica, S.A. The shares represented 0.593% of that company's share capital and are quoted in Hong Kong stock exchange. This transaction is shown as Additions in the 2020 chart of movements.

The impacts shown in the column "Fair value adjustments" on both years include the fair value adjustments in the quotation of the three investments. These impacts are registered in the equity of the Company (Note 11.2.).

The difference between the amount shown as "Fair Value adjustments" in this note and the "Valuation at market value" of Financial assets at fair value with changes through equity in 2021 and 2020 chart of movements in Note 11 is due to hedges which partially offset the exchange rate impact in the valuation of China Unicom.

9.4 Financial assets at amortized cost

The breakdown of investments included in this category at December 31, 2021 and 2020 is as follows:

Millions of euros	2021	2020
Financial assets at amortized cost, non-current:		
Deposits related to investment properties	7	9
Collateral guarantees	565	1,076
Marketable debt securities	295	—
Other receivables	39	21
Financial assets at amortized cost, current:		
Loans to third parties	53	981
Marketable debt securities	591	—
Collateral guarantees	150	—
Other current financial assets	5	37
Total	1,705	2,124

Collaterals are classified in both years under the caption "Financial assets at amortized cost" and classified in accordance with the maturity of the underlying derivative instruments which they relate to.

Marketable debt securities under current and non-current captions refer to the notes with a total nominal value of 1,000 US million dollars issued by the international issue platform Single Platform Investment Repackaging Entity, S.A. ("Spire"). These notes are deposited in a securities account owned by Telefónica, S.A.

In relation with collateral contracts, there is an additional guarantee of 166,678 bonds issued by Telefónica Emisiones, S.A.U. deposited in a securities account owned by Telefónica, S.A. with a notional as of December 31, 2021 of 173 million euros (there were 206,919 bonds with a notional of 194 million euros as of December 31, 2020).

Pursuant to a bank deposit made by Telefónica, S.A. amounting to 1,000 million euros and a loan granted by a different financial entity by the same amount, there are 940,500 bonds issued by the Italian government, received and granted to the aforementioned financial entities related to the deposit and loan described, with a notional amount of 941 million euros as of December 31, 2021.

9.4.1 Loans to third parties

In 2021 the concept of loans to third parties includes the uncollected amounts from financial entities as a result of the maturity of derivative instruments.

In 2020 Telefónica, S.A. set up bank deposit contracts with a maturity period between 3 and 12 months totaling 980 million euros. In 2021 no such investments were outstanding at year end.

Uncollected interest revenues, amounting to 0.3 million euros in 2020, were registered as other current financial assets. In 2021 there are no outstanding amounts corresponding to this concept.

Note 10. Trade and other receivables

The breakdown of "Trade and other receivables" at December 31, 2021 and 2020 is as follows:

Millions of euros	2021	2020
Trade receivables	3	1
Trade receivables from Group companies and associates	191	179
Employee benefits receivable	1	1
Tax receivables (Note 17)	138	101
Total	333	282

"Trade receivables from Group companies and associates" mainly includes amounts receivable from subsidiaries for the impact of the rights to use the Telefónica brand and the monthly office rental fees (see Note 7).

"Trade receivables" and "Trade receivables from Group companies and associates" in 2021 and 2020 include balances in foreign currency equivalent to 98 and 68 million euros, respectively.

In 2021 and 2020 these amounts relate to receivables in US dollars and Venezuelan bolivars.

These balances give rise to exchange rate profits in the income statement of 6 million euros in 2021 (8 million euros of exchange rate losses in 2020).

Note 11. Equity

11.1 Capital and reserves

a) Share capital

2021

As of December 31, 2021, the share capital of Telefónica, S.A. was set at 5,779,048,020 euros and was divided into 5,779,048,020 common shares, of a single series and with a par value of 1 euro each, fully paid in. All the shares of the Company have the same characteristics and carry the same rights and obligations.

On April 23, 2021 the Board of Directors of Telefónica, S.A. agreed to carry out the capital decrease with treasury share amortization previously approved by the General Shareholders' Meeting held on April 23, 2021.

The share capital was reduced by 82,896,466 euros after the amortization of 82,896,466 treasury shares, with a par value of 1 euro each. The share capital of the Company was set at 5,443,534,596 euros, corresponding to 5,443,534,596 shares with a par value of 1 euro each. As a consequence of this transaction, the share premium reserve was reduced by 305 million euros.

The share capital decrease did not result in a cash distribution to the shareholders, as the amortized shares were treasury shares owned by the Company. Additionally, an unrestricted reserve totaling the par value of the amortized treasury shares (82,896,466 euros) was registered. This reserve for cancelled share capital can only be used if the same requirements as those applicable to the reduction of share capital are met, in accordance with the Section 335.c) of the Corporate Enterprises Act. Therefore, the creditors of the Company can not claim the opposition right disclosed in article 334 of the Corporate Enterprise Act.

On May 5, 2021 the deed of the capital decrease was registered in the Madrid Companies' Register.

On June 22, 2021, the deed was registered for a paid-up capital increase in the amount of 194,518,911 euros, in which 194,518,911 ordinary shares with a par value of 1 euro each were issued against reserves as part of the scrip dividend. Following the share capital increase, the share capital was set at 5,638,053,507 euros.

On November 3, 2021 Telefónica announced its plans to propose to the Company's General Shareholders' Meeting the adoption of the appropriate corporate resolutions for the redemption of a total of 1.65% of the treasury shares representing the share capital (October 25, 2021 according to the communiqué to the CNMV).

On December 23, 2021 the deed was registered for a paid-up capital increase in the amount of 140,994,513 euros, in which 140,994,513 ordinary shares with a par value of 1 euro each were issued against reserves as part of the scrip dividend. Following the share capital increase, the share capital was set at 5,779,048,020 euros.

The shares of Telefónica, S.A. are represented by book entries that are listed on the Spanish Electronic Market (within the selective Ibex 35 index) and on the four Spanish Stock Exchanges (Madrid, Barcelona, Valencia and Bilbao), as well as on the New York and Lima Stock Exchanges (on these latter two Stock Exchanges through American Depositary Shares (ADSs), with each ADS representing one share of the Company).

2020

As of December 31, 2020, the share capital of Telefónica, S.A. was set at 5,526,431,062 euros and was divided into 5,526,431,062 common shares, of a single series and with a par value of 1 euro each, fully paid in. All the shares of the Company have the same characteristics and carry the same rights and obligations.

On July 8, 2020, the deed was registered for a paid-up capital increase in the amount of 136,305,986 euros, in which 136,305,986 ordinary shares with a par value of 1 euro each were issued against reserves as part of the scrip dividend. Following the share capital increase, the share capital was set at 5,328,437,672 euros.

On December 30, 2020, a deed was granted for the share capital increase in the amount of 197,993,390 euros, in which 197,993,390 ordinary shares with a par value of 1 euro each were issued against reserves as part of the scrip dividend shareholder remuneration. Following the share capital increase, the share capital was set at 5,526,431,062 euros. On January 5, 2021 this deed was registered in the Madrid Companies' Register.

Authorizations by Shareholders' Meeting

As regards the authorizations conferred in respect of the share capital, the shareholders acting at the Ordinary General Shareholders' Meeting held on June 12, 2020 resolved to delegate to the Board of Directors, as broadly as required by Law, pursuant to the provisions of Section 297.1.b) of the Companies Act, the power to increase the share capital on one or more occasions and at any time, within a period of five years from the date of adoption of such resolution, by the maximum nominal amount of 2,596,065,843 euros, equal to one-half of the share capital of the Company on the date of adoption of the

resolution at the General Shareholders' Meeting, issuing and floating the respective new shares for such purpose with or without a premium, the consideration for which will consist of monetary contributions, with express provision for incomplete subscription of the shares to be issued. The Board of Directors was also authorized to exclude pre-emptive rights in whole or in part, as provided in section 506 of the Corporate Enterprises Act. However, the power to exclude pre-emptive rights is limited to 20% of the share capital on the date on which the resolution is adopted. In accordance with the above-mentioned authorization, as of the end of fiscal year 2021, the Board would be authorized to increase the share capital by the maximum nominal amount of 2,596,065,843 euros.

Furthermore, the Ordinary General Shareholders' Meeting of Telefónica, S.A. held on June 12, 2020 delegated to the Board of Directors, in accordance with the general rules governing the issuance of debentures and pursuant to the provisions of applicable law and the Company's By-Laws, the power to issue securities, including preferred shares and warrants, with the power to exclude the pre-emptive rights of shareholders. The aforementioned securities may be issued on one or more occasions, within a maximum period of five years as from the date of adoption of the resolution. The securities issued may be debentures, bonds, notes and other fixed-income securities, or debt instruments of a similar nature, or hybrid instruments in any of the forms admitted by Law (including, among others, preferred interests) both simple and, in the case of debentures, bonds and hybrid instruments, convertible into shares of the Company and/or exchangeable for shares of the Company, of any of the companies of its Group or of any other company and/or giving the holders thereof an interest in the corporate earnings. Such delegation also includes warrants or other

similar instruments that may entitle the holders thereof, directly or indirectly, to subscribe for or acquire newly-issued or outstanding shares, payable by physical delivery or through differences. The aggregate amount of the issuance or issuances of instruments that may be approved in reliance on this delegation may not exceed, at any time, 25,000 million euros or the equivalent thereof in another currency. In the case of notes and for purposes of the above-mentioned limits, the outstanding balance of those issued in reliance on the delegation shall be computed. In the case of warrants, and also for the purpose of such limit, the sum of the premiums and exercise prices of each issuance shall be taken into account. Moreover, under the aforementioned delegation resolution, the shareholders at the Ordinary General Shareholders' Meeting of Telefónica, S.A. resolved to authorize the Board of Directors to guarantee, in the name of the Company, the issuance of the aforementioned instruments issued by the companies belonging to its Group of companies, within a maximum period of five years as from the date of adoption of the resolution.

Furthermore, on June 8, 2018, shareholders voted to authorize the acquisition by the Board of Directors of Telefónica, S.A. treasury shares, up to the limits and pursuant to the terms and conditions established at the Shareholders' Meeting, within a maximum five-year period from that date. However, it specified that in no circumstances could the par value of the shares acquired, added to that of the treasury shares already held by Telefónica, S.A. and by any of its controlled subsidiaries, exceed the maximum legal percentage at any time.

At December 31, 2021 and 2020, Telefónica, S.A. held the following treasury shares:

	Number of shares	Euros per share		Market value (*)	%
		Acquisition price	Trading price		
Treasury shares at Dec 31 2021	139,329,370	3.92	3.85	537	2.41094 %
Treasury shares at Dec 31 2020	98,231,380	4.84	3.25	319	1.77748 %

(*) Millions of euros

The movement in treasury shares of Telefónica, S.A. during the years 2021 and 2020 is as follows:

	Number of shares
Treasury shares at 12/31/19	77,562,635
Acquisitions	68,640,303
Scrip dividend (see Note 11.d)	6,252,817
Disposals	(1,560,215)
Employee share option plan (See Note 19.3)	(3,118,898)
Other movements	(49,545,262)
Treasury shares at 12/31/20	98,231,380
Acquisitions	122,032,764
Scrip dividend (see Note 11.d)	6,291,518
Share capital decrease	(82,896,466)
Employee share option plan (See Note 19.3)	(4,329,826)
Treasury shares at 12/31/21	139,329,370

Acquisitions

In 2021 and 2020 acquisition of treasury shares amounting to 478 and 234 million euros respectively, have been registered (see Note 21).

Share redemption and disposals

On May 5, 2021 following the agreement of the General Shareholders' Meeting held on April 23, 2021, the share capital decrease was carried out with the amortization of 82,896,466 treasury shares with an impact of 388 million euros in this caption.

In 2020 there were share disposals of 7 million euros. In 2021 there has been no share redemption or disposals of treasury shares.

Employee share option plan

Treasury shares related to share plans redemptions in 2021 and 2020 amount to 20 and 30 million euros, respectively.

Other movements

On February 28, 2020, once the pertinent regulatory approvals were obtained, Telefónica de Contenidos, S.A.U. acquired 50% of the capital stock of Prosegur Alarmas España, S.L. with an in-kind delivery of 49,545,262 Telefónica shares previously acquired to the Company equivalent to 266 million euros as of the quotation on the delivery date. This transaction is shown as other movements in 2020 chart (see Note 20). The impact derived from the delivery of this treasury shares is shown under the Other transactions with shareholders and owners caption within the statement of changes in equity.

Other instruments

The Company also has different derivative instruments, to be settled by offset, on a nominal value equivalent to 192 million of Telefónica shares in 2021 registered in the balance sheet in accordance with their maturity date and fair value at year end 2021.

In 2020 the Company had a derivative instrument, to be settled by offset, on a nominal value equivalent to 176 million of Telefónica shares in 2020 registered under the caption "Short-term financial debt" in 2020 balance sheet.

b) Legal reserve

According to the text of the Corporate Enterprises Act, companies must transfer 10% of profit for the year to a legal reserve until this reserve reaches at least 20% of share capital. The legal reserve can be used to increase capital by the amount exceeding 10% of the increased share capital amount. Except for this purpose, until the legal reserve exceeds the limit of 20% of share capital, it can only be used to offset losses, if there are no other reserves available. At December 31, 2021 and 2020, this reserve amounted to 1,038 million euros representing 17.97% and 18.79% of the share capital at the date, respectively. In Note 3 of these financial statements the proposed appropriation of net results includes an increase by the 10% of this net profit, amounting to 21 million euros, to legal reserve.

c) Other reserves

"Other reserves" include:

- The "Revaluation reserve" which arose as a result of the revaluation made pursuant to Royal Decree-Law 7/1996 dated June 7. The revaluation reserve may be used, free of tax, to offset any losses incurred in the future and to increase capital. From January 1, 2007, it may be allocated to unrestricted reserves, provided that the capital gain has been realized. The capital gain will be deemed to have been realized in respect of the portion on which the depreciation has been recorded for accounting purposes or when the revalued assets have been transferred or derecognized. In this respect, at the end of 2021 and 2020, an amount of 4 and 5 million euros, respectively, corresponding to revaluation reserves subsequently considered unrestricted has been reclassified to "Other reserves". The balance of this reserve at December 31, 2021 and 2020 was 58 and 62 million euros, respectively.
- Reserve for cancelled share capital: In accordance with Section 335.c) of the Corporate Enterprises Act and to render null and void the right of opposition provided for in Section 334 of the same Act, whenever the Company decreases capital it records a reserve for cancelled share capital for an amount equal to the par value of the cancelled shares, which can only be used if the same requirements as those applicable to the reduction

of share capital are met. The cumulative amount of the reserve for cancelled share capital at December 31, 2021 and 2020 totals 814 and 731 million euros, respectively.

- Pursuant to the provisions of Royal Decree 1514/2007, since 2008, after the distribution of profits for each year, the Company set aside a restricted reserve of 2 million euros for goodwill amortization. Pursuant to the provisions of Royal Decree 602/2016 of December 2, 2016 regarding the mandatory amortization of all intangible assets, the goodwill amortization as of January 1, 2015, amounting to 10 million euros was registered with a counterparty in this reserve.
- In addition to the restricted reserves explained above, "Other reserves" includes unrestricted reserves from gains obtained by the Company in prior years. In 2020 the impact in equity of the capital increase of T. Hispam detailed in Note 8, amounting to 736 million euros was included under this caption, and shown as "Other movements" in the statement of changes in equity. The tax effect of this equity impact amounted to 9 million euros.

d) Dividends

Dividend distribution in 2021

Approval was given at the General Shareholders' Meeting of April 23, 2021 to pay a scrip dividend amounting to approximately 0.35 euros per share in two tranches, consisting of the assignment of free allotment rights with an irrevocable purchase commitment by the Company, and a subsequent capital increase by means of the issue of new shares to fulfill said allotments, following a specific calculation mechanism which might result in variations of the amount. The distribution of the first tranche, amounting approximately 0.20 euros per share, took place in June of 2021 and the second tranche amounting approximately 0.15 euros took place in December 2021, after the adoption of the corresponding corporate resolutions.

At its meeting held on May 26, 2021, the Executive Commission of Telefónica, S.A. Board of Directors agreed to carry out the execution of the increase in paid-up capital, related to the shareholders compensation by means of a scrip dividend. Thus, each shareholder received one free allotment right for each Telefónica share held. Such free allotment rights were traded on the Continuous Market in Spain during a period of 15 calendar days. Once this trading period ended, the shareholders of 28.53% of the free-of-charge allotment rights accepted the irrevocable purchase commitment assumed by Telefónica, S.A. Cash payment to these shareholders was made on June 17, 2021. The gross impact of this dividend amounts to 308 million euros.

On the other hand, the shareholders of 71.47% of the free-of-charge allotment rights were entitled, therefore, to

receive new shares of Telefónica, S.A. So the final number of shares issued after June 22, 2021 in the capital increase was 194,518,911 shares with a nominal value of 1 euro each.

The Executive Commission of Telefónica, S.A. Board of Directors meeting of November 3, 2021 agreed the implementation of the second capital increase with charge to reserves related to the shareholder compensation by means of a scrip dividend. Thus, each shareholder received 1 free allotment right for each Telefónica share held. The shareholders of 34.98% of the free-of-charge allotment rights accepted the irrevocable purchase commitment assumed by Telefónica, S.A. Cash payment was made on December 17, 2021 and had an impact in equity amounting to 292 million euros.

On the other hand, the shareholders of 65.02% of the free-of-charge allotment rights were entitled, therefore, to receive new shares of Telefónica, S.A. So the final number of shares issued on December 23, 2021 in the capital increase was 140,994,513 shares with a nominal value of 1 euro each.

Dividend distribution in 2020

Approval was given at the General Shareholders' Meeting of June 12, 2020 to pay a scrip dividend amounting to approximately 0.40 euros per share in two tranches, consisting of the assignment of free allotment rights with an irrevocable purchase commitment by the Company, and a subsequent capital increase by means of the issue of new shares to fulfill said allotments, following a specific calculation mechanism which might result in variations of the amount. The distribution of the first tranche, amounting approximately 0.20 euros per share, took place in June of 2020 and the second tranche, amounting approximately 0.20 euros per share, took place in December 2020, after the adoption of the corresponding corporate resolutions.

At its meeting held on June 12, 2020, the Board of Directors agreed to carry out the execution of the increase in paid-up capital, related to the shareholders compensation by means of a scrip dividend. Thus, each shareholder received one free allotment right for each Telefónica share held. Such free allotment rights were traded on the Continuous Market in Spain during a period of 15 calendar days. Once this trading period ended, the shareholders of 36.99% of the free-of-charge allotment rights accepted the irrevocable purchase commitment assumed by Telefónica, S.A. Cash payment was made on July 3, 2020 and had an impact in equity amounting to 371 million euros.

On the other hand, the shareholders of 63.01% of the free-of-charge allotment rights were entitled, therefore, to receive new shares of Telefónica, S.A. So the final number of shares issued after June 30, 2020 in the capital increase was 136,305,986 shares with a nominal value of 1 euro each.

The Executive Commission of Telefónica, S.A. Board of Directors meeting of December 4, 2020 agreed the implementation of the second capital increase with charge to reserves related to the shareholder compensation by means of a scrip dividend. The shareholders of 33.12% of the free-of-charge allotment rights accepted the irrevocable purchase commitment assumed by Telefónica, S.A. Cash payment was made on December 30, 2020 and had an impact in equity amounting to 342 million euros.

On the other hand, the shareholders of 66.88% of the free-of-charge allotment rights were entitled, therefore,

to receive new shares of Telefónica, S.A. So the final number of ordinary shares with a nominal value of 1 euro issued in the capital increase was 197,993,390 corresponding to 3.72% of the share capital, being 197,993,390 euros the capital increase.

11.2 Unrealized gains (losses) reserve

The movements in the items composing "Unrealized gains (losses) reserve" in 2021 and 2020 are as follows:

2021

Millions of euros	Opening balance	Valuation at market value	Tax effect of additions	Amounts transferred to income statement	Tax effect of transfers	Closing balance
Financial assets at fair value with changes through equity (Note 9.3)	(124)	122	—	(50)	—	(52)
Cash flow hedges	(491)	1,461	(365)	(683)	171	93
Total	(615)	1,583	(365)	(733)	171	41

2020

Millions of euros	Opening balance	Valuation at market value	Tax effect of additions	Amounts transferred to income statement	Tax effect of transfers	Closing balance
Financial assets at fair value with changes through equity (Note 9.3)	(48)	(76)	—	—	—	(124)
Cash flow hedges	(276)	(990)	248	702	(175)	(491)
Total	(324)	(1,066)	248	702	(175)	(615)

The category of financial assets with changes through equity in 2020 chart of movements has been renamed pursuant to RD 1/21 and Transitional Provision 2, paragraph 6 e) as detailed in Note 2.

Since 2018, the Company includes the fair value hedges, whose impacts are generated and transferred to the income statement in the same period, in the statement of recognized income and expense in equity, and transfers the amounts to the income statement of the same period. The impacts are shown in the column "Valuation at market value" and with the opposite sign in the column "Amounts transferred to income statement" of the tables above.

Note 12. Financial liabilities

The breakdown of "Financial liabilities" at December 31, 2021 and 2020 is as follows:

Millions of euros	LIABILITIES AT FAIR VALUE						LIABILITIES AT AMORTIZED COST			
	Financial liabilities with changes through income statement	Hedges with changes through equity	Subtotal financial liabilities at fair value	MEASUREMENT HIERARCHY			Financial liabilities at amortized cost	Fair value of financial liabilities	TOTAL CARRYING AMOUNT	TOTAL FAIR VALUE
				Level 1: quoted prices	Level 2: Estimates based on other directly observable market inputs	Level 3: Estimates not based on other directly observable market data				
Non-current financial liabilities	656	1,168	1,824	—	1,824	—	36,135	41,004	37,959	42,828
Payable to Group companies and associates	—	—	—	—	—	—	35,141	40,065	35,141	40,065
Bank borrowings	—	—	—	—	—	—	415	360	415	360
Derivatives (Note 16)	656	1,168	1,824	—	1,824	—	—	—	1,824	1,824
Other financial liabilities	—	—	—	—	—	—	579	579	579	579
Current financial liabilities	129	207	336	—	336	—	9,810	9,863	10,146	10,199
Payable to Group companies and associates	—	—	—	—	—	—	8,364	8,413	8,364	8,413
Bank borrowings	—	—	—	—	—	—	1,416	1,420	1,416	1,420
Bonds and other marketable debt securities	—	—	—	—	—	—	30	30	30	30
Derivatives (Note 16)	129	207	336	—	336	—	—	—	336	336
Total financial liabilities	785	1,375	2,160	—	2,160	—	45,945	50,867	48,105	53,027

2020	LIABILITIES AT FAIR VALUE						LIABILITIES AT AMORTIZED COST			
	Financial liabilities with changes through income statement	Hedges with changes through equity	Subtotal financial liabilities at fair value	MEASUREMENT HIERARCHY			Financial liabilities at amortized cost	Fair value of financial liabilities	TOTAL CARRYING AMOUNT	TOTAL FAIR VALUE
				Level 1: quoted prices	Level 2: Estimates based on other directly observable market inputs	Level 3: Estimates not based on other directly observable market data				
Millions of euros										
Non-current financial liabilities	1,429	2,596	4,025	—	4,025	—	40,640	47,278	44,665	51,303
Payable to Group companies and associates	—	—	—	—	—	—	38,900	45,503	38,900	45,503
Loans with financial entities	—	—	—	—	—	—	1,392	1,439	1,392	1,439
Derivatives (Note 16)	1,429	2,596	4,025	—	4,025	—	—	—	4,025	4,025
Other financial liabilities	—	—	—	—	—	—	348	336	348	336
Current financial liabilities	536	42	578	—	578	—	12,891	12,917	13,469	13,495
Payable to Group companies and associates	—	—	—	—	—	—	12,263	12,286	12,263	12,286
Loans with financial entities	—	—	—	—	—	—	318	321	318	321
Bonds and other marketable debt securities	—	—	—	—	—	—	269	269	269	269
Derivatives (Note 16)	536	42	578	—	578	—	—	—	578	578
Other financial liabilities	—	—	—	—	—	—	41	41	41	41
Total financial liabilities	1,965	2,638	4,603	—	4,603	—	53,531	60,195	58,134	64,798

The categories of financial liabilities in 2020 chart of movements have been renamed pursuant to RD 1/21 and Transitional Provision 2, paragraph 6 e) as detailed in Note 2.

Derivatives are measured using the valuation techniques and models normally used in the market, based on money-market curves and volatility prices available in the market.

Additionally, on this valuation, the credit valuation adjustment or CVA net for counterparty (CVA + DVA), which is the methodology used to measure the credit risk of the counterparties and of Telefónica itself is calculated to adjust the fair value determination of the derivatives. This adjustment reflects the possibility of insolvency or deterioration of the credit quality of the counterparty and Telefónica. The calculation of the fair values of the Company's financial debt instruments required an estimate for each currency of a credit spread curve using the prices of the Company's bonds and credit derivatives.

Note 13. Bonds and other marketable debt securities

This caption, at December 31, 2021 and 2020, only includes a promissory notes program registered with the CNMV.

The features of the 2021 and 2020 programs are the following, equal in both years:

Amount	Placement system	Nominal amount of the Promissory notes	Terms of the Promissory notes	Placement
2,000 millions of euros	Auctions	100,000 euros	30, 60, 90, 180, 365, 540 and 731 days	Competitive auctions
	Tailored	100,000 euros	Between 3 and 731 days	Specific transactions

The balances and movements of the financial instruments included under this caption at December 31, 2021 and 2020 are as follows:

Millions of euros	2021	2020
	Other marketable debt securities (Promissory notes)	Other marketable debt securities (Promissory notes)
Opening balance	269	75
Additions	54	522
Disposals	(293)	(328)
Closing balance	30	269
Details of maturities:		
Current	30	269

The average interest rate during 2021 has been -0.45% (-0.12% in 2020).

Note 14. Interest-bearing debt and derivatives

14.1 Detail of debt balances

The balances at December 31, 2021 and 2020 are as follows:

December 31, 2021			
Millions of euros	Current	Non-current	Total
Loans with financial entities (Note 12)	1,416	415	1,831
Derivatives (Note 16)	336	1,824	2,160
Total	1,752	2,239	3,991

December 31, 2020			
Millions of euros	Current	Non-current	Total
Loans with financial entities (Note 12)	318	1,392	1,710
Derivatives (Note 16)	578	4,025	4,603
Total	896	5,417	6,313

14.2 Disclosure of nominal amount of debts

The nominal values of the main interest-bearing debts at December 31, 2021 and 2020 are as follows:

2021					
Description	Value Date	Maturity Date	Currency	Limit 12/31/2021 (millions of local currency)	Balance (millions of euros)
Structured Financing (*)	02/22/2013	01/31/2023	USD	82	72
Structured Financing (*)	08/01/2013	10/31/2023	USD	100	89
Structured Financing (*)	12/11/2015	03/11/2026	USD	326	288
Structured Financing (*)	12/11/2015	03/11/2026	EUR	221	221

(*) Facility with amortization schedule, showing in the column "Limit 12/31/2021" the outstanding amount.

2020

Description	Value Date	Maturity Date	Currency	Limit 12/31/2020 (millions of local currency)	Balance (millions of euros)
Structured Financing (*)	05/03/2011	07/30/2021	USD	18	15
Structured Financing (*)	02/22/2013	01/31/2023	USD	199	162
Structured Financing (*)	08/01/2013	10/31/2023	USD	187	152
Structured Financing (*)	12/11/2015	03/11/2026	USD	414	338
Structured Financing (*)	12/11/2015	03/11/2026	EUR	281	281
Bilateral Loan	7/11/2019	08/14/2026	EUR	—	200
Bilateral Loan	12/04/2019	05/06/2027	EUR	—	200
Bilateral Loan	11/08/2019	03/12/2030	EUR	—	150
Credit	05/23/2013	03/01/2023	GBP	100	111

(*) Facilities with amortization schedule, showing in the column "Limit 12/31/2020" the outstanding amount.

14.3 Maturities of balances

The maturity of balances at December 31, 2021 and 2020 are as follows:

December 31, 2021	Maturity						Subsequent years	Closing balance
	2022	2023	2024	2025	2026			
Millions of euros								
Loans with financial entities	1,416	48	81	177	109	—	1,831	
Derivatives (Note 16)	336	133	32	15	45	1,599	2,160	
Total	1,752	181	113	192	154	1,599	3,991	

December 31, 2020	Maturity					Subsequent years	Closing balance
	2021	2022	2023	2024	2025		
Millions of euros							
Loans with financial entities	318	120	133	118	335	686	1,710
Derivatives (Note 16)	578	305	86	133	73	3,428	4,603
Total	896	425	219	251	408	4,114	6,313

14.4 Interest-bearing debt arranged or repaid in 2021

The most significant transactions in 2021 mainly includes the following:

Description	Limit Dec 31 2021 (millions)	Currency	Outstanding balance Dec 31 2021 (million euros)	Arrangement date	Maturity date	Drawdown 2021 (million euros)	Repayment 2021 (million euros)
Telefónica, S.A.							
Bilateral Loan (1)	–	EUR	–	11/08/2019	06/14/2021	–	150
Bilateral Loan (2)	–	EUR	–	03/26/2021	06/28/2021	200	200
Bilateral Loan (3)	–	EUR	–	12/04/2019	08/06/2021	–	200
Bilateral Loan (4)	–	EUR	–	07/11/2019	08/16/2021	–	200
Credit (5)	–	GBP	–	05/23/2013	09/30/2021	–	116

(1) On June 14, 2021, there was an early repayment of the bilateral loan for 150 million euros, originally scheduled to mature in 2030.

(2) On June 28, 2021, there was an early repayment of the bilateral loan for 200 million euros, originally scheduled to mature in 2022.

(3) On August 6, 2021, there was an early repayment of the bilateral loan for 200 million euros, originally scheduled to mature in 2027.

(4) On August 16, 2021, there was an early repayment of the bilateral loan for 200 million euros, originally scheduled to mature in 2026.

(5) On September 30, 2021, there was an early repayment of the credit for 100 million GBP, originally scheduled to mature in 2023.

14.5 Average interest on loans and borrowings

The average interest rate in 2021 on loans and borrowings denominated in euros was 0.2467% (0.387% in 2020) and 1.512% (1.79% in 2020) for foreign-currency loans and borrowings..

14.6 Unused credit facilities

The balances of loans and borrowings only relate to drawn down amounts.

At December 31, 2021 and 2020, Telefónica had undrawn credit facilities amounting to 10,415 million euros and 10,709 million euros, respectively.

Financing arranged by Telefónica, S.A. at December 31, 2021 and 2020 is not subject to compliance with financial ratios (covenants).

Note 15. Payable to group companies and associates

15.1 Detail of group debts

The breakdown of payable to group companies and associates at the 2021 and 2020 year ends is as follows:

December 31, 2021			
Millions of euros	Non-current	Current	Total
Loans	35,115	7,947	43,062
Trade payables to Group companies and associates	2	125	127
Derivatives (Note 16)	–	2	2
Tax Group payables to subsidiaries	24	290	314
Total	35,141	8,364	43,505

December 31, 2020			
Millions of euros	Non-current	Current	Total
Loans	38,873	11,703	50,576
Trade payables to Group companies and associates	3	120	123
Derivatives (Note 16)	–	4	4
Tax Group payables to subsidiaries	24	436	460
Total	38,900	12,263	51,163

The maturity of these loans at the 2021 and 2020 year ends is as follows (figures in millions of euros):

December 31, 2021							
Company	2022	2023	2024	2025	2026	2027 and subsequent years	Final balance, current and non-current
Telefónica Emisiones, S.A.U.	3,162	1,295	999	2,017	1,261	20,083	28,817
Telefónica Europe, B.V.	1,205	1,497	998	1,296	996	4,508	10,499
Telfisa Global, B.V.	3,580	–	–	–	–	–	3,580
Telefónica de Argentina, S.A.	–	–	–	–	159	–	159
Other companies	–	–	–	–	–	7	7
Total	7,947	2,792	1,997	3,313	2,416	24,598	43,062

December 31, 2020

Company	2021	2022	2023	2024	2025	2026 and subsequent years	Final balance, current and non-current
Telefónica Emisiones, S.A.U.	3,326	3,114	2,228	1,008	2,273	20,853	32,802
Telefónica Europe, B.V.	1,467	999	2,243	997	1,294	3,693	10,693
Telfisa Global, B.V.	6,311	—	—	—	—	—	6,311
Telefónica Participaciones, S.A.U.	599	—	—	—	—	—	599
Telefónica de Argentina, S.A.	—	—	—	—	171	—	171
Total	11,703	4,112	4,472	2,004	3,738	24,546	50,576

Financing raised by Telefónica, S.A. through its subsidiary Telefónica Europe, B.V. at December 31, 2021 amounting 10,499 million euros (10,693 million euros in 2020). This financing entails a number of loans paying market interest rates calculated on a Euribor plus spread basis, with average interest rates at December 31, 2021 of 3.64% (4.00% in 2020). The main source of this financing was the funds obtained through the issuance of undated deeply subordinated reset rate guaranteed securities amounting to 7,443 million euros (7,502 million euros in 2020), bonds and debentures amounting to 1,557 million euros (1,596 million euros in 2020) and commercial paper amounting to 999 million euros (1,248 million euros in 2020).

Financing raised by Telefónica, S.A. through Telefónica Emisiones, S.A.U. at December 31, 2021 was 28,817 million euros (32,802 million euros in 2020). This financing is arranged as loans between these companies on the similar terms and conditions as those of the notes issued under the debt issuance programs of Telefónica Emisiones, S.A.U. The average interest rate in 2021 was 3.40% (3.32% in 2020). The financing arranged includes, as a related cost, the fees or premiums taken to the income statement for the period corresponding to the financing based on the corresponding effective interest rates. Telefónica Emisiones, S.A.U. raised financing in 2020 by tapping the European and American capital markets, issuing bonds totaling 3,500 million euros. In 2021 there has not been bonds issuances.

Part of the amount owed by Telefónica, S.A. to Telefónica Emisiones, S.A.U. and to Telefónica Europe, B.V. includes adjustments to amortized cost at December 31, 2021 and 2020 as a result of fair value interest rate and exchange rate hedges.

Telfisa Global, B.V. centralizes and handles cash management and flows for the Telefónica Group in Latin America, the United States, Europe and Spain. The balance payable to this subsidiary is formalized through several deposit agreements accruing interest at market rates and amounting to 3,580 million euros in 2021 (6,311 million euros in 2020).

Financing raised by Telefónica, S.A. through Telefónica Participaciones, S.A.U. (see 2020 disclosure chart) corresponds to a loan with a principal of 600 million euros at an annual interest rate of 0.25%, which funds are a result of the issuance of non-dilutive convertible bonds carried out by Telefónica Participaciones, S.A.U., guaranteed by Telefónica, S.A. The outstanding balance of this debt as of December 2020 included the outstanding notional and accrued interests. The detail of redemption of debts in Note 21 only includes the payment of the notional. This loan has been fully repaid in 2021 at its maturity date.

In 2021 disclosure chart it is shown a new loan granted in September 2021 by Telefónica Argentina, S.A. amounting to 180 million US dollars (equivalent to 159 million euros at year end exchange rates), maturity date in 2026 and a variable interest rate referred to Libor. In June 2021 Telefónica de Argentina, S.A. granted a 190 million US dollars loan which was early repayed in August 2021. The funds received and paid related to this loan, which is not outstanding at year end, are shown as debt issues and redemptions in the charts of Note 21.

The 2020 disclosure included a loan granted in September 2020 by Telefónica de Argentina, S.A. amounting to 209 million US dollars (171 million euros as of 2020 year-end exchange rates), that has been cancelled prior to maturity in 2021.

15.2 Tax liabilities

The balance of "Payable to subsidiaries due to taxation on a consolidated basis" was 314 and 460 million euros at December 31, 2021 and 2020, respectively. This basically includes payables to Group companies for their contribution of taxable income (tax loss carryforwards) to the tax group headed by Telefónica, S.A. (see Note 17). The current or non-current classification is based on the Company's projection of maturities.

The most significant balances correspond to Telefónica de España, S.A.U. amounting to 110 million euros (118 million euros in 2020), Telefónica Móviles de España, S.A.U. amounting to 40 million euros (221 million euros in 2020), Telefónica Latinoamérica Holding, S.L.U. amounting to 52 million euros (21 million euros in 2020), Telefónica Hispanoamérica, S.A. amounting to 36 million euros (no amount for this concept in 2020) and Telefónica Digital España, S.L.U. amounting 21 million euros (28 million euros in 2020).

Note 16. Derivative financial instruments and risk management policies

a) Derivative financial instruments

During 2021, the Group continued to use derivatives to limit interest and exchange rate risk on otherwise unhedged positions, and to adapt its debt structure to market conditions.

At December 31, 2021, the total outstanding balance of derivatives transactions was 64,658 million euros (88,359 million euros in 2020), of which 38,248 million euros related to interest rate risk and 26,410 million euros to foreign currency risk. In 2020, 55,524 million euros related to interest rate risk and 32,835 million euros to foreign currency risk.

This figure is inflated by the use, in some cases, of several levels of derivatives applied to the nominal value of a single underlying liability. For example, a foreign currency loan can be hedged into floating rate, and then each interest rate period can be fixed using a fixed rate hedge, or FRA (forward rate agreement). The high volume is also due to the fact that when a derivative transaction is cancelled, the Company may either cancel the derivative or take the opposite position, which cancels out the variability thereof. The second option is usually chosen in order to cut costs. Even using such techniques to reduce the position, it is still necessary to take extreme care in the use of derivatives to avoid potential problems arising through error or a failure to understand the real position and its associated risks.

It should be noted that at December 31, 2021, Telefónica, S.A. had transactions with financial institutions to hedge exchange rate risk for other Telefónica Group companies amounting to 501 million euros (1,651 million euros in 2020). At year-end 2021 and 2020, the Company had no transactions to hedge interest rate risk for other Group companies. These external trades are matched by intragroup hedges with identical terms and maturities between Telefónica, S.A. and Group companies, and therefore involve no risk for the Company. External derivatives not backed by identical intragroup transactions consist of hedges on net investment and future acquisitions that, by their nature, cannot be transferred to Group companies and/or transactions to hedge financing raised by Telefónica, S.A. as parent company of the Telefónica Group, which are transferred to Group subsidiaries in the form of financing rather than via derivative transactions.

The breakdown of Telefónica, S.A.'s interest rate and exchange rate derivatives at December 31, 2021, their notional amounts at year end and the expected maturity schedule is as follows:

2021					
Millions of euros					
Type of risk	Value in Euros	Telefónica receives		Telefónica pays	
		Carrying	Currency	Carrying	Currency
Euro interest rate swaps	22,265				
Fixed to fixed	75	75	EUR	75	EUR
Fixed to floating	11,250	11,250	EUR	11,250	EUR
Floating to fixed	10,940	10,940	EUR	10,940	EUR
Foreign currency interest rate swaps	15,983				
Fixed to floating					
GBPGBP	476	400	GBP	400	GBP
USDUSD	14,695	16,644	USD	16,644	USD
Floating to fixed					
USDUSD	812	920	USD	920	USD
Exchange rate swaps	16,831				
Fixed to fixed					
EURBRL	46	46	EUR	288	BRL
EURUSD	2,943	2,943	EUR	3,333	USD
GBPEUR	757	650	GBP	757	EUR
MXNUDI	359	5,322	MXN	1,170	UDI
UDIMXN	230	1,170	UDI	5,322	MXN
Fixed to floating					
JPYEUR	95	15,000	JPY	95	EUR
Floating to floating					
EURUSD	662	662	EUR	750	USD
GBPEUR	448	400	GBP	448	EUR
USDEUR	11,291	12,734	USD	11,291	EUR
Forwards	9,579				
BRLEUR	94	628	BRL	94	EUR
CHFEUR	144	150	CHF	144	EUR
CLPEUR	1	536	CLP	1	EUR
CZKEUR	66	1,708	CZK	66	EUR
EURBRL	5,153	5,153	EUR	32,573	BRL
EURCLP	55	55	EUR	52,750	CLP
EURGBP	1,939	1,939	EUR	1,629	GBP
EURMXN	1	1	EUR	15	MXN
EURUSD	855	855	EUR	969	USD
GBPEUR	597	510	GBP	597	EUR
USDBRL	12	13	USD	77	BRL
USDCLP	4	4	USD	3,579	CLP
USDCOP	1	1	USD	4,058	COP
USDEUR	654	743	USD	654	EUR
USDGBP	1	1	USD	1	GBP
USDPEN	2	2	USD	9	PEN
TOTAL	64,658				

The breakdown by average maturity is as follows:

Millions of euros					
Hedged underlying item	Notional	Up to 1 year	From 1 to 3 years	From 3 to 5 years	Over 5 years
Pension Plans	5,357	758	1,507	2,177	915
Loans	3,478	1,168	2,105	110	95
In national currency	2,500	775	1,725	–	–
In foreign currencies	978	393	380	110	95
Debentures and bonds MtM	40,420	492	4,845	5,188	29,895
In national currency	5,217	317	2,200	725	1,975
In foreign currencies	35,203	175	2,645	4,463	27,920
Other underlying (*)	15,403	13,383	1,637	136	247
CCS	3,575	2,762	430	136	247
Forward	9,581	9,581	–	–	–
IRS	2,247	1,040	1,207	–	–
Total	64,658	15,801	10,094	7,611	31,152

(*) Most of these transactions are related to economic hedges of investments, assets and liabilities of subsidiaries.

The breakdown of Telefónica, S.A.'s derivatives in 2020, their notional amounts at year end and the expected maturity schedule is as follows:

2020					
Millions of euros		Telefónica receives		Telefónica pays	
Type of risk	Value in Euros	Carrying	Currency	Carrying	Currency
Euro interest rate swaps	37,650				
Fixed to fixed	175	175	EUR	175	EUR
Fixed to floating	20,685	20,685	EUR	20,685	EUR
Floating to fixed	16,790	16,790	EUR	16,790	EUR
Foreign currency interest rate swaps	17,039				
Fixed to floating					
CHFCHF	139	150	CHF	150	CHF
GBPGBP	1,336	1,200	GBP	1,200	GBP
USDUSD	15,181	18,625	USD	18,625	USD
Floating to fixed					
USDUSD	383	470	USD	470	USD
Exchange rate swaps	17,022				
Fixed to fixed					
EURBRL	184	184	EUR	1,171	BRL
EURUSD	618	618	EUR	758	USD
MXNUDI	353	5,938	MXN	1,305	UDI
UDIMXN	243	1,305	UDI	5,938	MXN
Fixed to floating					
JPYEUR	95	15,000	JPY	95	EUR
Floating to floating					
CHFEUR	125	150	CHF	125	EUR
GBPEUR	1,009	900	GBP	1,009	EUR
USDEUR	14,395	16,545	USD	14,395	EUR
Forwards	15,634				
BRLEUR	4	27	BRL	4	EUR
CLPEUR	—	350	CLP	—	EUR
CZKEUR	64	1,708	CZK	64	EUR
EURBRL	2,435	2,435	EUR	15,527	BRL
EURCLP	43	43	EUR	37,800	CLP
EURGBP	8,494	8,494	EUR	7,628	GBP
EURMXN	1	1	EUR	25	MXN
EURUSD	3,102	3,102	EUR	3,806	USD
GBPEUR	528	472	GBP	528	EUR
GBPUSD	2	2	GBP	2	USD
USDBRL	155	187	USD	988	BRL
USDCLP	6	7	USD	5,295	CLP
USDCOP	1	1	USD	3,504	COP
USDEUR	627	759	USD	627	EUR
USDGBP	27	32	USD	24	GBP
USDPEN	2	2	USD	8	PEN
CLPUSD	1	752	CLP	1	USD
BRLUSD	142	920	BRL	174	USD
MXNEUR	—	3	MXN	—	EUR
Subtotal	87,345				

Millions of euros			
Notional amounts of structured products with options	Value in Euros	Notional	Currency
Interest rate options Caps & Floors	835		
Caps&Floors	835		
GBP	835	750	GBP
Currency options	179		
EURGBP	(2,899)	(2,899)	EUR
GBPEUR	2,917	2,917	EUR
USDBRL	(943)	1,157	USD
BRLUSD	1,104	(1,355)	USD
Subtotal	1,014		
Total	88,359		

The breakdown by average maturity is as follows:

Millions of euros					
Hedged underlying item	Notional	Up to 1 year	From 1 to 3 years	From 3 to 5 years	Over 5 years
Pension plans	6,567	960	1,762	1,458	2,387
Loans	6,740	1,903	3,685	1,040	112
In national currency	3,510	785	1,925	800	—
In foreign currencies	3,230	1,118	1,760	240	112
Debentures and bonds MtM	54,478	8,354	5,443	3,265	37,416
In national currency	14,217	1,550	2,767	2,925	6,975
In foreign currencies	40,261	6,804	2,676	340	30,441
Other underlying (*)	20,574	16,855	3,031	401	287
CCS	781	246	124	124	287
Currency options	178	178	—	—	—
Forward	15,635	15,635	—	—	—
IRS	3,980	796	2,907	277	—
Total	88,359	28,072	13,921	6,164	40,202

(*) Most of these transactions are related to economic hedges of investments, assets and liabilities of subsidiaries.

The debentures and bonds hedged relate to both those issued by Telefónica, S.A. and intragroup loans on the same terms as the issues of Telefónica Europe, B.V. and Telefónica Emisiones, S.A.U.

b) Risk management policy

Telefónica, S.A. is exposed to various financial market risks as a result of: (i) its ordinary business activity, (ii) debt incurred to finance its business, (iii) its investments in companies, and (iv) other financial instruments related to the above commitments.

The main market risks affecting Telefónica are as follows:

Exchange rate risk

Foreign currency risk primarily arises in connection with: (i) Telefónica's international presence, through its investments and businesses in countries that use currencies other than euro (primarily in Latin America and in the United Kingdom), and (ii) debt denominated in currencies other than that of the country where the business is conducted or the home country of the company incurring such debt and (iii) due to those accounts payable or receivable referred to the entity that has registered the transaction.

Interest rate risk

Interest rate risk arises primarily in connection with changes in interest rates affecting (i) financial expenses on floating rate debt (or short-term debt likely to be renewed), due to changes in interest rates and (ii) the value of non-current liabilities at fixed interest rates.

Share price risk

Share price risk arises primarily from changes in the value of the equity investments (that may be bought, sold or otherwise involved in transactions), from changes in the value of derivatives associated with such investments, from changes in the value of treasury shares and from derivatives on treasury shares.

Other risks

Telefónica, S.A. is also exposed to liquidity risk if a mismatch arises between its financing needs (operating and financial expense, investment, debt redemptions and dividend commitments) and its sources of finance (revenues, divestments, credit lines from financial institutions and capital market operations). The cost of finance could also be affected by changes in the credit spreads (over benchmark rates) demanded by lenders.

Credit risk appears when a counterparty fails to meet or delays its payment obligations in accordance with the agreed terms, driving an impairment in an asset due to: (i) solvency issues, or (ii) no intention to pay.

Finally, Telefónica is exposed to country risk (which overlaps with market and liquidity risks). This refers to the possible decline in the value of assets, cash flows generated, or cash flows returned to the parent company as a result of political, economic or social instability in the countries where Telefónica, S.A. operates, especially in Latin America.

Risk management

Telefónica, S.A. actively manages these risks through the use of derivatives (primarily on exchange rates, interest rates, credit and share prices) and by incurring debt in local currencies, where appropriate, with a view to optimize the financial cost and to stabilizing cash flows, the income statement and investments. In this way, Telefónica attempts to protect its solvency, facilitate financial planning and take advantage of investment opportunities.

Telefónica manages its exchange rate risk and interest rate risk in terms of net debt and net financial debt (including financial leases under IFRS 16) internally calculated. Telefónica believes that these parameters are more appropriate to understand its debt position. Net debt and net financial debt take into account the impact of the Group's cash and cash equivalents balances including derivative positions with a positive value linked to liabilities. Neither net debt nor net financial debt as calculated by Telefónica should be considered an alternative to gross financial debt (the sum of current and non-current interest-bearing debt).

Exchange rate risk

The fundamental objective of the exchange rate risk management policy is that, in event of depreciation in foreign currencies relative to the euro, any potential losses in the value of the OIBDA generated by the

businesses in such currencies, caused by depreciation in exchange rates of a foreign currency against euro, are offset (to some extent) by savings from the reduction in the value of debt denominated in such currencies converted to euros and/or synthetic debt in such currencies. This objective is also reflected on the decrease of the sensitivity to exchange rate variations of the net debt over operating income before depreciation and amortization (OIBDA) ratio, in order to protect the Group solvency. The degree of exchange rate hedging employed varies depending on the type of investment. For transactions of purchase or sale of a business in currencies other than euro, additional hedges can be made based on the estimate prices of the transactions or on estimated cash flows and OIBDA.

Telefónica occasionally takes out dollar-denominated debt to hedge the euro-dollar intermediate component in the relation euro-Latin American currencies, either in Spain (where such debt is associated with an investment as long as it is considered to be an effective hedge) or in the country itself, where the market for local currency financing or hedges may be inadequate or non-existent.

At December 31, 2021, net financial debt in pounds sterling was equivalent to 374 million euros (8,371 million euros at December 31, 2020). As a consequence of setting up in June 2021 of the "Joint Venture" VMED O2 UK (see Note 20), the previous objective of maintaining a debt in pounds sterling in the consolidated balance sheet of the Group of twice OIBDA has been modified, as a result of changing the consolidation of UK assets (VMED O2 UK is registered by equity method) and incorporating VMED O2 UK to leverage higher than twice the Debt OIBDA ratio. The synthetic debt target denominated in pounds sterling will be directly related to the flows that are expected to be repatriated from VMED O2 UK.

Telefónica also manages its exchange rate risk, seeking to significantly reduce the negative impact of any currency exposure on the income statement, both from transactions recognized on the balance sheet and those classified as highly probable, regardless of whether or not open positions are held. Such open position exposure can arise for any of three reasons: (i) a thin market for local derivatives or difficulty in obtaining funding in the local currency, making it impossible to arrange a low-cost hedge (as in Argentina and Venezuela); (ii) financing through intra-group loans, where the accounting treatment of exchange rate risk is different from that for funding through capital contributions, and (iii) as the result of a deliberate policy decision, to avoid the high cost of hedges that are not warranted by expectations or high depreciation risks.

The main transactions that generate or may generate exchange rate risk (regardless of whether or not they have an impact on the income statement) are, among others: bond issuances in currencies other than the euro, which is Telefónica, S.A.'s functional currency, highly probable transactions in other currencies, future cash

inflows in other currencies, investments and divestments, provisions for collections or payments and collections in foreign currency, the actual value of the investments (subsidiaries) in currencies other than the euro.

Interest rate risk

Telefónica's financial expenses are exposed to changes in interest rates. In 2021 the euro, the pound sterling and the US dollar were the short term rates that accounted

for most of the exposure. Telefónica manages its interest rate risk by entering into derivative financial instruments, primarily swaps and interest rate options.

Telefónica analyzes its exposure to changes in interest rates at the Telefónica Group level. The table illustrates the sensitivity of finance costs and the balance sheet to variability in interest rates at Group and Telefónica, S.A. level.

	Impact on Consolidated P/L	Impact on Telefónica, S.A. P/L	Impact on Consolidated Equity	Impact on Telefónica, S.A. Equity
+100bp	(33)	(37)	(449)	(449)
-100bp	33	37	449	449

To calculate the sensitivity of the income statement, a 100 basis point rise in interest rates in all currencies in which there are financial positions at December 31, 2021 has been assumed, as well as a 100 basis point decrease in all currencies in order to avoid negative rates. The constant position equivalent to that prevailing at the end of the year has also been assumed.

To calculate the sensitivity of equity to variability in interest rates, a 100 basis point increase in interest rates in all currencies and terms in which there are financial positions at December 31, 2021 was assumed, as well as a 100 basis point decrease in all currencies and terms. Cash flow hedge positions were also considered as they are the only positions where changes in market value due to interest-rate fluctuations are recognized in equity.

In both cases, only transactions with external counterparties have been considered.

Share price risk

The Telefónica Group is exposed to changes in the value of equity investments, of derivatives associated with such investments, of convertible or exchangeable instruments issued by Telefónica Group, of share-based payments plans, of treasury shares and of equity derivatives over treasury shares.

According to the share-based payments plans (see Note 19) the shares to be delivered to employees under such plan may be either the parent company treasury shares, acquired by Telefónica or any of its Group companies; or newly-issued shares. The possibility of delivering shares to beneficiaries of the plan in the future implies a risk since there could be an obligation to hand over the maximum number of shares granted at the end of each cycle, whose acquisition (in the event of acquisition in the market) in the future could imply a higher cash outflow than required on the start date of each cycle if the share price at the vesting date is above the price at the start of the cycle. In the event that new shares are issued for delivery to the beneficiaries of the plan, there would be a dilutive effect for ordinary shareholders of Telefónica as a result of the higher number of shares delivered under such plan outstanding.

In 2018, the General Shareholder's Meeting approved a long-term incentive plan consisting of the delivery of shares of Telefónica, S.A. allocated to executives and managers of the Telefónica Group. Additionally, the Shareholder's Meeting approved a share plan for the incentivized purchase of shares for employees of the Telefónica Group, which was implemented in July 2019. In 2021, the General Shareholder's Meeting has approved a new long-term incentive plan consisting of the delivery of shares of Telefónica, S.A. allocated to executives and managers of the Telefónica Group. The characteristics of these three plans are described in Note 19.

To reduce the risk associated with variations in share price under these plans, Telefónica could acquire instruments that hedge the risk profile of some of these plans.

In addition, part of the treasury shares of Telefónica, S.A. held at December 31, 2021 might be used to cover the shares deliverable under the new plans. The fair value of the treasury shares at liquidation moment could increase or decrease depending on the variations in Telefónica, S.A.'s share quotation.

Liquidity risk

The Telefónica Group seeks to match the schedule for its debt maturity payments to its capacity to generate cash flows to meet these maturities, while allowing for some flexibility. In practice, this has been translated into two key principles:

1. The Telefónica Group's average maturity of net financial debt is intended to stay above 6 years, or be restored above that threshold in a reasonable period of time if it eventually falls below it. This principle is considered as a guideline when managing debt and access to credit markets, but not a rigid requirement. When calculating the average maturity for the net financial debt and part of the undrawn credit lines can be considered as offsetting the shorter debt maturities, and extension options on some financing facilities may be considered as exercised, for calculation purposes.

2. The Telefónica Group must be able to pay all commitments over the next 12 months without accessing new borrowing or tapping the capital markets (drawing upon firm credit lines arranged with banks), assuming budget projections are met.

Country risk

The Telefónica Group managed or mitigated country risk by pursuing two lines of action (in addition to its normal business practices):

1. Partly matching assets to liabilities (those not guaranteed by the parent company) in the Telefónica Group's Latin American companies so that any potential asset impairment would be accompanied by a reduction in liabilities; and,
2. Repatriating funds generated in Latin America that are not required for the pursuit of new, profitable business development opportunities in the region.

Credit risk

The Telefónica Group trades in derivatives with creditworthy counterparties. Therefore, Telefónica, S.A. generally trades with credit entities whose "senior debt" ratings are of at least "A-" or in case of Spanish entities in line with the credit rating of the Kingdom of Spain. In Spain, where most of the Group's derivatives portfolio is held, there are netting agreements with financial institutions, with debtor or creditor positions offset in case of bankruptcy, limiting the risk to the net position. In addition, the CDS (Credit Default Swap) of all the counterparties with which Telefónica, S.A. operates is monitored at all times in order to assess the maximum allowable CDS for operating at any given time. Transactions are generally only carried out with counterparties whose CDS is below the threshold.

CVA or net *Credit Valuation Adjustment* (CVA+DVA) by is the method used to measure credit risk for both counterparties and Telefónica in order to determine the fair value of the derivatives portfolio. This adjustment reflects the probability of default or the deterioration of the credit quality of both Telefónica and its counterparties. The simplified formula to calculate CVA = (Expected Exposure) x (Probability of Default) x (Loss Given Default), in case of default or loss given default. In order to calculate these variables standard market practices are used.

When managing credit risk, Telefónica considers the use of CDS, novations, derivatives with break clauses and signing CSAs under certain conditions.

For other subsidiaries, particularly those in Latin America, assuming a stable sovereign rating provides a ceiling which is below "A", trades are with local financial entities whose rating by local standards is considered to be of high creditworthiness.

Meanwhile, with credit risk arising from cash and cash equivalents, the Telefónica Group places its cash surpluses in high quality money-market assets. These placements are regulated by a general framework, revised annually. Counterparties are chosen according to criteria of liquidity, solvency and diversification based on the conditions of the market and countries where the Group operates. The general framework sets: the maximum amounts to be invested by counterparty based on its rating (long-term debt rating); and the instruments in which the surpluses may be invested (money-market instruments).

The Telefónica Group considers customer credit risk management as a key element to achieve its business and customer base growth targets in a sustainable way. This management approach relies on the active evaluation of the risk-reward balance within the commercial operations and on the adequate separation between the risk ownership and risk management functions.

Formal delegation of authority procedures and management practices are implemented in the different Group companies, taking into account benchmark risk management techniques but adapted to the local characteristics of each market. Commercial debtors that may cause a relevant impact on the Telefónica Group consolidated financial statements and increased risk profile products - due to customer target, term, channels or other commercial characteristics - are subject to specific management practices in order to mitigate the exposure to credit risk.

This customer credit risk management model is embedded in the day-to-day operational processes of the different companies, where the credit risk assessment guides both the product and services available for the different customers and the collection strategy.

Telefónica's maximum exposure to credit risk is initially represented by the carrying amounts of the assets (see Notes 8 and 9) and the guarantees given by Telefónica (See Note 20).

Capital management

Telefónica's corporate finance department takes into consideration several factors for the evaluation of the capital structure of the Company, with the aim of maintaining the solvency and creating value to the shareholders.

The corporate finance department estimates the cost of capital on a continuous basis through the monitoring of the financial markets and the application of standard industry approaches for calculating weighted average cost of capital, or WACC, so that it can be applied in the valuation of businesses in course and in the evaluation of investment projects. Telefónica also uses as reference a certain level of net financial debt (excluding items of a non-recurring or exceptional nature) that allows a

comfortable investment grade credit rating as assigned by credit rating agencies, aiming at protecting credit solvency and making it compatible with alternative uses of cash flow that could arise at any time.

These general principles are refined by other considerations and the application of specific variables, such as country risk in the broadest sense, or the volatility in cash flow generation that are considered, when evaluating the financial structure of the Telefónica Group and its different areas.

Derivatives Policy

Telefónica's derivatives policy emphasizes the following points:

- Derivatives based on a clearly identified underlying.
- Matching of the underlying to one side of the derivative.
- Matching the company contracting the derivative and the company that owns the underlying.
- Ability to measure the derivative's fair value using the valuation systems available to the Telefónica Group.
- Sale of options only when there is an underlying exposure.

Hedge accounting

Hedges can be of three types:

- Fair value hedges.
- Cash flow hedges. Such hedges can be set at any value of the risk to be hedged (interest rates, exchange rates, etc.) or for a defined range (interest rates between 2% and 4%, above 4%, etc.). In this last case, the hedging instruments used are options and only the intrinsic value of the option is recognized as an effective hedge. The changes in the temporal value of the option are registered in the income statements.
- Net investment hedges in consolidated foreign subsidiaries. Generally, such hedges are arranged by the parent company and the other Telefónica holding companies. Wherever possible, these hedges are implemented through real debt in foreign currency. However, this is not always possible as many Latin American currencies are non-convertible, making it impossible for non-resident companies to issue local currency debt. It might also occur that the local debt market is not deep enough to accommodate the required hedge, or that an acquisition is made in cash with no need for market financing. In these circumstances, derivatives, either forwards or cross-currency swaps, are mainly used to hedge the net investment.

Hedges can comprise a combination of different derivatives.

There is no reason to suppose management of accounting hedges will be static, with an unchanging hedging relationship lasting right through maturity. Hedging relationships may change to allow appropriate management that serves our stated principles of stabilizing cash flows, stabilizing net financial income/expense and protecting our equity. The designation of hedges may therefore be cancelled, before maturity, because of a change in the underlying, a change in the perceived risk on the underlying or a change in market view. The hedges must meet the effectiveness test and be well documented. To gauge the efficiency of transactions defined as accounting hedges, Telefónica analyzes the extent to which the changes in the fair value or in the cash flows attributable to the hedging instrument would offset the changes in fair value or cash flows attributable to the hedged risk using a linear regression model for both forward- and backward-looking analysis.

The possible sources of ineffectiveness that might arise when designing a hedging relationship and that will be considered when establishing the hedging rationale are:

- The hedging instrument and the hedged item have different maturity dates, initial dates, contract dates, repricing dates, etc.
- The hedging instrument starts with initial value and a financing effect is produced.
- When the underlying items have different sensitivity and are not homogeneous, for example EURIBOR 3M versus EURIBOR 6M.

The main guiding principles for risk management are laid down by Telefónica's finance department and implemented by the subsidiaries' chief financial officers (who are responsible for balancing the interests of the companies in a standalone basis and those of the Telefónica Group). The Corporate finance department may allow exceptions to this policy where these can be justified, normally when the market is too thin for the volume of transactions required or on clearly limited and small risks.

In 2021 the Company recognized a loss of 33 million euros for the ineffective part of cash flow hedges (a profit of 48.7 million euros in 2020).

The fair value of Telefónica, S.A.'s derivatives with third parties amounted to a positive MtM (accounts receivable) of 1.266 million euros in 2021 (20 million euros in 2020).

The fair value of Telefónica, S.A.'s intragroup derivatives amounted to a positive MtM (accounts receivable) of 7 million euros in 2021 (positive MtM of 15 million euros in 2020).

The breakdown of the Company's derivatives with third party counterparties at December 31, 2021 and 2020 by type of hedge, their fair value at year end and the expected maturity schedule of the notional amounts is as follows:

2021**Millions of euros**

Derivatives	Fair value (**)	Notional amount maturities (*)				
		2022	2023	2024	Subsequent years	Total
Interest rate hedges	(1,083)	67	(800)	–	(2,818)	(3,551)
Cash flow hedges	5	67	–	–	–	67
Fair value hedges	(1,088)	–	(800)	–	(2,818)	(3,618)
Exchange rate hedges	(65)	175	–	–	6,438	6,613
Cash flow hedges	(65)	175	–	–	6,438	6,613
Interest and exchange rate hedges	(133)	189	110	80	806	1,185
Cash flow hedges	(133)	189	110	80	806	1,185
Net investment Hedges	98	(5,104)	–	–	–	(5,104)
Other derivatives	(83)	(2,238)	(1,187)	(303)	1,321	(2,407)
Interest rate	(154)	(963)	(1,283)	(303)	(1,065)	(3,614)
Exchange rate	(9)	(1,724)	(370)	–	2,386	292
Other	80	449	466	–	–	915

(*) For interest rate hedges, the positive amount is in terms of fixed "payment." For foreign currency hedges, a positive amount means payment in functional versus foreign currency.

(**) Positive amounts indicate payables.

2020**Millions of euros**

Derivatives	Fair value (**)	Notional amount maturities (*)				
		2021	2022	2023	Subsequent years	Total
Interest rate hedges	(1,337)	–	(490)	(800)	(2,639)	(3,929)
Cash flow hedges	14	–	67	–	–	67
Fair value hedges	(1,351)	–	(557)	(800)	(2,639)	(3,996)
Exchange rate hedges	1,031	404	125	–	5,856	6,385
Cash flow hedges	1,031	404	125	–	5,856	6,385
Interest and exchange rate hedges	(184)	247	189	668	886	1,990
Cash flow hedges	(184)	247	189	668	886	1,990
Net investment Hedges	19	(3,752)	–	–	–	(3,752)
Other derivatives	451	(11,779)	42	(258)	1,103	(10,892)
Interest rate	(75)	(4,637)	(673)	(258)	(1,283)	(6,851)
Exchange rate	271	(7,303)	561	–	2,386	(4,356)
Other	255	161	154	–	–	315

(*) For interest rate hedges, the positive amount is in terms of fixed "payment." For foreign currency hedges, a positive amount means payment in functional versus foreign currency.

(**) Positive amounts indicate payables.

Note 17. Income tax

Pursuant to a Ministerial Order dated December 27, 1989, Telefónica, S.A. has filed consolidated tax returns with certain Group companies. The consolidated tax group in 2021 and 2020 comprised 45 and 44 companies, respectively.

This tax consolidation regime applies indefinitely providing the companies continue to meet the requirements set down in prevailing legislation, and that application of the regime is not expressly waived.

Tax balances as of December 31, 2021 and 2020 are as follows:

Millions of euros	2021	2020
Tax receivables:	1,147	2,216
Deferred tax assets:	1,009	2,115
Deferred income tax (income)	155	371
Long-term tax credits for loss carryforwards	580	869
Unused tax deductions	274	875
Current tax receivables (Note 10):	138	101
Withholdings	19	21
Corporate income tax receivable	113	68
VAT and Canary Islands general indirect tax refundable	6	12
Tax payable:	142	219
Deferred tax liabilities:	91	151
Current payables to public administrations (Note 18):	51	68
Personnel income tax withholdings	5	5
Withholding on investment income, VAT and other	44	61
Social security	2	2

Telefónica S.A., considers that unused tax loss carryforwards in Spain, taking into account tax litigation in which the group is involved, amount to 2,308 million euros at December 31, 2021.

	Dec 31 2021	Total carry-forwards	Less than 1 year	More than 1 year	Total recognized
Tax Group tax credits for loss carryforwards		2,060	1,418	642	1,978
Prior to Tax Group loss carryforwards (*)		248	—	248	—

(*) Unused tax credits for loss carryforwards

Total tax credits based on the taxable income recognized in the balance sheet at December 31, 2021 amounts to 580 million euros (869 million euros in 2020).

During 2021, Telefónica, S.A., as head of the Telefónica tax group, made payments on account of income tax amounting to 71 million euros (39 million euros in 2020).

17.1 Movement in deferred tax assets and liabilities

The balances and movements in deferred tax assets and liabilities for Telefónica, S.A. at December 31, 2021 and 2020 are as follows:

2021					
Millions of euros	Tax credits	Temporary differences, assets	Deductions	Total deferred tax assets	Deferred tax liabilities
Opening balance	869	371	875	2,115	151
Arising in the year	–	53	–	53	–
Reversal	(289)	(269)	(626)	(1,184)	(15)
Transfers to the tax group's net position	–	–	25	25	(45)
Closing balance	580	155	274	1,009	91

2020					
Millions of euros	Tax credits	Temporary differences, assets	Deductions	Total deferred tax assets	Deferred tax liabilities
Opening balance	980	194	887	2,061	143
Arising in the year	27	199	56	282	25
Reversal	(138)	(15)	(99)	(252)	–
Transfers to the tax group's net position	–	(7)	31	24	(17)
Closing balance	869	371	875	2,115	151

The company assesses the recoverability of deferred tax assets based on the future activities carried out by the different companies that conform the Tax Group, on the Spanish tax regulation and on the strategic decisions affecting the companies. At December 31, 2021 the estimate of the recoverability of deferred tax assets has been assessed taking into account, (i) the estimated Tax Group companies result, (ii) the regulatory changes (mainly the entry into force of the minimum tax) and (iii) the ruling of October 29, 2021 of the Spanish National Court of Appeals (Audiencia Nacional), as well as the recent case law of the Supreme Court, which makes it probable that the tax credits for tax loss carryforwards generated in 2002 and 2004 can be used in a future new settlement for 2009 and 2010 (see 17.3 Tax inspections and tax lawsuits).

Following this analysis, in 2021 a reversal of deferred tax assets for loss carryforwards and deductions amounting to 379 million euros has been recorded with a balancing entry in income tax (106 million euros of loss carryforwards and 273 million euros of deductions).

Moreover, in 2021 the Company completed tax inspection proceedings for 2014 to 2017, as detailed in section 17.3, which involved the consumption of deferred tax assets for loss carryforwards amounting to 199 million euros and deductions amounting to 193 million euros. Both are shown as reversals in 2021 chart of movements.

In the captions long term tax provisions (see Note 18) and the related deferred tax assets, a reversal of 143 million euros has been recorded after the state aid recuperation procedure corresponding to the tax deductibility of financial goodwill from 2015 to 2018 (see 17.3 Tax deductibility of financial goodwill in Spain).

The reversal of "temporary differences, assets" in 2021 is mainly due to the accounting of the tax effect in the valuation of financial derivative instruments with changes through equity amounting to 255 million euros. This concept in 2020 was an addition of 135 million euros.

The estimation of recoverability of deferred tax assets of the Group in Spain in 2020 ended with a reversal of 138 million euros of deferred tax assets for loss carryforwards and deductions amounting to 99 million euros. On the other hand, deferred tax assets for loss carryforwards amounting to 27 million euros and deductions by 56 million euros were activated.

Pursuant to the publication in the BOE of December 31, 2020 of Law 11/2020 of December 30, 2021 on General State Budgets 2021, and with effect from January 1, 2021, the exemption to avoid double taxation of the dividends and positive income derived from the transfer of shares of article 21 of LIS, will be reduced by 5% in concept of non-deductible management expenses, which reduces the effective exemption to 95%.

With respect to consolidated tax group, this 5% will not be eliminated even when it relates to dividends or income derived from the transfer of shares, distributed or obtained (respectively) within the tax group.

As a consequence of the analysis of this impact in Telefónica, S.A. 24 million euros of deferred tax assets and 25 million euros of deferred tax liabilities were accounted in 2020 and shown as Additions in the chart of movements.

17.2 Reconciliation of accounting profit (loss) to taxable income and income tax expense to income tax payable

The calculation of the income tax expense and income tax payable for 2021 and 2020 is as follows.

Millions of euros	2021	2020
Accounting profit (loss) before tax	248	(1,966)
Permanent differences	(1,816)	307
Temporary differences:	2	529
Arising in the year	57	38
Arising in prior years	(55)	491
Tax result	(1,566)	(1,130)
Gross tax payable	(391)	(283)
Corporate income tax refundable	(391)	(283)
Activation/Reversal of loss carryforwards and/or deductions	381	46
Temporary differences for tax valuation	(1)	(132)
Other effects	29	63
Corporate income tax accrued in Spain	18	(306)
Foreign taxes	24	25
Income tax	42	(281)
Current income tax	(853)	(257)
Deferred income tax	895	(24)

The permanent differences mainly correspond to the write-off of the investments in Group companies, to the non-taxable dividends received, to the non-taxable capital gains on the sale of Telefónica Costa Rica TC, S.A. (see Note 8) and to the financial goodwill.

The heading "Activation/reversion of loss carryforwards and/or deductions" mainly includes the reversal of deductions by 293 million euros (activation of 56 million euros in 2020) and the reversal of loss carryforwards by 108 million euros in 2021 (reversal of 101 million euros in 2020).

The caption "Other effects" mainly includes the impact arising from the provision made in relation to the tax deductibility of the financial goodwill.

17.3 Tax inspections and tax-related lawsuits

In July 2019, new inspection proceedings were initiated with respect to several of the companies belonging to tax group 24/90, of which Telefónica, S.A. is the dominant company. The taxes and period being audited are as follows: corporate income tax for the years 2014 to 2017 and value added tax, withholding and personnel income tax, tax returns on real estate and non-resident income tax returns for the period between June and December of 2015 and from the year 2016 to 2018.

In October 2021, the resolutions were signed with agreement with respect to the fiscal treatment of exchange rate differences raised by the assets in Venezuelan Bolívares and with disagreement with respect to the non-taxable income of *juros* since 2015, generating a loss (Tax Group expense) amounting to 387 million euros. However, there has not been a significant cash outflow as Group tax credits have substantially offset the impact.

In January 2022 the tax inspection proceeding was closed after the reception of the resolution agreement. The Company will file an appeal against this resolution to the economic-administrative tax court.

In relation to the corporate tax inspection for the years 2008 to 2011, the proceedings ended in 2015 and Telefónica, S.A. filed an appeal against the conclusion based on the discrepancies for the use of tax credits and deductions. In January, 22, 2019, Telefónica was notified of an execution notice by the Spanish Central Economic-Administrative Tax Court which partially upheld the claims followed by execution agreements in March and June 2019 with a refund of 702 million euros pertaining to overpayments made by it in those tax years and 201 million euros related to compensatory interests. The Company was dissatisfied with the decision of the Spanish Central Economic-Administrative Tax Court, and on its own behalf, filed an appeal to the Sala Contencioso-Administrativo of the Spanish Audiencia Nacional. On October 29, 2021 the court upheld the claims of Telefónica. This judgment has been appealed in cassation to the Supreme Court by the tax authorities, but the Court has not yet ruled on its admissibility. The Company, nevertheless, according to the October 29, 2021 ruling and the recent Supreme Court case-law considers that tax losses carry forward generated in 2002 and 2004 can be used in the 2009 tax return.

In relation to the corporate tax inspection for the years 2005 to 2007, which ended in 2012, as well as the tax proceedings 2008 to 2011, Telefónica continues to dispute the criteria for the use of the tax credits and deductions and therefore filed an appeal before the Audiencia Nacional.

At the end of 2021, after the closed inspection proceedings and the years still pending to be inspected, it was determined that there was no need to record additional liabilities as a result of any of the foregoing.

Tax deductibility of financial goodwill in Spain

The tax regulations added article 12.5 to the Corporate Income Tax Law, which came into force on January 1, 2002. The article regulated the deductibility of tax amortization of financial goodwill (Fondo de Comercio) arising from the acquisition of non-Spanish companies, which could be amortized over 20 years at 5% per annum.

Following the entry into force of the Laws 9/2011 of August 19, 2011 and 16/2013 of October 29, 2013, the amount of goodwill amortization deductible for tax purposes under article 12.5 for the years 2011 to 2015 was reduced from 5% to 1%. The effect is temporary because the 4% not amortized for five years (20% in total) will be recovered extending the deduction period from the initial 20 years to 25 years.

The Telefónica Group, under this regulation, has been amortizing for tax purposes the financial goodwill from its investments, both direct and indirect, in O2, BellSouth and Colombia Telecom (prior to December 21, 2007) and Vivo (acquired in 2010). The positive accumulated effect in the corresponding settlements of corporate income tax from 2004 to the closing of December 31, 2021, was 1,879 million euros.

In relation to this tax incentive, the European Commission (EC) has in recent years commenced three proceedings against the Spanish State as it deems that this tax benefit could constitute an example of state aid. Although the EC itself acknowledged in the first decision the validity of the tax incentive for those investors that invested in European companies for operations carried out before December 21, 2007, and before May 21, 2011 for investments in other countries in the second decision, in its third decision dated October 15, 2014 it calls into question the applicability of the principle of legitimate expectations in the application of the incentive for indirect acquisitions, whatever the date of acquisition may have been.

Furthermore, there are also doubts in the Spanish Courts about the classification of the incentive as a deduction and if this deduction would remain in the case of a subsequent transmission.

On October 6, 2021, the Court of Justice of the European Union concluded that the European Commission correctly classified the Spanish Tax depreciation scheme of financial goodwill as state aid and non-compatible with the internal market for the First and Second decisions.

With regard to the recognition of legitimate expectations for the first and second decisions, the Court of Justice of the European Union confirms its applicability.

The proceedings initiated on the Third Decision, which was suspended until the resolution of the First and Second Decisions, has been reactivated on October 2021. As of the signing of these financial statements, this Decision is still pending first instance judgement.

Notwithstanding the above, the Tax and Customs Control Unit of the Spanish Tax Authority (Dependencia de Control Tributario y Aduanero de la Agencia Tributaria), in compliance with the obligation set out in the EC Decision (EU) 2015/314, recovered in March 2019 and February 2021, the amortization of goodwill for the indirect acquisition of non-resident companies from 2005 to 2015, and for the years 2016 to 2018. The effective recovery of the aid is provisional, pending the final results of the appeals brought against the three decisions. The result of the settlement, once offset by outstanding tax credits (tax losses carryforward and deductions) resulted in a payment of 11 million euros.

Even when the Company understands that the legitimate expectations principle in relation to this tax incentive applies, in relation to tax-amortized goodwill by the purchase of some companies for which the applicability of the legitimate expectations principle is questioned, mainly Vivo, the Group has decided to reverse the recovered part amounted to 143 million euros and continues accruing the amount of the goodwill amortized for tax purposes, totaling 343 million euros as of 31 December 2021 (420 million euros as of 31 December 2020).

Note 18. Trade, other payables and provisions

A) Trade and other payables

The breakdown of "Trade and other payables" is as follows:

Millions of euros	2021	2020
Suppliers	95	101
Accounts payable to personnel	39	39
Other payables	6	9
Other payables to public administrations (Note 17)	51	68
Total	191	217

Information on deferred payments to third parties. Third additional provision, "Information requirement" of Law 15/2010 of July, 5

In accordance with the aforementioned Law, the following information corresponding to the Company is disclosed:

	2021	2020
	Number of days	Number of days
Weighted average maturity period	36	36
Ratio of payments	38	36
Ratio of outstanding invoices	21	40
	Millions of euros	Millions of euros
Total Payments	275	270
Outstanding invoices	20	21

Telefónica, S.A. has adapted its internal processes and payment schedules to the provisions of Law 15/2010 (amended by Law 31/2014) and Royal Decree 4/2013, amending Law 3/2004, establishing measures against late payment in commercial transactions. Engagement conditions with commercial suppliers, as contractually agreed with them, in 2021 included payment periods with a maximum of 60 days.

For reasons of efficiency and in line with general practice in the business, the Company has set payment schedules, whereby payments are made on set days. Invoices falling due between two payment days are settled on the following payment date in the schedule.

Payments to Spanish suppliers in 2021 surpassing the legal limit were due to circumstances or incidents beyond the payment policies, mainly the delay in the billing process (a legal obligation for the supplier), the closing of agreements with suppliers over the delivery of goods or the rendering of services, or occasional processing issues.

B) Provisions

In 2021 and 2020 the concepts and amounts under the provisions caption are the following:

2021			
Millions of euros	Non-current	Current	Total
Tax Provisions	343	–	343
Termination plans (Note 19)	105	28	133
Other provisions	212	2	214
Total	660	30	690

2020			
Millions of euros	Non-current	Current	Total
Tax Provisions	433	–	433
Termination plans (Note 19)	94	24	118
Other provisions	178	2	180
Total	705	26	731

Movements in the provisions during 2021 and 2020 are disclosed below:

Millions of euros	2021	2020
Opening balance:	731	668
Additions	132	83
Amortization and reversals	(175)	(17)
Transfers	–	(3)
Fair value adjustments and others	2	–
Closing balance:	690	731
Non-current	660	705
Current	30	26

In 2021 and 2020 the caption "Additions" included 53 and 68 million euros, of tax provisions for the article 12.5 of the Spanish Corporate Tax Law related to the acquisition of Vivo (see Note 17). In 2021, after the recovery of the amortization of financial goodwill made by Spanish Tax Authorities detailed in 17.3, the Company has amortized an amount of 143 million euros of long term tax accrual for this concept. The amortization is shown as "Amortization and reversals" in 2021 chart of movements.

In 2019, Telefónica, S.A. launched a new voluntary termination plan for the employees who met certain requirements regarding the age of the employee and the seniority in the Company. The program was implemented during the first months of 2020.

In 2021 and 2020, the programs launched in 2019 (Plan 5 and Plan 10) with requirements regarding age and seniority in the Company for active employees were implemented. Additional expense of 25 and 15 million euros has been registered in 2021 and 2020, respectively, to cover the programs.

In addition, the Company has launched in 2021 a new voluntary, but not universal, termination plan for the employees who met certain requirements regarding the age of the employee and the seniority in the Company. This program will be implemented during the first months of 2022 and it has amounted to an expense of 11 million euros in 2021 income statement.

In 2021 and 2020 amortization of 20 and 17 million euros, respectively, related to the different programs launched in previous years have been registered.

Note 19. Revenue and expenses

19.1 Revenue

a) Rendering of services

Telefónica, S.A. has contracts for the right to use the Telefónica brand with Group companies which use the license. The amount each subsidiary must recognize as a cost for use of the license is stipulated in the contract as a percentage of income obtained by the licensor. In 2021 and 2020, "Rendering of services to Group companies and associates" included 345 and 379 million euros, respectively, for this item.

Telefónica, S.A. has signed contracts to provide management support services to Telefónica de España, S.A.U, Telefónica Móviles España, S.A.U., Telefónica UK, Ltd., Telefónica Latinoamérica Holding, S.L., Telxius Telecom, S.A.U. and since 2018, Telefónica Germany, GmbH. In March 2021 Telefónica Latinoamérica Holding, S.L partially transferred the contract signed with Telefónica, S.A. to Telefónica Hispanoamérica, S.A. so that Telefónica, S.A. went on to provide these services also to Telefónica Hispanoamérica, S.A. from January 1st, 2021. Revenues received for this concept in 2021 and 2020 amounted to 39 and 30 million euros, respectively, recognized under "Rendering of services to Group companies and associates".

Revenues in 2021 and 2020 also include property rental income amounting to 42 y 43 million euros, respectively, mainly generated from the lease of office space in Distrito Telefónica to several Telefónica Group companies (see Note 7).

b) Dividends from Group companies and associates

The detail of the main amounts recognized in 2021 and 2020 is as follows:

Millions of euros	2021	2020
Telfisa Global, B.V.	356	1,364
Telefónica de España, S.A.U.	–	1,207
Telefónica O2 Holdings Limited	2,345	4,459
Telefónica Móviles España, S.A.U.	560	1,949
Telefónica Brasil, S.A.	272	302
Sao Paulo Telecomunicações, Ltda	56	35
Telefónica Hispanoamérica, S.A.U	–	417
Pontel Participaciones, S.L.	2,196	–
Telefónica de Contenidos, S.A.U	–	105
Telefónica Finanzas, S.A.U	67	178
Telfin Ireland, Ltd.	80	136
Other companies	11	105
Total	5,943	10,257

c) Interest income on loans to Group companies and associates

This heading includes the return obtained on loans granted to subsidiaries to carry out their business (see Note 8.5). The breakdown of the most significant amounts is as follows:

Millions of euros	2021	2020
Telefónica Móviles México, S.A. de C.V.	–	7
Telfisa Global, B.V.	29	–
Telefónica Hispanoamérica, S.A.U	–	3
Telxius Telecom, S.A.U.	5	8
Telefónica Europe, B.V.	2	2
Other companies	–	1
Total	36	21

As described in Note 15.1, Telfisa Global, B.V. is in charge of the cash pooling services of the Group. In 2021, and based on the recommendations by the OECD Transfer Pricing Guidance on Financial Transactions, the Company has signed an agreement to partially share the financial profit or loss raised by its subsidiary within its operations. In 2021 the impact has been a revenue shown in the chart above.

19.2 Non-core and other current operating revenues

“Non-core and other current operating revenues – Group companies” relates to revenues on centralized services that Telefónica, S.A., as head of the Group, provides to its subsidiaries. Telefónica, S.A. bears the full cost of these services and then charges each individual subsidiary for the applicable portion.

19.3 Personnel expenses and employee benefits

The breakdown of “Personnel expenses” is as follows:

Millions of euros	2021	2020
Wages, salaries and other personnel expenses	167	158
Pension plans	9	7
Social security costs	36	39
Total	212	204

In 2021, “Wages, salaries and other personnel expenses” includes compensation accruals amounting to 36 million euros (15 million euros in 2020) as described in Note 18.

Telefónica has reached an agreement with its staff to provide an Occupational Pension Plan pursuant to Legislative Royal Decree 1/2002, of November 29, approving the revised Pension Plans and Funds Law. The features of this plan are as follows:

- Defined contribution of 4.51% of the participating employees’ base salary. The defined contributions of employees transferred to Telefónica from other Group companies with different defined contributions (e.g. 6.87% in the case of Telefónica de España, S.A.U.) will be maintained.
- Mandatory contribution by participants of a minimum of 2.2% of their base salary.
- Individual and financial capitalization systems.

This fund was outsourced to Telefónica’s subsidiary, Fonditel Entidad Gestora de Fondos de Pensiones, S.A., which has added the pension fund assets to its Fonditel B fund.

At December 31, 2021, 2,220 participants have signed up for the plan (2,266 participants in 2020). This figure includes both active employees, employees under termination plans and former employees who voluntarily decided to maintain the plan, as provided for in Royal Decree 304/2004 approving the regulations for Pension Plans and Funds. The cost for the Company amounted to 3 million euros in both 2021 and 2020.

In 2006, a Pension Plan for Senior Executives, wholly funded by the Company, was created and complements

the previous plan and involves additional defined contributions at a certain percentage of the executive’s fixed remuneration, based on professional category, plus some extraordinary contributions depending on the circumstances of each executive, payable in accordance with the terms of the plan.

Telefónica, S.A. has recorded costs related to the contributions to this executive plan of 7 and 8 million euros in both 2021 and 2020, respectively. In 2021 and 2020 some executives under this Pension Plan for Senior Executives left the Company, and accordingly their accumulated contributions were retrieved by Telefónica, S.A. and registered as a decrease in the expense totaling 2 and 5 million euros, respectively.

No provision was made for this plan as it has been fully externalized.

The main share-based payment plans in place in the 2021-2020 period are as follows:

Long-term incentive plan based on Telefónica, S.A. shares: Performance Share Plan 2018-2022

At the General Shareholders’ Meeting held on June 8, 2018, a long-term incentive plan was approved, consisting of the delivery of shares of Telefónica, S.A. aimed at senior executive officers of the Telefónica Group, including the Executive Directors of Telefónica, S.A. The plan consists of the delivery to the participants of a certain number of shares of Telefónica, S.A. based on compliance with the objectives established for each of the cycles into which the plan is divided.

The number of shares to deliver will depend (i) 50% on achievement of the total shareholder return (“TSR”) objective for shares of Telefónica, S.A. with regard to the TSRs of a comparison group made up of companies of the telecommunication sector, weighted by its relevance for Telefónica, and (ii) 50% on the generation of free cash flow of the Telefónica Group (“FCF”).

The plan will be in force for five years and is divided into three cycles of three years each.

The first cycle commenced in 2018 and finalized on December 31, 2020. The maximum number of shares assigned to this cycle of the plan at inception was 8,466,996 shares (out of which, 2,942,891 shares were assigned to Telefónica, S.A.’s employees) with a fair value of 6.4631 euros per share for the FCF objective (“Free Cash Flow”) and 4.516 euros for the TSR (“Total Shareholder Return”). As of December 31, 2020 the number of outstanding shares was 7,093,162 (out of which, 2,780,383 shares corresponded to Telefónica, S.A.’s employees). Once considered the target fulfillment levels for 2018, 2019, and 2020, a weighted achievement ratio of 50% was reached. Performance assessment was carried out based on the evolution of the stock price and on the audited results of the Company.

Nevertheless, on February 23, 2021, the Chairman & CEO declared in the Nominating, Retribution and Good Governance Committee that he considered appropriate to renounce to this incentive perception as a sign of responsibility with society, customers, shareholders and employees of Telefónica as well as a cautious measure after the economic impacts of the COVID-19 crisis. The COO made the same declaration. The renounce was accepted by the Board of Directors.

The second cycle commenced in 2019 and finalized on December 31, 2021. The maximum number of shares assigned to this cycle of the plan was 9,471,489 shares (out of which, 3,448,724 shares were assigned to Telefónica, S.A.'s employees) with a fair value of 6.1436 euros per share for the FCF objective ("Free Cash Flow") and 4.4394 euros for the TSR ("Total Shareholder Return"). As of December 31, 2021 the number of outstanding shares was 7,494,896 (out of which, 2,989,340 shares correspond to Telefónica, S.A.'s employees). Once considered the target fulfillment levels for 2019, 2020, and 2021, a weighted achievement ratio of 50% has been reached. Performance assessment has been carried out based on the evolution of the stock price and on the audited results of the Company.

The third cycle commenced in 2020 and will be finalized on December 31, 2022, with delivery of the respective shares in 2023. The maximum number of shares assigned to this cycle of the plan was 5,346,508 shares and the outstanding shares at December 31, 2021 was 4,903,728, with the following breakdown:

Third cycle	No. of shares assigned	Outstanding shares at 12/31/2021	Unit fair value (euros)
TSR Objective	2,673,254	2,451,864	1.64
FCF Objective	2,673,254	2,451,864	3.21

Out of this total, the shares assigned to Telefónica, S.A.'s employees were 1,935,025. The outstanding shares as of December 31, 2021 are 1,840,907.

Long-term incentive plan based on Telefónica, S.A. shares: Performance Share Plan 2021-2025

At the General Shareholders' Meeting held on April 23, 2021, a long-term incentive plan was approved, consisting of the delivery of shares of Telefónica, S.A. aimed at senior executive officers of the Telefónica Group, including the Executive Directors of Telefónica, S.A. The plan consists of the delivery to the participants of a certain number of shares of Telefónica, S.A. based on compliance with the objectives established for each of the cycles into which the plan is divided.

The number of shares to deliver depend (i) 50% on achievement of the total shareholder return ("TSR") objective for shares of Telefónica, S.A. with regard to the TSRs of a comparison group made up of companies of the telecommunication sector, weighted by its relevance

for Telefónica, (ii) 40% on the generation of free cash flow of Telefónica Group ("FCF"), and (iii) 10% on CO2 Emission Neutralization, in line with the goal set by the Company to reach zero net emissions by 2025.

The plan has a duration of five years and is divided into three cycles of three years each.

The first cycle commenced in 2021, with delivery of the respective shares in 2024. The maximum number of shares assigned to this cycle of the plan was 19,425,499 and the outstanding shares at December 31, 2021 was 19,216,398, with the following breakdown:

First cycle	Nº of shares assigned	Outstanding shares at 12/31/2021	Unit fair value (euros)
TSR Objective	9,712,749	9,608,199	2.64
FCF Objective	7,770,200	7,686,559	3.15
N.E. CO2 Objective	1,942,550	1,921,640	3.15

The maximum number of shares assigned to Telefónica, S.A.'s employees amounts to 7,831,873 (outstanding shares as of December 31, 2021 amounting to 7,743,925).

Long-term incentive plan based on Telefónica, S.A. shares: "Talent for the Future Share Plan 2018-2022" (TFSP)

At its meeting on June 8, 2018, the Telefónica, S.A.'s Board of Directors agreed to launch a new installment of the long-term incentive plan "Talent for the Future Share Plan".

The term of this plan is also five years and it is divided into three cycles. As in the case of the Performance Share Plan described above, the plan the number of shares to deliver will depend (i) 50% on achievement of the total shareholder return ("TSR") objective for shares of Telefónica, S.A. and (ii) 50% on the generation of free cash flow of the Telefónica Group ("FCF").

The first cycle commenced in 2018 and finalized on December 31, 2020. The maximum number of shares assigned to this cycle of the plan at inception was 787,500 shares (out of which, 92,500 shares were assigned to Telefónica, S.A.'s employees) with a fair value of 6.4631 euros per share for the FCF objective ("Free Cash Flow") and 4.5160 euros for the TSR ("Total Shareholder Return"). As of December 31, 2020 the number of outstanding shares was 691,750 (out of which, 85,250 shares corresponded to Telefónica, S.A.'s employees). Once considered the target fulfillment levels for 2018, 2019, and 2020, a weighted achievement ratio of 50% was reached. Performance assessment was carried out based on the evolution of the stock price and on the audited results of the Company.

The second cycle commenced in 2019 and finalized on December 31, 2021 with a maximum number of shares

assigned of 812,000 (out of which, 112,250 shares were assigned to Telefónica, S.A.'s employees) with a fair value of 6.1436 euros per share for the FCF objective ("Free Cash Flow") and 4.4394 euros for the TSR ("Total Shareholder Return"). As of December 31, 2021 the number of outstanding shares was 690,750 (out of which, 88,500 shares corresponded to Telefónica, S.A.'s employees). Once considered the target fulfillment levels for 2019, 2020, and 2021, a weighted achievement ratio of 50% has been reached. Performance assessment has been carried out based on the evolution of the stock price and on the audited results of the Company.

The third cycle commenced in 2020 and will be finalized on December 31, 2022, with delivery of the respective shares in 2023. The maximum number of shares assigned to this cycle of the plan was 897,400 shares and there were 836,200 outstanding shares at December 31, 2021, with the following breakdown:

Third cycle	No. of shares assigned	Outstanding shares at 12/31/2021	Unit fair value (euros)
TSR Objective	448,700	418,100	1.64
FCF Objective	448,700	418,100	3.21

From this total, the shares assigned to Telefónica, S.A.'s employees are 127,000. The outstanding shares as of December 31, 2020 are 105,200.

Long-term incentive plan based on Telefónica, S.A. shares: "Talent for the Future Share Plan 2021-2025" (TFSP)

At its meeting on March 17, 2021, the Telefónica, S.A.'s Board of Directors agreed to launch a new installment of the long-term incentive plan "Talent for the Future Share Plan".

The term of this plan is also five years and it is divided into three cycles. As in the case of the Performance Share Plan 2021-2025 described above, the number of shares to deliver will depend (i) 50% on achievement of the total shareholder return ("TSR") objective for shares of Telefónica, S.A. with regard to the TSRs of a comparison group made up of companies of the telecommunication sector, weighted by its relevance for Telefónica, (ii) 40% on the generation of free cash flow of Telefónica Group ("FCF"), and (iii) 10% on CO2 Emission Neutralization, in line with the goal set by the Company to reach zero net emissions by 2025.

The first cycle commenced in 2021, with delivery of the respective shares in 2024. The maximum number of shares assigned to this cycle of the plan was 1,751,500 and the outstanding shares at December 31, 2021 was 1,745,500, with the following breakdown:

First cycle	N° of shares assigned	Outstanding shares at 12/31/2021	Unit fair value (euros)
TSR Objective	875,750	872,750	2.64
FCF Objective	700,600	698,200	3.15
N.E. CO2 Objective	175,150	174,550	3.15

From this total, the shares assigned to Telefónica, S.A.'s employees are 232,500. The outstanding shares as of December 31, 2020 are 231,000.

Telefónica, S.A. global share plans "Global Employee Share Plans"

The Telefónica, S.A. Ordinary General Shareholders' meeting on June 8, 2018 approved a new voluntary plan for incentivized purchases of shares of Telefónica, S.A. for the employees of the Group. Under this Plan, employees were offered the option to acquire Telefónica, S.A. shares during a twelve-month period, with the company undertaking to deliver a certain number of free shares to participants, subject to certain requirements. The maximum amount that each employee can invest is limited to 1,800 euros.

The purchase period commenced in August 2019 and ended in July 2020. In July 2021 the vesting period of the plan ended. More of 15,800 employees that had registered for the plan at that moment received 1,853,966 free shares from Telefónica, valued at around 7.3 million euros at the time of the delivery. (See Note 11).

19.4 Average number of employees in 2021 and 2020 and number of employees at year-end

Professional category	Employees at 12/31/21			Average no. of employees in 2021		
	Females	Males	Total	Females	Males	Total
Chairman and General Managers	–	1	1	–	1	1
Directors	48	108	156	49	112	161
Managers	144	143	287	143	146	289
Project Managers	127	141	268	127	141	268
University graduates and experts	155	123	278	165	126	291
Administration, clerks, advisors	98	1	99	101	1	102
Total	572	517	1,089	585	527	1,112

Professional category	Employees at 12/31/2020			Average no. of employees in 2020		
	Females	Males	Total	Females	Males	Total
Chairman and General Managers	–	1	1	–	1	1
Directors	49	124	173	55	127	182
Managers	152	159	311	160	172	332
Project Managers	135	150	285	140	150	290
University graduates and experts	170	145	315	176	145	321
Administration, clerks, advisors	113	2	115	111	3	114
Total	619	581	1,200	642	598	1,240

On April 1, 2021 the contract to transfer the Autonomous Productive Unit (APU) between Telefónica, S.A. and Telefónica Hispanoamérica, S.A. was signed. This contract was the conclusion of the restructuring process of the businesses in Latin América that the Group started in 2020. The APU transfer affected 45 Telefónica, S.A.'s employees.

According to the new requirement of the Spanish Companies Law established in article 260, the average number of employees with disability of 33% or higher, establishing the categories to which they belong are the following:

Professional category	Average number of employees
Project Managers	1
University graduates and experts	1
Administration, clerks, advisors	2
Total	4

19.5 External services

The items composing "External services" are as follows:

Millions of euros	2021	2020
Rent	4	10
Independent professional services	145	165
Donations	58	61
Marketing and advertising	106	97
Other expenses	76	64
Total	389	397

In 2021 and 2020 the line Donations include funds contributed and paid to Fundación Telefónica amounting to 57 million euros during both years.

On December 19, 2007, Telefónica, S.A. signed a rental contract with a view to establish the headquarters of the "Telefónica Corporate University". On December 31, 2020 the Company requested an early cancellation of the contract, paying the indemnity of 15 million euros which is shown as Other operating expenses in the 2020 chart of external services.

On May 30, 2019, Telefónica, S.A. signed a 10-year contract to rent Diagonal 00 building, owned by the Company until that moment, due in 2029 (Note 7), renewable for another 6 years.

Future minimum rentals payable under non-cancellable operating leases without penalization at December 31, 2021 and 2020 are as follows:

Millions of euros	Total	Up to 1 year	From 1 to 3 years	From 3 to 5 years	Over 5 years
Future minimum rentals 2021	24	4	7	6	7
Future minimum rentals 2020	31	4	8	7	12

19.6 Finance revenue

The items composing "Finance revenue" are as follows:

Millions of euros	2021	2020
Dividends from other companies	13	10
Other third parties financial revenues and gains on derivative instruments	410	365
Total	423	375

"Other third parties financial revenues and gains on derivative instruments" include the effect of the financial hedges arranged to unwind positions for 2021 and 2020, which have the same amount under "Finance costs payable to third parties and losses on interest rates of financial hedges" and therefore do not have a net impact in the income statement.

19.7 Finance costs

The breakdown of "Finance costs" is as follows:

Millions of euros	2021	2020
Interest on borrowings from Group companies and associates	1,455	1,584
Finance costs payable to third parties and losses on interest rates of financial hedges	89	387
Total	1,544	1,971

The breakdown by Group company of debt interest expenses is as follows:

Millions of euros	2021	2020
Telefónica Europe, B.V.	458	461
Telefónica Emisiones, S.A.U.	986	1,089
Other companies	11	34
Total	1,455	1,584

Other companies includes financial costs with Telfisa Global, B.V. related to current payables for specific cash needs.

The amount included as "Finance costs payable to third parties and losses on interest rate of financial hedges" refers to fair value effects in the measurement of derivative instruments described in Note 16, together with the effect of the debt interest rates' trend during the year.

19.8 Exchange differences

The breakdown of exchange gains recognized in the income statement is as follows:

Millions of euros	2021	2020
On current operations	102	31
On loans and borrowings	95	67
On derivatives	849	2,043
On other items	231	98
Total	1,277	2,239

The breakdown of exchange losses recognized in the income statement is as follows:

Millions of euros	2021	2020
On current operations	105	122
On loans and borrowings	79	188
On derivatives	1,077	1,320
On other items	11	8
Total	1,272	1,638

The variation in exchange gains and losses is due to the fluctuations in the main currencies the Company works with. In 2021 euro exchange rate has depreciated against US dollar (8.32%), pound sterling (6.90%) and Brazilian real (0.87%).

In 2020 Euro exchange rate appreciated against US dollar (8.47%), pound sterling (5.22%) and Brazilian real (29.01%).

These impacts are offset by the hedges contracted to mitigate exchange rate fluctuations.

Note 20. Other information

a) Financial guarantees

At December 31, 2021, Telefónica, S.A. had provided financial guarantees for its subsidiaries and investees to secure their transactions with third parties amounting to 37,638 million euros (40,648 million euros at December 31, 2020). These guarantees are measured as indicated in Note 4.g).

Millions of euros		
Nominal Amount	2021	2020
Debentures and bonds and equity instruments	36,524	38,681
Loans and other payables	115	719
Other marketable debt securities	999	1,248
Total	37,638	40,648

The debentures, bonds and equity instruments in circulation at December 31, 2021 issued by Telefónica Emisiones, S.A.U., Telefónica Europe, B.V. and Telefónica Participaciones, S.A.U., were guaranteed by Telefónica, S.A. The nominal amount guaranteed was equivalent to 36,524 million euros at December 31, 2021 (38,681 million euros at December 31, 2020). During 2021 there were no issuance of instruments on capital markets by Telefónica Emisiones, S.A.U (3,500 million euros in 2020) and 4,471 million euros matured during 2021 (5,635 million euros during 2020).

The main loans and other debts guaranteed by Telefónica, S.A. at December 31, 2020 was the cash-settled equity link bonds non-dilutive issued by Telefónica Participaciones, S.A.U., whose outstanding amount at December 31, 2020 was 600 million euros and maturing in 2021.

"Other marketable debt securities" includes the guarantee of Telefónica, S.A. relating to the commercial paper issue program of Telefónica Europe, B.V. The outstanding balance of commercial paper in circulation issued through this program at December 31, 2021 was 999 million euros (1,248 million euros at December 31, 2020).

Telefónica, S.A. provides operating guarantees granted by external counterparties, which are offered during its normal commercial activity. At December 31, 2021 and 2020, these guarantees amounted to approximately 41 million euros in both years.

b) Litigation

Telefónica and its group companies are party to several legal proceedings which are currently in progress in the courts of law and the arbitration bodies of the various countries in which Telefónica is present.

Based on the advice of our legal counsel it is reasonable to assume that these legal proceedings will not materially affect the financial condition or solvency of the Telefónica Group.

It is worth highlighting the following aspects relating to the unresolved legal proceedings or those underway during 2021 (see Note 17 for details of tax-related cases):

Appeal against the Decision of the European Commission dated January 23, 2013, to sanction Telefónica for the infringement of Article 101 of the Treaty on the functioning of the European Union

On January 19, 2011, the European Commission initiated formal proceedings to investigate whether Telefónica, S.A. (Telefónica) and Portugal Telecom SGPS, S.A. (Portugal Telecom) had infringed European Union anti-trust laws with respect to a clause contained in the sale and purchase agreement of Portugal Telecom's ownership interest in Brasilcel, N.V., a joint venture in which both companies were venturers and which was the owner of the Brazilian company Vivo.

On January 23, 2013, the European Commission passed a ruling on the formal proceedings. The ruling imposed a fine on Telefónica in the amount of 67 million euros, as the European Commission ruled that Telefónica and Portugal Telecom committed an infraction of Article 101 of the Treaty on the Functioning of the European Union for having entered into the agreement set forth in Clause Nine of the sale and purchase agreement of Portugal Telecom's ownership interest of Brasilcel, N.V.

On April 9, 2013, Telefónica filed an appeal for annulment of this ruling with the European Union General Court. On August 6, 2013, the European Union General Court notified Telefónica of the response issued by the European Commission, in which the European Commission reaffirmed the main arguments of its ruling and, specifically, that Clause Nine includes a competition restriction. On September 30, 2013, Telefónica filed its reply. On December 18, 2013, the European Commission filed its appeal.

A hearing was held on May 19, 2015, at the European Union General Court.

On June 28, 2016, the European Union General Court ruled. Although it declared the existence of an infringement of competition law, it annulled Article 2 of the contested Decision and required the European Commission to reassess the amount of the fine imposed. The General Court considered that the European Commission has not neutralized the allegations and evidences provided by Telefónica on services in which there was not potential competition or were outside the scope of Clause Nine.

Telefónica understands that there are grounds for believing that the ruling does not suit at law; consequently, it filed an appeal to the Court of Justice of the European Union, on September 11, 2016.

On November 23, 2016, the European Commission filed its response against the Telefónica's appeal. On January 30, 2017, Telefónica filed its response. On March 9, 2017, the European Commission filed its rejoinder.

On December 13, 2017, the General Court dismissed the appeal filed by Telefónica. The European Commission, which was urged to recalculate the amount of the fine in the judgment of the General Court of June 2016, issued a resolution on January 25, 2022, imposing a fine of 67 million euros on Telefónica. The Company is currently analyzing this resolution.

Decision by the High Court regarding the acquisition by Telefónica of shares in Český Telecom by way of a tender offer

Venten Management Limited ("Venten") and Lexburg Enterprises Limited ("Lexburg") were non-controlling shareholders of Český Telecom. In September 2005, both companies sold their shares to Telefónica in a mandatory tender offer. Subsequently, Venten and Lexburg, in 2006 and 2009, respectively, filed actions against Telefónica claiming a higher price than the price for which they sold their shares in the mandatory tender offer.

On August 5, 2016, the hearing before the High Court in Prague took place in order to decide the appeal against the second decision of the Municipal Court, which had been favorable to Telefónica's position (as was also the case with the first decision of the Municipal Court). At the end of the hearing, the High Court announced the Second Appellate Decision by which it reversed the second decision of the Municipal Court and ordered Telefónica to pay 644 million Czech korunas (approximately 23 million euros) to Venten and 227 million Czech korunas (approximately 8 million euros) to Lexburg, in each case plus interest.

On December 28, 2016, the decision was notified to Telefónica. Telefónica filed an extraordinary appeal, requesting the suspension of the effects of the decision.

In March 2017, Telefónica was notified of the decision of the Supreme Court, which ordered the suspension of the

effects of the unfavorable decision to Telefónica issued by the High Court.

Venten and Lexburg filed with the Supreme Court a motion to partially abolish the suspension of enforceability of the Decision of the High Court in Prague. On January 17, 2018, Telefónica filed its response seeking dismissal of such motion for lack of legal basis.

On February 14, 2019, notification was given to Telefónica of the resolution of the Supreme Court which, based on the extraordinary appeal filed by Telefónica, abolished the decision of the High Court in Prague dated August 5, 2016 and remanded the case back to the High Court.

In December 2021, the High Court of Prague confirmed its appointment of an expert in order to produce a new expert report to assess the reliability of market-based price criteria used in the mandatory tender offer and further technical issues discussed in this litigation, including a new discounted cashflow valuation of the shares of Český Telecom in 2005.

ICSID Arbitration Telefónica, S.A. vs. Republic of Colombia

In the local arbitration brought by Colombia against Colombia Telecomunicaciones ("ColTel"), on July 25, 2017, the local arbitration tribunal ordered ColTel to pay 470 million euros as economic compensation for the reversion of assets related to voice services in relation to the concession granted between 1994 and 2013.

On August 29, 2017, ColTel's share capital was increased in order to make the payment ordered by the local arbitral award; Telefónica, S.A. contributed and disbursed an amount equivalent to 67.5% of the award's amount (317 million euros) and the Colombian Government contributed an amount equivalent to the remaining 32.5% (153 million euros).

On February 1, 2018, Telefónica, S.A. filed a Request for Arbitration against Colombia at the International Centre for Settlement of Investment Disputes ("ICSID"), which was formally registered on February 20, 2018.

The ICSID Court was constituted on February 26, 2019, with José Emilio Nunes Pinto as President, Horacio A. Grigera Naón appointed by Telefónica, S.A., and Yves Derains appointed by Colombia.

Colombia filed Preliminary Objections on Jurisdiction on August 5, 2019. Telefónica, S.A. responded to Colombia's objections in its Claimant's Memorial on September 23, 2019, in which it also requested that Colombia pay compensation for damages caused to Telefónica, S.A.

On October 23, 2019, Colombia submitted its Complementary Objections on Jurisdiction as well as a request for Bifurcation, to which Telefónica, S.A. responded on November 29, 2019.

On January 24, 2020, the Court dismissed the request for Bifurcation presented by Colombia, ordering the continuation of the proceeding. A decision on the merits of Telefónica, S.A.'s claim is pending. On July 3, 2020, Colombia filed its reply to the claim filed by Telefónica before the ICSID.

On November 2, 2020, Telefónica presented its response to Colombia's reply.

After the hearing held in April 2021, on July 27, 2021 the hearing of closing arguments was held, and the parties are awaiting the issuance of the arbitration award.

Telefónica's lawsuit against Millicom International Cellular for default in the sale of Telefónica de Costa Rica

Telefónica, S.A. (Telefónica) and Millicom International Cellular, S.A. (Millicom) reached an agreement on February 20, 2019 for the purchase and sale of the entire capital stock of Telefónica de Costa Rica TC, S.A.

In March 2020, Telefónica informed Millicom that, once the pertinent regulatory authorizations had been obtained and all the other conditions established in the aforementioned agreement for the execution of the sale had been completed, the execution of the contract and the closing of the transaction should be in April 2020.

Millicom expressed its refusal to proceed with the closing, arguing that the competent Costa Rican administrative authorities had not issued the appropriate authorization.

On May 25, 2020, Telefónica filed a lawsuit against Millicom before the New York Supreme Court, considering that Millicom had breached the terms and conditions established in the sale contract, demanding compliance with the provisions of the aforementioned agreement, and compensation for all damages that this unjustified breach could cause to Telefónica.

On June 29, 2020, Millicom filed a Motion to Dismiss, to which Telefónica replied on July 8, 2020.

On August 3, 2020, Telefónica submitted an amendment to the lawsuit, removing the requirement to comply with the provisions of the sale and purchase contract and requesting only compensation for all damages that the unjustified breach of said agreement could cause Telefónica.

On January 5, 2021, the Motion to Dismiss filed by Millicom in June 2020 was dismissed by the New York Supreme Court.

ICSID Arbitration Telefónica, S.A. vs. Republic of Peru

On February 5, 2021, Telefónica filed a request for arbitration against the Republic of Peru at the ICSID, which was formally registered on March 12, 2021.

Telefónica bases its claims on the Agreement for the Promotion and Reciprocal Protection of Investments between the Kingdom of Spain and the Republic of Peru ("APRPI") signed on November 17, 1994. Telefónica argues that the Peruvian tax administration (called Superintendencia Nacional de Aduanas y de Administración Tributaria, known as "SUNAT") and other state bodies have failed to comply with the obligations established in the APRPI, including by adopting arbitrary and discriminatory actions.

It is requested that the defendant be ordered to fully compensate Telefónica for all damages suffered.

The Arbitration Court is currently being constituted.

UK High Court claim by Phones 4 U Limited against various mobile network operators and other companies, among others, Telefónica, S.A., Telefónica O2 Holdings Limited and Telefónica UK Limited

In late 2018, Phones 4U Limited (in administration) ("P4U") commenced a claim in the English High Court in London against various mobile network operators: Everywhere, Deutsche Telekom, Orange, Vodafone, Telefónica, S.A., Telefonica O2 Holdings Limited and Telefonica UK Limited (together the "Defendants").

P4U carried on a business of selling mobile phones and connections to the public, such connections being supplied by mobile network operators including the Defendants. In 2013 and 2014, the Defendants declined to extend and / or terminated their contracts to supply connections to P4U.

P4U went into administration in September 2014.

P4U alleges that the Defendants ceased to supply connections because they had colluded between themselves in contravention of the United Kingdom and the European Union competition laws and asserts that it has a basis to claim damages for breach of competition law by all the Defendants. The Defendants deny all P4U's allegations.

The claim commenced on December 18, 2018 by P4U. The Defendants filed their initial Defences in the course of April and May 2019, with P4U filing replies on October 18, 2019. The first case management conference took place on March 2, 2020.

The first trial will be heard in the Competition List of the Chancery Division of the English High Court and is listed to take place from May 16, 2022 to July 29, 2022.

c) Other contingencies

The Group is currently cooperating with governmental authorities (and, where appropriate, conducting the relevant internal investigations) regarding requests for information potentially related, directly or indirectly, to

possible violations of applicable anti-corruption laws. Telefónica believes that, considering the size of the Group, any potential penalty as a result of matters relating to those specific information requests would not materially affect the Group's financial condition.

d) Commitments

Agreement related to the Sale of Customer Relationship Management ("CRM") Business, Atento

As a result of the sale agreement of Atento by Telefónica, announced on October 12, 2012, and ratified on December 12, 2012, both companies signed a Master Service Agreement which regulates Atento's relationship with the Telefónica Group as a service provider for a period of nine years and which has been amended on May 16, 2014, November 8, 2016, May 11, 2018, November 28, 2019 and February 4, 2022. The term of the agreement was extended for Spain and Brazil in November 2016, for two additional years until the end of 2023, and for Latin America in February 2022, for one additional year until the end of 2022.

By virtue of this agreement, Atento became Telefónica's preferred Contact Center and Customer Relationship Management ("CRM") service provider, stipulating annual commitments in terms of turnover which is updated based on inflation and deflation that vary from country to country, pursuant to the volume of services Atento has been providing to the entire Group. Effective January 1, 2017, the minimum volume commitments that Telefónica must comply with have significantly decreased for Brazil and Spain. Additionally, from January 1, 2019 a new reduction of the minimum commitment has been agreed, in this case only for Spain.

Failure to meet the annual turnover commitments in principle results in the obligation to the counterparty, to pay additional amounts, which would be calculated based on the difference between the actual amount of turnover and the predetermined commitment, applying a percentage based on the Contact Center's business margin to the final calculation.

Notwithstanding the above, as a consequence of the amendment signed with the Atento Group on May 11, 2018, from January 1, 2018 the payment obligation for failure to meet the annual turnover commitment continues to be calculated every year but will only be liquidated upon termination of the agreement. Such payment will only be due if the balance is in favor of Atento after adding certain amounts agreed between the parties and deducting an annual percentage of the Atento Group's sales to the Telefónica Group.

The Master Agreement sets forth a reciprocal arrangement, whereby Atento assumes similar commitments to subscribe certain telecommunications services from Telefónica.

Agreement for the sale of the shares of Telefónica Gestión de Servicios Compartidos España, S.A.U., Telefónica Gestión de Servicios Compartidos Argentina, S.A. and T-Gestiona Servicios Contables y Capital Humano, S.A.C.

On March 1, 2016, a share purchase agreement between, on one hand, Telefónica, S.A., Telefónica Servicios Globales, S.L.U. and Telefónica Gestión de Servicios Compartidos Perú, S.A.C. (as sellers), and, on the other hand, IBM Global Services España, S.A., IBM del Perú, S.A.C., IBM Canada Limited and IBM Americas Holding, LLC (as purchasers) for the sale of the companies Telefónica Gestión de Servicios Compartidos España, S.A.U., Telefónica Gestión de Servicios Compartidos Argentina, S.A. and T-Gestiona Servicios Contables y Capital Humano, S.A.C., for a total price of approximately 22 million euros, was ratified before Notary Public. This share purchase agreement was subscribed on December 31, 2015.

Following the aforementioned share purchase agreement and in connection with the latter transaction, also, on December 31, 2015, Telefónica subscribed a master services agreement with IBM for the outsourcing of economic-financial and HR activities and functions to be provided to the Telefónica Group during a period of ten years, for a total amount of approximately 450 million euros. Most of the Telefónica Group's subsidiary companies have already adhered to that master services agreement.

On March 31, 2021 an amendment of the master services agreement with IBM for the outsourcing of economic-financial and HR activities and functions to be provided to the Telefónica Group was subscribed. By virtue of this amendment the term may be extended for those adhered companies that decide to extend their services beyond the initial term.

Contracts for the provision of IT services with Nabiax

In 2019 Telefónica, S.A. signed an agreement for the sale of a portfolio of eleven data center businesses to a company (hereinafter "Nabiax") controlled by Asterion Industrial Partners SGEIC, S.A.

At the same time as this sale, agreements were entered into with Nabiax to provide housing services to the Telefónica Group, allowing Telefónica to continue providing housing services to its customers, in accordance with its previous commitments. Such service provision agreements have an initial term of ten years and include minimum consumption commitments in terms of capacity. These commitments are consistent with the Group's expected consumption volumes, while prices are subject to review mechanisms based on inflation and market reality.

On May 7, 2021, Asterion Industrial Partners SGEIC, S.A. and Telefónica Infra, the infrastructure unit of the

Telefónica Group ("T. Infra"), reached an agreement for the contribution to Nabiax of four additional data centers owned by the Telefónica Group (two of them located in Spain and two in Chile). In exchange for the contribution of these four data centers, T. Infra will receive a 20% equity stake in Nabiax. Once the relevant authorizations and other conditions precedent to the contribution of the two data centers located in Spain were obtained, the partial closing of the transaction took place as of July 21, 2021, whereby Telefónica Group contributed those data centers to Nabiax, with T. Infra receiving in exchange a 13.94% stake in Nabiax at this stage. The agreement was complemented by the signing of a contract for the provision to Telefónica of housing services from those two data centers under terms and conditions equivalent to those established in the transaction executed in 2019, for an initial period of ten years.

Once the conditions related to the contribution of the two data centers located in Chile have been fulfilled and the same has been executed, T. Infra's stake in Nabiax will reach 20%. In this case, the contribution will also be complemented by the signing of a contract for the provision to Telefónica of housing services from these additional two data centers on similar terms as those indicated above.

50:50 joint venture with Liberty Global for the combination of both groups' businesses in the United Kingdom

On May 7, 2020, Telefónica agreed to enter into a joint venture with Liberty Global plc ("Liberty Global") pursuant to a contribution agreement between Telefónica, Telefonica O2 Holdings Limited, Liberty Global, Liberty Global Europe 2 Limited and a newly formed entity of which, after closing, each of Telefónica and Liberty Global would hold 50% of its share capital named VMED O2 UK Limited (as amended, the "Contribution Agreement").

After having obtained the clearance from the Competition and Market Authority (the antitrust authority in the UK) to complete this transaction and having fulfilled all the other pre-closing conditions included in the Contribution Agreement, the transaction was completed on June 1, 2021. As from such date, Telefónica and Liberty Global each holds an equal number of shares in VMED O2 UK Limited; after: (i) Telefónica having contributed to VMED O2 UK Limited its O2 mobile business in the United Kingdom and (ii) Liberty Global having contributed its Virgin Media business in the United Kingdom to VMED O2 UK Limited.

The corporate governance of VMED O2 UK Limited is regulated by a shareholders' agreement, which was entered into by the parties to the Contribution Agreement on June 1, 2021 (the "Shareholders' Agreement"). The Shareholders' Agreement provides that each of Telefónica and Liberty Global will designate four of the eight members of the Board of Directors of VMED O2 UK Limited, contains provisions regulating the

management of VMED O2 UK Limited, the procedure to pass resolutions on certain reserved matters and distributions to shareholders, and customary non-solicitation, non-compete and information sharing provisions. Likewise, the Shareholders' Agreement provides that each of Telefónica or Liberty Global will have the right to initiate an initial public offering (IPO) of VMED O2 UK Limited after the third (3rd) anniversary of the closing of the transaction, with the opportunity for the other shareholder to sell shares in the IPO on a pro rata basis. The Shareholders' Agreement also includes general restrictions on transfers of interests in VMED O2 UK Limited until the third (3rd) anniversary of the closing of the transaction, subject to certain limited exceptions. After third (3rd) anniversary of the closing of the transaction, any of the shareholders may send a notice to the other shareholder to initiate an IPO process as set forth in the Shareholders' Agreement, and after the fifth (5th) anniversary, each shareholder will be able to initiate a sale of VMED O2 UK Limited to a third party in accordance with certain drag procedures, subject to a right of first offer in favor of the other shareholder.

On the date of closing of the transaction, Telefónica, Liberty Global, and certain companies belonging to each shareholder's corporate group entered into certain services, reverse services, licensing and data protection agreements with VMED O2 UK Limited and certain entities belonging to VMED O2 UK Limited group. In particular, Telefónica and Liberty Global agreed that each shareholder's group would provide certain services, either on a transitional or ongoing basis to VMED O2 UK Limited and its group and that, for a limited period of time, VMED O2 UK Limited would also provide certain reverse services to specific companies belonging to the corporate group of each of its shareholders.

Pursuant to the terms of the above referred services agreements, the transitional services that are to be provided by the Telefónica Group to VMED O2 UK Limited shall be provided for terms ranging from 7 to 24 months while the ongoing services that are to be provided by the Telefónica Group to VMED O2 UK Limited will be provided for a period of two to six years, depending on the service. The services provided by the Telefónica Group to VMED O2 UK Limited consist primarily of technology and telecommunication services that will be used by or will otherwise benefit VMED O2 UK Limited. In addition to providing VMED O2 UK Limited with such services, the mobile operators of the Telefónica Group and VMED O2 UK Limited will maintain their roaming commercial relationships in order to reciprocally provide roaming services for their respective customers.

Likewise, as of closing of the transaction Telefónica granted certain trademark license agreements to VMED O2 UK Limited (the "VMED O2 UK Limited Trademark Licenses"). Pursuant to the VMED O2 UK Limited Trademark Licenses, Telefonica Group licensed the use of Telefónica and O2 brand rights to VMED O2 UK Limited.

Additionally, at the date of closing of this transaction, Telefonica UK Limited entered into a recovery plan together with the trustee of the Telefonica UK pension plan. Such recovery plan and the Contribution Agreement set forth the obligation of Telefonica UK Limited to carry out certain payments during 2021 and 2022 in respect of agreed deficit-repair pension contributions due to the Telefonica UK Pension Plan.

In December 2021, Telefónica and Liberty Global reached an agreement on the amount for the post-completion equalization adjustment—pursuant to the calculation rules set out in Schedule 10 of the Contribution Agreement. Post payment of the related amount, Telefónica has received proceeds in connection with the transaction (i.e., excluding dividends from the ordinary course of business) amounting to 5,376 million pounds sterling (equivalent to 6,234 million euros at the transaction day).

e) Directors' and Senior executives' compensations and other benefits

The compensation of the members of Telefónica's Board of Directors is governed by article 35 of the Company's By-Laws, which provides that the annual amount of the compensation to be paid thereby to all of the Directors in their capacity as such, i.e., as members of the Board of Directors and for the performance of the duty of supervision and collective decision-making inherent in such body, shall be fixed by the shareholders at the General Shareholders' Meeting. The Board of Directors shall determine the exact amount to be paid within such limit and the distribution thereof among the Directors, taking into account the duties and responsibilities assigned to each Director, their membership on Committees within the Board of Directors and other objective circumstances that it deems relevant. Furthermore, Executive Directors shall receive such compensation as the Board determines for the performance of executive duties delegated or entrusted to them by the Board of Directors. Such compensation shall conform to the Director compensation policy approved by the shareholders at the General Shareholders' Meeting.

In accordance with the foregoing, the shareholders acting at the Ordinary General Shareholders' Meeting held on April 11, 2003 set at 6 million euros the maximum amount of annual gross compensation to be received by the Board of Directors as a fixed allotment and as attendance fees for attending the meetings of the Advisory or Control Committees of the Board of Directors. Thus, as regards fiscal year 2021, the total amount of compensation accrued by the Directors of Telefónica, in their capacity as such, was 3,101,101 euros for the fixed allocation and for attendance fees.

The compensation of the Directors of Telefónica in their capacity as members of the Board of Directors, of the Executive Commission and/or of the Advisory or Control

Committees consists of a fixed amount payable monthly and of attendance fees for attending the meetings of the Advisory or Control Committees.

Set forth below are the amounts established in fiscal year 2021 as fixed amounts for belonging to the Board of Directors, the Executive Commission and the Advisory or Control Committees of Telefónica and the attendance fees for attending meetings of the Advisory or Control Committees of the Board of Directors:

Compensation of the Board of Directors and of the Committees thereof

Amounts in euros

Position	Board of Directors	Executive Commission	Advisory or Control Committees (*)
Chairman	240,000	80,000	22,400
Vice chairman	200,000	80,000	—
Executive Member	—	—	—
Proprietary Member	120,000	80,000	11,200
Independent Member	120,000	80,000	11,200
Other external	120,000	80,000	11,200

(*) In addition, the amount of the attendance fee for each of the meetings of the Advisory or Control Committees is 1,000 euros.

In this regard, it is noted that the Executive Chairman, Mr. José María Álvarez-Pallete López, waived the receipt of the above amounts (i.e., 240,000 euros as Chairman of the Board of Directors and 80,000 euros as Chairman of the Executive Commission).

Likewise, the fixed remuneration of 1,923,100 euros established for the 2022 financial year related to executive roles carried out by Executive Chairman, Mr. José María Álvarez-Pallete López is equal to that received in the previous six years (i.e. 2021, 2020, 2019, 2018, 2017 and 2016), which was set in his capacity as Chief Operating Officer, remaining invariably after his appointment as Chairman in 2016. This compensation is a 13.8% lower to the compensation established for the position of Executive Chairman prior to his appointment as such.

The fixed remuneration, for his executive roles, of 1,600,000 euros that the Chief Operating Officer (C.O.O.), Mr. Ángel Vilá Boix, has established for the 2022 financial year is equal to the one received in the years 2021, 2020 and 2019.

Individualized description

Appendix II provides an individual breakdown by item of the compensation and benefits that the members of the Board of Directors and of the Senior Management of the Company have accrued and/or received from Telefónica, S.A. and from other companies of the Telefónica Group during fiscal year 2021. Likewise, the compensation and benefits accrued and/or received, during such year, by the members of the Company's Senior Management are broken down.

f) Related-party transactions

Significant shareholders

The significant shareholders of the Company are Banco Bilbao Vizcaya Argentaria, S.A. (BBVA), CaixaBank, S.A. and Blackrock, Inc., with stakes in Telefónica, S.A. of 4.99%, 4.49% and 4.48%, respectively at December 31, 2021.

During 2021 and 2020, the Group carried out no significant transactions with Blackrock, Inc. other than the corresponding dividends paid.

A summary of significant transactions between Telefónica, S.A. and the companies of BBVA and those of la Caixa, carried out at market prices, is as follows:

2021			
Millions of euros	BBVA	la Caixa	
Financial expenses	6	1	
Receipt of services	1	2	
Total expenses	7	3	
Financial revenues	1	—	
Dividends received (1)	8	—	
Total revenues	9	—	
Guarantees granted	—	8	
Time deposits	86	—	
Time deposits (Others)	251	21	
Dividends distributed	108	113	

(1) As of December 31, 2021 Telefónica holds 0.66% investment in BBVA (See Note 9.3).

2020

Millions of euros	BBVA	la Caixa
Financial expenses	6	—
Receipt of services	1	2
Total expenses	7	2
Financial revenues	2	—
Dividends received (1)	6	—
Total revenues	8	—
Financing transactions	294	273
Guarantees granted	—	8
Time deposits	126	—
Time deposits (Others)	216	10
Dividends distributed	125	126

(1) As of December 31, 2020 Telefónica held 0.66% investment in BBVA.

In addition, the nominal outstanding value of derivatives held with BBVA and la Caixa in 2021 amounted to 6,226 and 264 million euros, respectively (10,211 million euros held with BBVA and 542 million euros with la Caixa in 2020). The fair value of these derivatives in the balance sheet is 331 and 26 million euros, respectively, in 2021 (215 and -11 million euros, respectively, in 2020). As explained in Derivatives policy in Note 16, this figure is inflated by the use in some cases of several levels of derivatives applied to the nominal value of a single underlying. Moreover, in 2021 there are collateral guarantees (liabilities) of certain derivatives held with BBVA and la Caixa amounting to 251 and 21 million euros, respectively (a liability of 164 and 10 million euros, respectively, in 2020).

Until July 30, 2020, BBVA Bancomer, Institución de Banca Múltiple, Grupo Financiero Bancomer (subsidiary of Banco Bilbao Vizcaya Argentaria, S.A.) held a shareholding together with Telefónica Móviles México, S.A. de C.V. (subsidiary of Telefónica, S.A.) in Adquira México, S.A. de C.V. On the said date, July 30, 2020, Telefónica Móviles México, S.A. de C.V. sold to Openpay, S.A. de C.V. (company within BBVA Group) its shareholding in Adquira México, S.A. de C.V.

Similarly, on November 20, 2020, Telefónica Digital España, S.L.U. and Compañía Chilena de Inversiones, S.L., an affiliated company of BBVA, entered into a joint venture agreement related to the incorporation of a subsidiary in Colombia with the aim of commercializing loans to consumers and SME in such country.

Group companies and Associates

Telefónica, S.A. is a holding company for various investments in companies in Latin, Spain and the rest of Europe which do business in the telecommunications, media and entertainment sectors.

The balances and transactions between the Company and these subsidiaries (Group and Associated Companies) at December 31, 2021 and 2020 are detailed in the notes to these individual financial statements.

Directors and senior executives

During the financial year to which these accompanying financial statements refer, the Directors and senior executives did not perform any transactions with Telefónica, S.A. or any Telefónica Group company other than those in the Group's normal trading activity and business.

Compensation and other benefits paid to members of the Board of Directors and senior executives are detailed in Note 20 e) and Appendix II of these financial statements.

Telefónica contracted a civil liability insurance scheme (D&O) for Directors, managers and staff with similar functions in the Telefónica Group, with standard conditions for these types of insurance and a premium attributable to 2021 of 5,303,931.42 euros (2,654,581.42 euros in 2020). This scheme provides coverage for Telefónica, S.A. and its subsidiaries in certain cases. Out of this amount, Telefónica, S.A. has paid 3,010,258.35 euros (1,380,668 euros in 2020).

Certain Telefónica Group subsidiaries performed transactions in 2020 with Global Dominion Access Group, entity related to Director Mr. José Riberas Mera, related to the Group's ordinary course of business, mainly in Telefónica de España amounting to 11 million euros.

On September 25, 2020, Telefónica Digital España, S.L.U. and ASTI Mobile Robotics, S.A., entity related to Director Ms. Verónica Pascual Boé, signed a Framework Agreement, the purpose of which is to establish the commercial, economic and legal conditions that will apply to those Operators of the Telefónica Group that may be interested in acquiring Automated Guided Vehicles (AGVs), as well as other complementary services manufactured and marketed by ASTI. This agreement was transferred by Telefónica Digital España, S.L.U. to Telefónica IoT & Big Data Tech, S.A. on November 1, 2020 as part of certain corporate reorganisations linked to the Telefónica Tech project. During 2021, certain commercial projects were completed in Spain, without any financial disbursements in that year.

g) Auditors' fees

The services commissioned to PricewaterhouseCoopers Auditores, S.L., the Principal Auditor of Telefónica, S.A. for the years 2021 and 2020, meet the independence requirements stipulated by the Spanish Audit Law 22/2015, July 20, the US SEC rules and the Public Company Accounting Oversight Board (PCAOB).

The expenses accrued refer to the fees for services rendered by the various member firms of the PwC network, of which PricewaterhouseCoopers Auditores, S.L. forms part, amount to 3.52 and 3.38 million euros respectively.

The detail of these amounts is as follows:

Millions of euros	2021	2020
Audit services	3.07	3.00
Audit-related services	0.45	0.38
Total	3.52	3.38

"Audit services" mainly includes audit fees for the individual and consolidated financial statements, as well as reviews of interim financial statements. These Audit services also incorporate the integrated audits of the financial statements for the annual report Form 20-F to file with the US SEC and the internal control audit over the financial information to comply with the requirements of the Sarbanes-Oxley 2002 Act (Section 404).

Audit-related services: mainly services related to the issuance of comfort letters, the report on the information relating to the system of the internal control over financial reporting (ICFR) and the verification of the non-financial information of the Consolidated Management Report.

During the years 2021 and 2020, the principal Auditor has not performed Tax Services or any All other services, other than the Audit services or the Audit-related services in Telefónica, S.A.

h) Environmental matters

Telefónica has an Environmental Policy which is applicable to all of its companies, which sets out the road map for the company to advance towards a green economy, reducing the environmental impact of its facilities at the same time as developing the potential for digital services to reduce the environmental footprint of other sectors.

Currently over half of the companies in the Group have Environmental Management Systems (EMS) in accordance with Regulation ISO 14001, certified by an external body, which contribute to the proper management of the environmental aspects of the company and to extending a culture of environmental responsibility across the whole supply chain.

Telefónica's environmental risks and climate change are controlled and managed under the company's global risk model. The environmental aspects of the telecommunications operations are mainly focused on the risk of high geographical dispersion and energy consumption, which is controlled by means of environmental management based on uniform processes and a global energy efficiency program.

Telefónica has a global environmental team made up of experts in environmental management.

i) Trade and other guarantees

The Company is required to issue trade guarantees and deposits for concession and spectrum tender bids and in the ordinary course of its business. No significant additional liabilities in the accompanying financial statements are expected to arise from guarantees and deposits issued (see Note 20.a).

Note 21. Cash flow analysis

Cash flows from/(used in) operating activities

The net result before tax in 2021 amounted to a gain of 248 million euros (see income statement), adjusted by items recognized in the income statement that did not require an inflow or outflow of cash in the year, or are included within the investing and financing activities.

These adjustments relate mainly to:

- The write down impairment of investments in Group companies, associates and other investments of 4,574 million euros (in 2020 a write down of 10,956 million euros).
- The gains on disposal of subsidiaries amounting to 163 million euros, mainly attributable to the sale of Telefónica Costa Rica TC, S.A. (in 2020 this caption included the loss in the sale of Colombia Telecomunicaciones, S.A. ESP, Fisatel México, S.A. de C.V. y Telefónica Móviles Chile, S.A. amounting to 177 million euros).
- Declared dividends as income in 2021 for 5,943 million euros (10,257 million euros in 2020), interest accrued in 2021 on loans granted to subsidiaries of 36 million euros (21 million euros in 2020) and a net financial expense of 1,166 million euros (995 million euros in 2020), adjusted initially to include only movements related to cash inflows or outflows during the year under "Other cash flows from operating activities."

"Other cash flows from operating activities" amounted to 11,257 million euros (3,669 million euros in 2020). The main items included are:

a) Net interest paid:

Payments of net interest and other financial expenses amounted to 1,431 million euros (614 million euros in 2020), including:

- Net payments to external credit entities, net of hedges, for 49 million euros, (net proceeds of 1,164 million euros in 2020 offset by their hedges), and
- Interest and hedges paid to Group companies of 1,382 million euros (1,778 million euros in 2020).

b) Dividends and other distributions from reserves and paid-in capital received:

Millions of euros	2021	2020
Telefónica de Contenidos, S.A.U.	105	—
Telefónica Móviles España, S.A.U.	1,949	774
Telefónica O2 Holdings, Ltd.	5,290	622
Telefónica de España, S.A.U.	906	1,214
Telefónica Hispanoamérica, S.A.U.	—	417
Telfisa Global, B.V.	1,364	178
Telefónica Finanzas, S.A.U. (TELFISA)	178	83
Telfin Ireland, Ltd.	216	—
Telefónica Brasil, S.A.	240	252
Sao Paulo Telecomunicações, Ltda	52	62
Telefónica Centroamérica Inversiones, S.L.	—	11
Telefónica Luxembourg Holding S.à.r.L.	—	4
Pontel Participaciones, S.L.	2,196	44
Telefónica Global Technology, S.A.U.	—	32
Fisatel México, S.A. de C.V.	—	24
Other dividend collections	24	24
Total	12,520	3,741

In addition to the dividends declared in 2021 (see Note 19.1) and collected in the same period, this caption also includes dividends from previous periods collected in 2021.

c) Income tax collected: Telefónica, S.A. is the parent of its consolidated Tax Group (see Note 17) and therefore it is liable for filing income tax with the Spanish Treasury. It subsequently informs companies included in the Tax Group of the amounts payable by them. Payments totaling 71 million euros on account of income tax were made in 2021 (39 million euros in 2020) as disclosed in Note 17, and income taxes repayments of 2021 have been received amounting to 1 million euros. In this regard, the main amounts passed on to subsidiaries of the tax group were as follows:

- Telefónica Móviles España, S.A.U.: collection of 67 million euros, corresponding to: 27 million euros for the 2020 income tax settlement and 40 million euros in payments of account of 2021 income tax.

In 2020, there was an income collection of 317 million euros, corresponding to: 96 million euros for the 2019 income tax settlement and 221 million euros in payments of account of 2020 income tax.

- Telefónica de España, S.A.U.: collection of 46 million euros, corresponding to: 3 million euros for the 2020 income tax settlement refund and 49 million euros in payments of account of 2021 income tax.

In 2020 there was an income collection of 142 million euros, corresponding to: 25 million euros for the 2019 income tax settlement and 117 million euros in payments of account of 2020 income tax.

- Telefónica Latinoamérica Holding, S.L.U.: collection of 130 million euros, corresponding to: 60 million euros for the 2020 income tax settlement, 3 million euros in payments of account of 2021 income tax and 67 million euros for the 2005-2007 income tax settlement signed in dispute.

In 2020 there was an income collection of 50 million euros corresponding to the 2019 income tax settlement.

Cash flows from/(used in) investing activities

"Payments on investments" under "Cash flows from/(used in) investing activities" included a total payment of 12,410 million euros (6,369 million euros in 2020). The main transactions to which these payments refer are as follows:

- Capital increases: the main disbursements correspond to O2 Europe, Ltd. amounting to 5,656 million euros, Telefónica O2 Holdings, Ltd. amounting to 1,631 million euros, Telefónica Cybersecurity & Cloud Tech, S.L. amounting to 750 million euros, Telefónica Hispam, S.A. by 370 million euros, Telefónica Infra, S.L. amounting to 197 million euros and Telefónica Digital España, S.L. amounting to 185 million euros. These capital increases, as well as other minor disbursements of this same concept are disclosed fully in Notes 8.1.a.
- Payments of financial investments related to the reinvestment of treasury overage amounting to 1,812 million euros.
- Payments of collaterals related to financial derivative instruments amounting to 1,200 million euros.

Proceeds from disposals totaling 13,275 million euros in 2021 (5,489 million euros in 2020) includes:

- Proceeds from reserves distributed by Telfin Ireland, Ltd. amounting to 8,189 million euros and Pontel Participaciones, S.L. by 431 million euros (see Note 8).
- The cancellation prior to maturity of the credits granted to Telxius Telecom, S.A.U. amounting to 360 million euros..
- Proceeds from the sale of the investment in Telefónica Costa Rica TC, S.A. amounting to 457 million euros (see Note 8).
- Proceeds from financial investments related to the reinvestment of treasury overage amounting 1,964 million euros.
- Proceeds from collaterals related to financial derivative instruments amounting to 1,872 million euros.

Cash flows from/(used in) financing activities

This caption mainly includes the following items:

- Proceeds from equity instruments: there are no amount for this concept in 2021. In 2020 mainly related to the payment of the treasury shares in the transaction of Prosegur Alarmas España, S.L. (see Note 11.a).
- Proceeds from financial liabilities:
 - Debt issues: The main collections comprising this heading are as follows:

Millions of euros	2021	2020
Telefónica Emisiones, S.A.U. (Note 15)	–	3,500
Bank loans	1,000	–
Promissory notes (Note 13)	–	194
Telefónica de Argentina, S.A. (Note 15)	314	179
Telefónica Europe B.V. (Note 15)	1,750	500
Bilateral loans (Note 14)	300	450
Other collections	154	312
Total	3,518	5,135

b) Prepayments and redemption of debt: The main payments comprising this heading are as follows:

Millions of euros	2021	2020
Bilateral loans with several entities (Note 14.4)	850	—
Telfisa Global, B.V. financing	2,731	757
Telefónica Europe, B.V. (Note 15)	1,750	736
Telefónica Europe, B.V. promissory notes (Note 15)	248	131
Promissory notes redemption (Note 13)	239	—
Telefónica Emisiones, S.A.U. (Note 15)	4,471	5,635
Structured Financing	320	351
Telefónica Participaciones, S.A.U. (Note 15)	565	—
Telefónica de Argentina, S.A. (Note 15)	335	—
Credit (Note 14.4)	116	—
Other payments	6	74
Total	11,631	7,684

The commercial paper transactions with Telefónica Europe, B.V. are stated at their net balance as recognized for the purposes of the cash flow statement, being high-turnover transactions where the interval between purchase and maturity never exceeds six months.

The financing obtained by the Company from Telfisa Global, B.V. relates to the Group's integrated cash management (see Note 15). These amounts are stated net in the cash flow statement as new issues or redemptions on the basis of whether or not at year-end they represent current investment of surplus cash or financed balances payable.

- iii. Acquisition of treasury shares, as indicated in Note 11.a.
- iv. Payments of dividends amount to 617 million euros (824 million euros in 2020). The figure differs from the one shown in Note 11.1.d) because of the withholding taxes deducted in the payment to certain major shareholders, which will be paid to Tax Authorities in 2022 and also the withholding taxes referred to the dividend distribution made in December 2020 which have been paid to the Tax Authorities in January 2021.

Note 22. Events after the reporting period

The following events regarding the Company took place between the reporting date and the date of preparation of the accompanying financial statements:

Financing

- On January 13, 2022, Telefónica executed an amendment to the syndicated facility agreement signed on March 15, 2018, with several domestic and international financial entities for a maximum aggregate amount of 5,500 million euros, linked to sustainability objectives: greenhouse gas emissions reduction and increase of women in executive positions.

This facility agreement is composed of a 5-year single tranche revolving credit facility in an aggregate amount of up to 5,500 million euros with two annual extension options, at the request of Telefónica, for a maximum maturity of 7 years.

Investments

- On February 1, 2022 the deed of the share capital increase of Telefónica Hispanoamérica, S.L. has been filed in the Madrid Companies' Register. It amounts to 392 million euros and was totally subscribed and paid by Telefónica, S.A.

Note 23. Additional note for English translation

These annual financial statements were originally prepared in Spanish and were authorized for issue by the Company's Directors in the meeting held on February 23, 2022. In the event of a discrepancy, the Spanish-language version prevails.

Appendix I: Details of subsidiaries and associates at December 31, 2021

Millions of euros	% Ownership					Income (loss)		Net carrying amount
	Direct	Indirect	Capital	Reserves	Dividends	From operations	For the year	
Name and corporate purpose								
Telefónica Latinoamérica Holding, S.L.U. (SPAIN) Holding Company Distrito Telefónica, Ronda de la Comunicación s/n 28050 Madrid	100%	—	237	10,745	—	(467)	(181)	10,780
Telefónica Móviles España, S.A.U. (SPAIN) Wireless communications services provider Distrito Telefónica, Ronda de la Comunicación s/n 28050 Madrid	100%	—	209	(292)	560	787	598	5,561
Telfin Ireland Limited (IRELAND) Intragroup financing 28/29 Sir John Rogerson's Quay, Dublin 2	100%	—	—	(54)	80	(1)	56	2
Telefónica O2 Holdings Limited (UNITED KINGDOM) Holding Company Highdown House, Yeoman Way, Worthing, West Sussex, BN99 3HH	100%	—	13	6,320	2,345	(4,818)	2,110	13,130
Telefónica Móviles México, S.A. de C.V. (MEXICO) Holding Company Prolongación Paseo de la Reforma 1200 Col. Cruz Manca, México D.F. CP.05349	100%	—	5,776	(5,738)	—	—	—	37
Telefónica de España, S.A.U. (SPAIN) Telecommunications service provider in Spain Gran Vía, 28 - 28013 Madrid	100%	—	1,024	1,564	—	(78)	22	2,455
O2 (Europe) Ltd. (UNITED KINGDOM) Holding Company Highdown House, Yeoman Way, Worthing, West Sussex, BN99 3HH	100%	—	6,895	3,127	—	(837)	(853)	8,421
Telefónica de Contenidos, S.A.U. (SPAIN) Organization and operation of multimedia service- related activities and businesses Distrito Telefónica, Ronda de la Comunicación s/n, Madrid 28050	100%	—	226	971	—	10	12	1,208
Telfisa Global, B.V. (NETHERLANDS) Integrated cash management, consulting and financial support for Group companies Strawinskylaan 1259; tower D; 12th floor 1077 XX - Amsterdam	100%	—	—	385	357	(2)	341	712
O2 Oak Limited (UNITED KINGDOM) Holding Company Highdown House, Yeoman Way, Worthing, West Sussex, BN99 3HH	100%	—	—	—	—	—	—	—
Telco TE, S.p.A. (ITALY) Holding Company Via dell'Annunciata n.21 - 20121 Milano	100%	—	—	—	—	—	—	—
Telefónica Soluciones de Criptografía, S.L. (SPAIN) Engineering, development, production, sale and maintenance of telecommunication and electronic equipment Gran Vía 28, 28013 Madrid	100%	—	—	1	—	—	—	2

Millions of euros	% Ownership					Income (loss)		Net carrying amount
	Direct	Indirect	Capital	Reserves	Dividends	From operations	For the year	
Name and corporate purpose								
O2 Worldwide Limited (UNITED KINGDOM) Private Limited Company C/O Stobbs Building 1000, Cambridge Research Park, Cambridge, CB25 9PD	100%	–	–	–	–	–	–	–
Telefónica Capital, S.A.U. (SPAIN) Finance Company Gran Vía, 28 - 28013 Madrid	100%	–	7	197	–	–	5	110
Telefónica Digital España, S.L.U. (SPAIN) Holding Company Ronda de la Comunicación, s/n Distrito Telefónica Edificio Central - 28050 Madrid	100%	–	26	396	–	(19)	(11)	410
Telefónica Internacional USA, Inc. (U.S.A.) Financial Advisory services 1221 Brickell Avenue suite 600 - 33131 Miami - Florida	100%	–	–	1	–	–	–	–
Lotca Servicios Integrales, S.L. (SPAIN) Ownership, operation and aircraft leases Gran Vía, 28 - 28013 Madrid	100%	–	17	42	–	(3)	(2)	56
Telefónica Ingeniería de Seguridad, S.A.U. (SPAIN) Security services and systems Ramón Gómez de la Serna, 109-113 Posterior 28035 Madrid	100%	–	8	12	–	(10)	(8)	14
Telefónica Tech , S.L. (SPAIN) Promotion of business initiatives and holding for securities Gran Vía 28-28013 Madrid	100%	–	7	73	–	(5)	(4)	66
Telefónica Finanzas, S.A.U. (TELFISA) (SPAIN) Integrated cash management, consulting and financial support for Group companies Ronda de la Comunicación, s/n - 28050 Madrid	100%	–	3	2	67	(4)	104	13
Centro de Investigación y Experimentación de la Realidad Virtual, S.L. (SPAIN) Communication products design Vía de Dos Castillas, 33 - Comp. Ática Ed. 1, 1ª Plta. Pozuelo de Alarcón - 28224 Madrid	100%	–	–	–	–	–	–	–
Telefónica Global Solutions, S.L.U. (SPAIN) International services provider Ronda de la Comunicación, s/n - 28050 Madrid	100%	–	1	95	–	(17)	(18)	78
Telefónica Investigación y Desarrollo, S.A.U. (TIDSA) (SPAIN) Telecommunications research activities and projects Ronda de la Comunicación, s/n - 28050 Madrid	100%	–	7	7	–	(1)	(2)	12
Telefónica Luxembourg Holding S.à.r.L. (LUXEMBOURG) Holding Company 26, rue Louvingny, L-1946- Luxembourg	100%	–	3	175	–	–	–	4
Telefónica Servicios Globales, S.L.U. (SPAIN) Management and administrative services provider Ronda de la Comunicación, s/n - 28050 Madrid	100%	–	1	81	–	–	–	82
Telefónica Hispanoamérica, S.A.U. (SPAIN) Holding Company Ronda de la Comunicación, s/n - 28050 Madrid	100%	–	19	463	–	(1,117)	(1,548)	1,545
Telefónica Participaciones, S.A.U. (SPAIN) Issues of preferred shares and/or other debt financial instruments Gran Vía, 28 - 28013 Madrid	100%	–	–	1	–	–	–	–
Telefónica Emisiones, S.A.U. (SPAIN) Issues of preferred shares and/or other debt financial instruments Gran Vía, 28 - 28013 Madrid	100%	–	–	13	–	(2)	2	–

Millions of euros	% Ownership					Income (loss)			Net carrying amount
	Direct	Indirect	Capital	Reserves	Dividends	From operations	For the year		
Telefónica Europe, B.V. (NETHERLANDS) Fund raising in capital markets Strawinskylaan 1259; tower D; 12th floor 1077 XX – Amsterdam	100%	–	–	2	3	(1)	3	–	
Telefónica Cybersecurity Tech España, S.L. (SPAIN) Private Limited Company Ronda de la Comunicación s/n Madrid 28050	100%	–	15	747	–	(53)	(40)	780	
Toxa Telco Holding, S.L. (SPAIN) Holding Company Ronda de la Comunicación s/n Madrid 28050	100%	–	–	–	–	–	–	–	
Pontel Participaciones, S.L. (SPAIN) Holding Company Distrito Telefónica, Ronda de Comunicación, s/n	83.35%	–	–	(1,693)	2,196	–	2,487	785	
Corporation Real Time Team, S.L. (SPAIN) Internet design, advertising and consulting Plaza Canalejas, 3 – 28014 Madrid	87.96%	12.04%	–	–	–	–	–	–	
Telefónica Móviles Argentina, S.A. (1) (ARGENTINA) Mobile communications and services operator Enrique Butty 240, piso 20 - Buenos Aires	73.20%	26.80%	392	1,278	–	72	(146)	1,005	
Telefónica Centroamérica Inversiones, S.L (SPAIN) Holding Company Ronda de la Comunicación, s/n. - 28050 Madrid	60%	–	1	143	–	(26)	(26)	71	
Telefónica Consumer Finance E.F.C., S.A. (SPAIN) Lending and consumer loans c/Caleruega, 102 -28033 Madrid	50%	–	5	29	–	6	4	15	
Aliança Atlântica Holding B.V. (NETHERLANDS) Portfolio Company Strawinskylaan 1725 – 1077 XX – Amsterdam	50%	50%	150	(107)	–	1	1	22	
Sao Paulo Telecomunicações Participações, Ltda (BRAZIL) Holding Company Rua Martiniano de Carvalho, 851 20º andar, Sao Paulo	39.40%	60.60%	5,627	(2,935)	56	–	192	1,438	
Telefónica Brasil, S.A. (BRAZIL) (1) (*) Wireline phone operator Avenida Engenheiro Luiz Carlos Berrini, 1.376, Bairro Cidade Monções, Sao Paulo - Brazil	29.77%	43.82%	23,164	(12,217)	272	1,131	997	5,794	
Pléyade Peninsular, Correduría de Seguros y Reaseguros del grupo Telefónica, S.A. (SPAIN) Insurance contracts, operating as a broker Distrito Telefónica, Ronda de la Comunicación, s/n Edificio Oeste 1 – 28050 Madrid	16.67%	83.33%	–	–	–	7	6	–	
Telefónica de Argentina, S.A. (1) (ARGENTINA) Telecommunications services provider Av. Ingeniero Huergo, 723, PB – Buenos Aires	11.43%	88.57%	2,061	(837)	–	(202)	(279)	69	
Telefónica Infra, S.L. (SPAIN) Portfolio Company (Holding) Ronda de la Comunicación S/N - 28050 Madrid	100%	–	10	188	–	(4)	(5)	193	
Telefónica Telecomunicaciones México, S.A. de C.V. (MÉXICO) Holding Company Prolongación Paseo de la Reforma 1200 Col. Cruz Manca, México D.F. CP.05349	49%	–	195	(4)	–	–	11	–	
Telefónica Factoring España, S.A. (SPAIN) Factoring Zurbano, 76, 8 Plta. - 28010 Madrid	50%	–	5	2	4	9	9	3	
Telefónica Factoring México, S.A. de C.V. SOFOM ENR (MEXICO) Factoring México D.F.	40.50%	9.50%	2	–	–	–	–	1	

Millions of euros	% Ownership					Income (loss)		
	Direct	Indirect	Capital	Reserves	Dividends	From operations	For the year	Net carrying amount
Name and corporate purpose								
Telefónica Factoring Perú, S.A.C. (PERÚ) Factoring Lima	40.50%	9.50%	1	2	1	–	2	1
Telefónica Factoring Colombia, S.A. (COLOMBIA) Factoring Bogotá	40.50%	9.50%	1	–	1	3	2	1
Telefónica Deutschland Holding, A.G. (*) (GERMANY) Holding company	0.71%	69.22%	2,975	–	–	–	(37)	51
Telefónica Factoring Do Brasil, Ltd. (BRAZIL) Factoring Avda. Paulista, 1106 – Sao Paulo	40%	10%	2	(2)	1	(1)	6	1
Torre de Colçerola, S.A. (SPAIN) Operation of telecommunications mast and technical assistance and consulting services. Ctra. Vallvidrera-Tibidabo, s/n - 08017 Barcelona	30.40%	–	5	–	–	–	–	1
Total group companies and associates						5,943		54,929

(1) Consolidated data.

(*) Companies listed on international stock exchanges at December 31, 2021.

Appendix II: Board and Senior Management Compensation

TELEFÓNICA, S.A.

(Amounts in euros)

Directors	Salary ¹	Fixed remuneration ²	Allowances ³	Short-term variable remuneration ⁴	Remuneration for belonging to the Board Committees ⁵	Other items ⁶	Total
Mr. José María Álvarez-Pallete López	1,923,100	–	–	3,807,738	–	1,929,066	7,659,904
Mr. Isidro Fainé Casas	–	200,000	–	–	80,000	–	280,000
Mr. José María Abril Pérez	–	200,000	11,000	–	91,200	–	302,200
Mr. José Javier Echenique Landiríbar	–	200,000	23,000	–	113,600	–	336,600
Mr. Ángel Vilá Boix	1,600,000	–	–	2,640,000	–	1,620,563	5,860,563
Mr. Juan Ignacio Cirac Sasturain	–	120,000	21,000	–	22,400	–	163,400
Mr. Peter Erskine	–	120,000	23,000	–	113,600	–	256,600
Ms. Carmen García de Andrés	–	120,000	21,000	–	22,400	–	163,400
Ms. María Luisa García Blanco	–	120,000	23,000	–	22,400	–	165,400
Mr. Peter Löscher	–	120,000	22,000	–	108,800	–	250,800
Ms. Verónica Pascual Boé	–	120,000	10,000	–	11,200	–	141,200
Mr. Francisco Javier de Paz Mancho	–	120,000	32,000	–	124,800	–	276,800
Mr. Francisco José Riberas Mera	–	120,000	–	–	–	–	120,000
Ms. María Rotondo Urcola ⁷	–	30,000	2,000	–	2,800	–	34,800
Ms. Claudia Sender Ramírez	–	120,000	19,000	–	20,700	–	159,700

1. Salary: Regarding Mr José María Álvarez-Pallete López and Mr Ángel Vilá Boix, the amount includes the non-variable remuneration earned from their executive functions.

2. Fixed remuneration: Amount of the compensation in cash, with a pre-established payment periodicity, subject to consolidation over time or not, earned by the member for his/her position on the Board, regardless of the effective attendance of the member to board meetings.

3. Allowances: Total amount of allowances for attending Advisory or Steering Committee meetings.

4. Variable short-term remuneration (bonuses): Variable amount linked to the performance or achievement of a series of individual or group objectives (quantitative or qualitative) within a period of time equal to or less than a year, corresponding to the year 2021 and paid in the year 2022. In reference to the bonus corresponding to 2020, which was paid in 2021, Executive Board Member Mr José María Álvarez-Pallete López received 3,111,960 euros and Executive Board Member Mr Ángel Vilá Boix received 2,157,600 euros.

5. Remuneration for belonging to the Board Committees: Amount of items other than allowances, which the directors are beneficiaries through their position on the Executive Commission and the Advisory or Steering Committees, regardless of the effective attendance of the board member such Committee meetings.

6. Other concepts: This includes, among others, the amounts received as remuneration in kind (general medical and dental coverage and vehicle insurance), paid by Telefónica, S.A. It also includes the amount received as extraordinary variable remuneration, approved by the Board of Directors at the proposal of the Nominating, Compensation and Corporate Governance Committee for the Executive Chairman and the Chief Executive Officer of the Company, in recognition of their efforts and special dedication in relation to the achievement of certain strategic milestones and the execution of certain corporate operations of singular relevance. By virtue of the aforementioned extraordinary variable remuneration, the Executive Chairman, Mr. José María Álvarez-Pallete López, received 1,923,100 euros and the Chief Executive Officer, Mr. Ángel Vilá Boix, received 1,600,000 euros.

7. Ms María Rotondo Urcola was appointed Director of the Company on September 29, 2021, thus including the amounts received since that date.

Likewise, Ms Sabina Fluxà Thienemann, Mr Jordi Gual Solé and Mr Ignacio Moreno Martínez ceased to hold office as directors on September 29, 2021 (Ms Fluxà) and December 15, 2021 (Mr Gual and Mr Moreno), and the remuneration accrued and/or received by them in 2021 until the aforementioned dates is shown below.

(Amounts in euros)

Directors	Salary¹	Fixed remuneration²	Allowances³	Short-term variable remuneration⁴	Remuneration for belonging to the Board Committees⁵	Other items⁶	Total
Ms. Sabina Fluxà Thienemann	–	90,000	–	–	–	–	90,000
Mr. Jordi Gual Solé	–	120,000	22,000	–	22,400	–	164,400
Mr. Ignacio Moreno Martínez	–	120,000	31,000	–	44,800	–	195,800

1 to 6: The definitions of these concepts are included in the table above.

The following table breaks down the amounts accrued and/or received from other companies of the Telefónica Group other than Telefónica, S.A. individually, by the Board Members of the Company, by the performance of executive functions or by their membership to the Board of Directors of such companies:

OTHER COMPANIES OF THE TELEFÓNICA GROUP

(Amounts in euros)

Directors	Salary ¹	Fixed remuneration ²	Allowances ³	Short-term variable remuneration ⁴	Remuneration for belonging to the Board Committees ⁵	Other items ⁶	Total
Mr. José María Álvarez-Pallete López	—	—	—	—	—	—	—
Mr. Isidro Fainé Casas	—	—	—	—	—	—	—
Mr. José María Abril Pérez	—	—	—	—	—	—	—
Mr. José Javier Echenique Landiribar	—	107,026	—	—	—	51,041	158,067
Mr. Ángel Vilá Boix	—	—	—	—	—	—	—
Mr. Juan Ignacio Cirac Sasurain	—	—	—	—	—	—	—
Mr. Peter Erskine	—	63,333	—	—	—	—	63,333
Ms Carmen García de Andrés	—	—	—	—	—	—	—
Ms. María Luisa García Blanco	—	—	—	—	—	51,041	51,041
Mr. Peter Löscher	—	100,000	—	—	—	—	100,000
Ms. Verónica Pascual Boé	—	—	—	—	—	—	—
Mr. Francisco Javier de Paz Mancho	—	205,593	—	—	—	88,960	294,553
Mr. Francisco José Riberas Mera	—	—	—	—	—	—	—
Ms. María Rotondo Urcola ⁷	—	—	—	—	—	—	—
Ms. Claudia Sender Ramírez	—	—	—	—	—	37,919	37,919

1. Salary: Amount of non-variable remuneration earned by the Director from other companies of the Telefónica Group for his/her executive functions.

2. Fixed remuneration: Amount of the compensation in cash, with a pre-established payment periodicity, subject to consolidation over time or not, earned by the member for his/her position on the boards of other companies of the Telefónica Group.

3. Allowances: Total amount of the allowances for attending the board meetings of other companies of the Telefónica Group.

4. Variable short-term remuneration (bonuses): Variable amount linked to the performance or achievement of a series of individual or group objectives (quantitative or qualitative) within a period of time equal to or less than a year, corresponding to the year 2020 and paid in the year 2021 by other companies of the Telefónica Group.

5. Remuneration for belonging to the Board Committees of other companies of the Telefónica Group: Amount of items other than allowances, which the directors are beneficiaries through their position on the Advisory or Steering Committees of other companies of the Telefónica Group, regardless of the effective attendance of the board member such Committee meetings.

6. Other concepts: This includes, among others, the amounts received as remuneration in kind (general medical and dental coverage and vehicle insurance), paid by other companies of the Telefónica Group. 6. Also included are the amounts received for membership of the Advisory Boards of Telefónica España and Telefónica Hispanoamérica, constituted in May 2021.

7. Ms María Rotondo Urcola was appointed Director of the Company on September 29, 2021.

Likewise, Ms Sabina Fluxà Thienemann, Mr Jordi Gual Solé and Mr Ignacio Moreno Martínez did not accrue and/or receive any remuneration in 2021 for the aforementioned items.

Additionally, as mentioned in the Remuneration Policy section, the Executive Board Members have a series of Assistance Services. Below, the contributions made during 2021 are detailed for the Company to long-term savings systems (Pension Plans and Social Welfare Plan):

LONG-TERM SAVINGS SYSTEMS

(Amounts in euros)

Directors	Contributions for fiscal year 2021
Mr. José María Álvarez-Pallete López	673,085
Mr. Ángel Vilá Boix	560,000

The breakdown of the long-term saving systems includes contributions to Pension Plans, to the Benefit Plan and to the Unit link-type Insurance, as set out below:

(Amounts in euros)

Directors	Contribution to Pension Plans	Contribution to Executive Social Welfare Plan ¹	Contributions to Unit link-type Insurance/Pension Plan Surplus ²
Mr. José María Álvarez-Pallete López	8,000	540,968	124,117
Mr. Ángel Vilá Boix	8,000	487,840	64,160

1. Contributions to the Executive Social Welfare Plan established in 2006, financed exclusively by the Company, to complement the current Pension Plan, which involves defined contributions equivalent to a certain percentage of the fixed remuneration of the Director, depending on the professional levels in the organization of the Telefónica Group.

2. Contributions to Unit link-type Insurance/Pension Plan Surplus: In 2015 and 2021, applicable law reduced the financial and tax limits of the contributions to Pension Plans; for this reason, in order to compensate for the difference in favor of the Beneficiaries, a Unit-link type group insurance policy was arranged to channel such differences that occur during each fiscal year.

This Unit-link type insurance is arranged with the entity Plus Ultra, Seguros Generales y Vida, S.A. de Seguros y Reaseguros (after the merger through absorption of Seguros de Vida y Pensiones Antares, S.A.U. by Plus Ultra), and covers the same contingencies as those of the "Pension Plan" and the same exceptional liquidity events in case of serious illness or long-term unemployment.

The 2021 amounts for life insurance premiums were as follows:

LIFE INSURANCE PREMIUMS

(Amounts in euros)

Directors	Life insurance premiums
Mr. José María Álvarez-Pallete López	30,903
Mr. Ángel Vilá Boix	24,234

REMUNERATION PLANS BASED ON SHARES

As regards to remuneration plans based on shares (exclusively involving Executive Directors), the following long-term variable remuneration plans were in existence during the year 2021:

The so-called Performance Share Plan ("PSP"), made up of three cycles (2018-2021; 2019-2022; 2020-2023), approved by the General Shareholders' Meeting held on June 8, 2018.

The target measurement period for the First Cycle started on January 1, 2018 and ended on December 31, 2020, resulting in a weighted payout ratio of 50%. Notwithstanding the foregoing, the Executive Chairman stated to the Nominating, Compensation and Corporate Governance Committee, at its meeting of February 23, 2021, that he considered it appropriate to propose his waiver of the incentive, as a gesture of responsibility towards the company, customers, shareholders and employees of Telefónica, as well as a measure of prudence following the economic effects derived from COVID-19. The CEO expressed the same view. The resignation was accepted by the Board of Directors.

The target measurement period of the Second Cycle started on January 1, 2019 and ended on December 31, 2021.

This cycle had a maximum of 815,000 shares allocated on January 1, 2019, to the executive Directors, with a unit fair value of 6.1436 euros per share for FCF ("Free Cash Flow") and 4.4394 euros for TSR ("Total Shareholder Return"). At the end of the cycle date, Kepler has submitted the Nominating, Compensation and Good Governance Committee the calculation of Total Shareholder Return for Telefónica, S.A., which has concluded below the median according to the performance scale. Therefore, there is no right to perceive the number of shares linked to the relative TSR objective.

With respect to Free Cash Flow objective, considering the partial fulfillment of 2019, 2020 and 2021, the average weighted payment coefficient is 50%. Performance assessment has been carried out based on the results

audited both by independent and internal auditors of the Company, analyzed firstly by the Audit and Control Committee and subsequently submitted to the Nominating, Compensation and Corporate Governance Committee and approved by the Board of Directors.

Thus, at the end of the Plan's second cycle, Executive Directors are entitled to receive 234,000 gross shares in the case of the Executive Chairman, Mr. José María Álvarez-Pallete López, and 173,500 gross shares in the case of the Chief Operating Officer (C.O.O.) Mr Ángel Vilá Boix.

The period of measurement of objectives of the third and last cycle began on January 1, 2020 and will end on December 31, 2022. In case of fulfillment of the objectives, the delivery of the shares will take place in the year 2023.

It is hereby stated in following the maximum number of shares assigned to be delivered if maximum compliance with the TSR ("Total Shareholder Return") and FCF ("Free Cash Flow") targets set for the third cycle of the Plan. It is noted that the maximum number of shares allocated for the third cycle represents a 50% decrease in the economic value of the allocation compared to the first and second cycle of the Plan:

PSP - Third Cycle / 2020-2023 (shares allocated in July 2020)

Directors	Maximum number of shares (*)
Mr. José María Álvarez-Pallete López	267,000
Mr. Ángel Vilá Boix	198,000

(*) Maximum possible number of shares to be received in case of maximum completion of FCF and TSR target.

In any case, herewith it is stated that no shares have been delivered to the Executive Directors under the third cycle of the PSP and that the above table only reflect the potentially deliverable number of shares, without this in any way implying all or part thereof will be effectively delivered.

Indeed, the number of Telefónica, S.A. shares that, always within the established maximum, could be delivered, where appropriate, to the participants is conditioned and determined by the established goals: 50% of the compliance with the targets set out for Total Shareholder Return ("TSR") on Telefónica, S.A. shares and 50% of the Free Cash Flow (the "FCF") of the Telefónica Group.

To determine compliance with the TSR target and calculate the specific number of shares to be delivered for this concept, the evolution of the TSR of Telefónica, S.A. shares will be measured during the period of the duration of each three-year cycle in relation to the TSR experienced by certain companies belonging to the telecommunications sector, weighted according to their relevance for Telefónica, S.A., which for the purposes of the Plan will constitute the comparison group (hereinafter

the "Comparison Group"). The companies included in the comparison group are listed below: América Móvil, BT Group, Deutsche Telekom, Orange, Telecom Italia, Vodafone Group, Proximus, Koninklijke KPN, Millicom, Swisscom, Telenor, TeliaSonera, and Tim Participações. It is hereby stated that Tim Participações has been replaced by TIM Brasil Serviços e Participações S.A. following its integration into that entity.

With regard to compliance with the TSR target, the Plan foresees that the number of shares to be delivered in relation to the fulfillment of this objective will range between 15% of the number of theoretical shares assigned, in the event that the evolution of the TSR of the Telefónica, S.A. share is found within, at least, the mean of the Comparison Group, and 50% in the case that the evolution is placed in the third quartile or higher of the comparison group, by calculating the percentage by interpolation for cases which are situated between the mean and the third quartile.

To determine completion of the FCF target and calculate the specific number of shares to be delivered under this concept, the level of FCF generated by the Telefónica Group during each year of the cycle will be measured against the value set in the budgets approved by the Board of Directors for each financial year.

In relation to the FCF, for each cycle, the company's Board of Directors, following a favorable report from the Nominating, Compensation and Corporate Governance Committee, determines a scale of achievement that includes a minimum threshold of 90% compliance, below which an incentive is not paid and whose compliance will require the delivery of 25% of the assigned theoretical shares, and a maximum level of 100% compliance, which will involve the delivery of 50% of the assigned theoretical shares.

At least 25% of the shares are delivered under the Plan to the Executive Directors and other participants determined by the Board of Directors shall be subject to a one-year retention.

On the other hand, the denominated Performance Share Plan (PSP), consisting of three cycles (2021-2024; 2022-2025; 2023-2026), approved by the Ordinary General Meeting of Shareholders held on April 23, 2021, was also in force during the financial year 2021.

The target measurement period of the First Cycle started on January 1, 2021 and will end on December 31, 2023. If the targets are met, the shares will be delivered in 2024.

The maximum number of allocated shares to be delivered in the event of maximum compliance with the TSR (Total Shareholder Return), FCF (Free Cash Flow) and CO2 Emission Neutralisation targets set for the first cycle of the Plan is shown below.

PSP - First Cycle / 2021-2024

Directors	Maximum number of shares (*)
Mr. José María Álvarez-Pallete López	1,094,000
Mr. Ángel Vilá Boix	819,000

(*) Maximum possible number of shares to be received in case of maximum completion of FCF and TSR target.

In any case, it is noted that no shares have been delivered to Executive Directors under the first cycle of the PSP and that the above table only reflects the number of potentially deliverable shares, without in any way implying that all or part of the shares will actually be delivered.

Indeed, the number of Telefónica, S.A. shares, which, within the established maximum, could be delivered, as the case may be, to the Participants, is conditioned and is determined based on the fulfilment of the established objectives: by 50% of the fulfilment of the Total Shareholder Return objective (the TSR) of the Telefónica, S.A. share, by 40% of the generation of Free Cash Flow of the Telefónica Group (the FCF), and by 10% of the Neutralization of CO2 Emissions, in line with the objective marked by the company to reach zero net emissions in the year 2025.

To determine compliance with the TSR target and calculate the specific number of shares to be delivered for this concept, the performance of the TSR on Telefónica, S.A.'s shares will be measured during the measurement period of each three-year cycle, in relation to the TSRs experienced by certain companies in the telecommunications sector, weighted according to their relevance to Telefónica, S.A., which for purposes of the Plan will constitute a comparison group (hereinafter the "Comparison Group"). The companies included in the Comparison Group are listed below: América Móvil, BT Group, Deutsche Telekom, Orange, Telecom Italia, Vodafone Group, Proximus, Koninklijke KPN, Millicom, Swisscom, Telenor, TeliaSonera, TIM Brasil, and Liberty Global.

With regard to complying with the TSR objective, the Plan will foresee that the number of shares to be delivered associated with meeting this objective will range from 15% of the number of theoretical shares assigned, assuming that the TSR performance of Telefónica, S.A. shares is at least the median of the comparison group, to 50% if the performance is in the third quartile or above in the comparison group, with the percentage calculated by linear interpolation for cases falling between the median and third quartile.

In order to determine the compliance with the FCF objective and calculate the specific number of shares to be delivered for this concept, the FCF level generated by the Telefónica Group during each year will be measured and compared to the value set in the budgets approved by the Board of Directors for each financial year.

With regard to the FCF, for each cycle, the Board of Directors, at the proposal of the Appointments, Remunerations and Corporate Governance Committee, determines a scale of achievement that includes a minimum threshold of 90% compliance, below which no incentive is paid and compliance with which will entail the delivery of 20% of the theoretical shares assigned, and a maximum level of 100% compliance, which will entail the delivery of 40% of the theoretical shares assigned.

To determine compliance with the CO2 Emissions Neutralisation target and calculate the specific number of shares to be delivered for this item, the level of CO2 emissions neutralisation achieved at the end of the cycle will be measured, with the incentive being paid upon reaching a certain level of scope 1 + 2 emissions reduction, in line with the 1.5°C scenario of the Paris Agreement (SBTi) and with the target set by the Company of zero net emissions by 2025 in its main markets for scopes 1 + 2.

The level of direct and indirect CO2 emissions from our daily activity shall be calculated according to the following:

CO2 Emission = Activity x Emission Factor, where:

- Activity: Amount of energy, fuel, gas, etc. consumed by the Company.
- Emission Factor: Amount of CO2 emitted to the atmosphere by the consumption of each unit of activity.

The emission factor provided by official sources (European Union, Ministries, CNMC, etc.) is used for electricity and the GHG Protocol emission factors are used for fuels.

At the beginning of the cycle, the Board of Directors, at the proposal of the Appointments, Remunerations and Corporate Governance Committee, determines a scale of achievement that includes a minimum threshold of 90% compliance, below which no incentive is paid and compliance with which will entail the delivery of 5% of the theoretical shares assigned, and a maximum level of 100% compliance, which will entail the delivery of 10% of the theoretical shares assigned. In addition, a minimum level of emission reductions of Scope 1 + 2, in line with the 1.5°C scenario of the Paris Agreement (SBTi), will need to be achieved for the incentive to be paid.

In any case, 100% of the shares delivered under the Plan to the Executive Directors and other Participants as determined by the Board of Directors shall be subject to a two-year holding period.

In addition, in accordance with the provisions of the Remuneration Policy for Directors of Telefónica, SA, the Executive Directors must maintain (directly or indirectly) a number of shares (including those delivered as remuneration) equivalent to two years of their Gross Fixed Remuneration, as long as they continue to belong

to the Board of Directors and perform executive functions. Until such time as this requirement is met, the holding period for any shares delivered under the Plan to Executive Directors will be three years.

On the other hand, in July 2021, the Global Telefónica, S.A. Incentive Share Purchase Plan for Telefónica Group Employees ("Global Plan"), approved at the 2018 General Shareholders' Meeting, came to an end. As a token of their commitment to the Company and in order to encourage other employees to participate in the Global Plan, the Executive Directors contributed the maximum permitted under the Plan of 1,800 euros.

In relation to this Plan, each of the Executive Directors has received 167 additional shares (equivalent to one additional share for every two shares acquired), having fulfilled the condition of permanence and maintenance (one year after the end of the purchase period, i.e. until July 31, 2021).

In addition, it should be noted that the external directors of the company do not perceive nor have perceived remuneration during the year 2021 in concept of pensions or life insurance, nor do they participate in compensation plans referenced to the value of the share price.

Furthermore, the company does not grant nor has granted during the year 2021, an advance, loan or credit in favor of its Board Members or its Senior Management, complying with the requirements of the Sarbanes-Oxley Act published in the United States, which is applicable to Telefónica as a listed company in this market.

Remuneration of the Company's Senior Management

As for the Directors who made up the Senior Management¹ of the company in the year 2021, excluding those who form an integral part of the Board of Directors, have accrued a total amount of 6,891,990 euros during the 2021 fiscal year.

In addition, and in terms of long-term savings systems, the contributions made by the Telefónica Group during the year 2021 to the Social Security Plan described in the "Income and expenditure" note with regard to these directors increased to 921,546 euros; the contributions corresponding to the Pension Plan increased to 63,027 euros; the contributions to the Seguro Unit link-Excess Pension Fund increased to 104,313 euros.

Furthermore, the amount related to the remuneration in kind (which includes the fees for life insurance and other insurance, such as the general medical and dental coverage, and vehicle insurance) was 100,233 euros.

On the other hand, regarding share-based remuneration plans, during the year 2021, there were in force the following long-term variable remuneration plans:

The so-called "Performance Share Plan" ("PSP"), made up of three cycles (2018-2021; 2019-2022; 2020-2023), approved by the General Shareholders' Meeting held on June 8, 2018.

The period of measurement of objectives of the first cycle began on January 1, 2018 and concluded on December 31, 2020, resulting in a weighted payment coefficient of 50%. Consequently, the number of shares corresponding to the first cycle (2018-2021) of the Performance Share Plan that were delivered in the 2021 financial year to the Company's Senior Executives amounted to 220,085.

The target measurement period of the Second Cycle started on January 1, 2019 and ended on December 31, 2021. This cycle had a maximum of 512,491 shares allocated on January 1, 2019 to the group of directors forming part of the company's Senior Management, with a unit fair value of 6.1436 euros per share for FCF and 4.4394 euros for TSR. At the end of the cycle date, Kepler has submitted the Nominating, Compensation and Good Governance Committee the calculation of TSR for Telefónica, S.A., which has concluded below the median according to the performance scale. Therefore, there is no right to perceive the number of shares linked to the relative TSR objective.

With respect to Free Cash Flow objective, considering the partial fulfillment of 2019, 2020 and 2021, the average weighted payment coefficient is 50%. Performance assessment has been carried out based on the results audited both by independent and internal auditors of the Company, analyzed firstly by the Audit and Control Committee and subsequently submitted to the Nominating, Compensation and Corporate Governance Committee and approved by the Board of Directors.

Thus, at the end of the Second Cycle (2019-2022) of the Performance Share Plan, the Company's Senior Executives are entitled to receive 256,246 gross shares.

The measurement period of the third and last cycle objectives began on January 1, 2020 and will conclude on December 31, 2022. The maximum number of shares assigned to be delivered in 2023 in the event of maximum compliance with the TSR ("Total Shareholder Return") and FCF ("Free Cash Flow") target, set for the third cycle (2020-2023) to the group of Directors part of the Company's Senior Management was 316,762.

On the other hand, the Performance Share Plan (PSP), consisting of three cycles (2021-2024; 2022-2025; 2023-2026), approved by the Ordinary General Meeting of Shareholders held on April 23, 2021, was also in force during the financial year 2021.

The target measurement period of the First Cycle started on January 1, 2021 and will end on December 31, 2023. The maximum number of shares allocated to be delivered in 2023 in the event of maximum compliance with the TSR (Total Shareholder Return), FCF (Free Cash Flow) and CO2 Emission Neutralisation targets set for the First Cycle (2021-2024) for all the Company's Senior Executives was 1,333,081.

On the other hand, in July 2021, the Global Telefónica, S.A. Incentive Share Purchase Plan for Telefónica Group Employees ("Global Plan"), approved at the 2018 General Shareholders' Meeting, came to an end. In relation to this Plan, Senior Executives have received a total of 756 additional shares (equivalent to one additional share for every two shares purchased), as they have fulfilled the condition of permanence and maintenance (one year after the end of the purchase period, i.e. until July 31, 2021).

(1) For these purposes, Senior Management is understood to be those persons who perform, de jure or de facto, senior management functions reporting directly to the Board of Directors or Executive Committees or Managing Directors of the Company, including, in all cases, the person responsible for Internal Audit.

Management report 2021

This Management Report has been prepared taking into consideration the 'Guidelines on the preparation of annual corporate governance reports for listed companies', published by CNMV in July 2013.

In accordance with Law 11/2018 of December 28, and following the amendment of the article 262 of Commerce Law, the Company is not complied to include non-financial information in the Management Report. The disclosure of this information can be found in the Consolidated Management Report of the Telefónica Group which will be filed as well as the consolidated financial statements in the Companies' Register of Madrid.

Business Model

Telefónica's long-term strategy integrates the main aspects of sustainability to address our mission. Based on our Responsible Business Principles and sustainable finances, our commitments translate into growth, efficiency and long-term value for all our stakeholders.

Growth

We aim to continue to be a **growth company** in our sector by leveraging our core products and services (connectivity) to serve the increasing number of needs of our residential and business customers, determined by the accelerating drive towards digitalization in all areas of society. This ambition will determine the ability to boost revenues and will have a clear impact on society and the environment:

- In terms of social impact, we aim to ensure the **universality** of our connectivity services, extending their availability (mainly broadband) to new geographical locations and population segments that have traditionally been excluded (e.g. rural broadband). Along with these basic connectivity services, at Telefónica we are developing digital ecosystems to improve our customers' lives and guarantee them access to new solutions (e.g. health, education, and entertainment, etc.).
- In environmental terms, Telefónica's **portfolio** of products and services for the business sector is instrumental in contributing to the digitalization of our customers while reducing their environmental footprint. Our goal is to make sure that our solutions are eco-sustainable to help them achieve their environmental responsibility targets.

Efficiency

Long-term sustainability for Telefónica involves a firm commitment to continuous improvement in our operations internally and in our customer relations. This helps us become an **increasingly efficient operator**, taking advantage of the digitalization of all business processes to generate greater value:

- The deployment of **new state-of-the-art networks** affords much lower costs per unit of traffic. In addition, ultra-broadband networks (fiber, 5G, etc.) return tangible efficiencies in terms of energy consumption and therefore have a clear impact on the company's emissions targets.
- At Telefónica, we also aim to optimize the **use of our assets** once they have been deployed, generating a greater return on investment. This aspect includes reducing energy consumption, focusing on renewable sources of energy, and increasing the circularity of our processes and the reuse of customer equipment (routers, mobile devices, etc.).

Long-term value creation

Over the long term, we are committed to **generating value for all our stakeholders**. This concept is built on trust and commitment in areas such as customer relations, suppliers, diversity, business ethics, network security, responsible use of technology and, in general, sound corporate governance:

- We want to strengthen our **customer** relations through responsible, trust-building practices and behaviors.
- Beyond our own long-term goals, we aspire to have our **network of suppliers** commit to the same responsible principles, creating a more sustainable environment in the telecommunications sector.
- At Telefónica we also recognize the value for our **employees** in facilitating a workplace that respects diversity and allows for personal and professional development. In order to facilitate a work-life balance and take advantage of new technologies, we have developed and implemented new home-working models across the organization. Accordingly, we work to train all our employees in new work tools and technologies and to attract new digital talent.
- We transmit confidence to our **investors** by meeting their key demands and providing solid returns.
- We contribute to the economic and social development of the **communities** where we operate in a way that is closely linked to the Sustainable Development Goals.

Organisation of Telefónica

In 2019, Telefónica decided to implement a new business strategy designed to reinforce its priorities while encompassing a strong vision for the future. The five strategic pillars established still stand today, with important milestones that are furthering the strategy of this renewed Telefónica. The Company's **current organisation** is structured according to these strategic priorities:

Focus on the four key operators (Spain, Germany, the United Kingdom and Brazil)

Telefónica maintained its focus on the four operators that have a strong position in local markets and are sustainable in the long term. Over the past two years, the Company has made progress in **improving and strengthening the value proposition** of the operator in these four markets:

- **The Company consolidated its position as leader** in two of its core markets with the regulatory approval and launch of Virgin Media O2 (VMED O2) in the UK and Vivo's consolidation of Oi's mobile assets in Brazil (CADE gave its final approval on 9 February 2022).
- **Telefónica continued to improve its offering in the residential segment**, in the quest for differentiation from its competitors by expanding its portfolio of services via: the launch of digital security ecosystems with Movistar Prosegur Alarms in Spain; and, telehealth services with Teladoc in Spain and Brazil, among others.
- **The Group maintained and strengthened its leadership in fibre deployment.** In Spain, with 27 million premises passed (PP), Telefónica is positioned as the market leader and recognised as having one of the most efficient networks worldwide, while in Brazil the accelerated roll-out of FTTH continued, reaching 19.6 million PP by the end of the year. Additionally, VMED O2 set a target for 2028 to upgrade its fixed network to FTTH, and Germany started its fibre network roll-out in rural and semi-rural areas with UGG, the new investment vehicle.
- **Telefónica has embarked on a steadfast roll out 5G** in its main markets. In Spain, Dynamic Spectrum Sharing (DSS) deployments continue and 5G coverage now exceeds 80% of the population. In the UK, more than 180 cities have coverage and in Germany, external studies rank O2 as the leader in 5G quality.

To secure the future of 5G, Telefónica is strengthening its position in spectrum, successfully participating in relevant auctions in Spain, the UK and Brazil in 2021 and securing key frequencies for deployment.

Telefónica Tech

The global digital unit, Telefónica Tech, continues to focus on **capturing growth** in the professional digital services market to complete the connectivity offering to corporate customers. Telefónica Tech is comprised of two operating businesses which encompass the four services on offer since its launch (Cybersecurity/Cloud/Internet of Things (IoT)/Big Data)

The Cybersecurity and Cloud business remains focused on expanding its capabilities and offering **greater value-added services** for customers, focusing on a wider range of advanced managed services for customers. Meanwhile, the IoT and Big Data business has drawn up a complete portfolio of solutions and continues to focus on gaining scale in the markets where it operates.

Telefónica Tech maintains the objective of acquiring capabilities for growth in managed services for our customers:

- The company continues to grow inorganically. It strengthens its value proposition for the corporate sector (including large enterprises and SMEs) with the acquisitions of market leaders such as Cancom UK, Altostratus and Geprom.
- At the same time, TTEch continues to develop a comprehensive partner network, leading to the growth of the innovative solutions portfolio. This network includes some of the world's leading players in Cloud services and Cybersecurity (Google, AWS, Microsoft, Cisco, IBM and Fortinet, etc.).

Telefónica Infra

Telefónica Infra's main objective is to **develop and enhance the value** of the Company's **infrastructure** by taking advantage of the appetite for investment in the market through a structure that is open to third-party participation.

In August 2021, Telefónica Infra completed the sale of Telxius' Telecommunication Towers Division to American Tower Corporation, thereby reducing the Group's financial debt.

The first half of 2021 saw the completion of the commissioning and operation of the fiber vehicles in Brazil and Germany. FiBrasil aims to exceed 6 million property units in 4 years and UGG in Germany aims to equip more than 2 million homes with FTTH (fiber-to-the-home) in the country's rural and semi-rural areas in the next six years. Both vehicles aim to drive the penetration of high-quality, next-generation FTTH access and the growth of Telefónica.

In the data centre business, Telefónica Infra reached an agreement for the contribution to Nabiax of 4 additional data centres owned by the Telefónica Group (2 of them located in Spain and 2 in Chile). In exchange for the contribution of these 4 data centres, T. Infra will receive a

20% equity stake in Nabiax. At the end of 2021, the stake was 13.94% (once the conditions related to the contribution of the two data centres located in Chile have been fulfilled and the same has been executed, T. Infra's stake in Nabiax will reach 20%).

Besides, Telefonica Infra, strengthened its leadership by expanding its capabilities through the deployment of new international cables connecting the United States and Europe (in collaboration with market leaders such as Google and Facebook) and expanding its cable capacity in Latin America.

Reduction in group's exposure to Telefónica Hispanoamérica

The company continues to modulate its exposure to Latin American economies, optimising assets that create growth opportunities in the region. During the year, Telefónica Hispanoamérica optimised the capital employed in regional operations, while increasing the proportion of debt in local currency to adapt better to exchange rate fluctuations. In addition, during the year, the company closed the sale of its operations in Costa Rica and, in January 2022, in El Salvador.

In order to leverage future growth opportunities, Telefónica Hispanoamérica extended its relationship with the infrastructure investment fund KKR for a 60% stake in infrastructure and fibre vehicles in Chile and Colombia, respectively. At the same time, new alliances are being developed to optimise the opportunity of operations in the region with a focus on digital services, notably in Colombia with its main partner in alarms, Prosegur, and in Mexico with Banco Sabadell for the provision of financial services.

Simplification and digitalisation of the operating model

The Telefónica Group continues to rely on the **digitalisation and automation of its operational processes** to increase efficiency and offer more flexible and transparent services that result in higher quality for its customers.

Telefonica continues to lead in terms of innovation across its footprint in each of the countries where it operates. In Europe, Telefónica and the major operators in the regions are collaborating to define the evolution of open network architectures (Open-RAN). Moreover, Telefónica continues to strengthen the start-up ecosystem through Wayra and Telefonica Ventures. In 2021, we announced a new Talent and Innovation Hub in Madrid, with an initial investment of €100m until 2024.

Value creation model

Telefónica deploys, operates and maintains **telecommunications networks** and, based on these capabilities builds **connectivity** (or adjacent) **products and services** suitable for a **wide range of customers** (individuals and businesses).

Assets

Telefónica's **value creation model** is based on the exploitation of a number of valuable **assets**. These include:

- Fixed and mobile **telecommunications networks**, including both the basic infrastructure (fibre, civil engineering, telecommunications towers, ducts and buildings, etc.) and the physical elements associated with access, transport and switching (hardware equipment) so that we can provide our customers with basic connectivity and communications services. Telefónica builds, operates and maintains these networks in each of the countries where it operates.
- The IT **infrastructure** (data centres, hardware, and software) necessary for the provision of services to end customers (front office) and proprietary operations (back office). This includes the main platforms for building services on top of basic connectivity (communications, TV, digital services, etc.), either proprietary or based on third-party services.
- The necessary **licences** and authorisations according to applicable regulations and, in the case of mobile operations, the radio **spectrum** acquired in each country for the provision of the service.
- Telefónica is the parent **brand** that leads corporate and institutional communications globally. At the local level, we have the commercial brands *Movistar* in Spain and Latin America, *O2/VMED O2* in Europe, and *Vivo* in Brazil.
- **Other intangible assets** necessary for the provision of the service, such as know-how in operation and processes, which Telefónica has built up over the years, including the value of our brands in each market.

Services

Telefónica leverages these assets by building **services** adapted to our customers' requirements. These services can be wholly proprietary (e.g. pure connectivity and communications services) or based on third-party offerings via partnerships or distribution agreements (as is the case for certain digital services). The main features of Telefónica's commercial proposal to customers include:

- **Basic telecommunications services**, covering Internet connectivity (residential or the more sophisticated business and corporate products) and fixed and mobile communications (traditional voice and other communication SVAs).
- Proprietary and third-party **digital services** provided over Telefónica's telecommunications networks and connectivity to complement our offering to end customers (e.g. digital television and content, cloud services, etc.).
- **Professional services and similar** necessary to facilitate our customers' digitalisation process and access to technology, including (logical and physical) security, business consulting based on big data and IT services and managed communications for companies, etc.

Customers

On a commercial level, Telefónica serves a wide variety of **customers** in each of the markets where we operate providing solutions to meet every customer's digital need. The Telefónica Group's customer portfolio spans across virtually every segment in every market, including:

- **Residential customers** offering solutions for the home (fixed connectivity, fiber, TV, etc.) and for individual use (e.g. mobile lines).
- **Corporate clients**, with an offering adapted to the digital requirements of different types of companies (from businesses and SMEs to the world's leading multinationals).
- **Public administrations** and other governmental agencies.

Economic results of Telefónica, S.A.

Telefónica, S.A. obtained positive net results of 206 million euros in 2021. Highlights of the 2021 income statement include:

- Revenue from operations, amounting to 6,426 million euros, lower than 2020 figure due to the decrease in dividends registered as revenues (disclosed in Note 19).
- The figure of "Impairment losses and other losses" amounting to a write down of 4,574 million euros in 2021 (a write down of 10,956 million euros in 2020).
- The caption "Profits on disposal of subsidiaries" amounting to 163 million euros, mainly attributable to the sale of Telefónica de Costa Rica, T.C, S.A.

- Net financial expense totaled 1,166 million euros in 2021 (995 million euros of financial expense in 2020). This figure is mainly due to finance costs with Group companies and associates, principally from Telefónica Europe, B.V. amounting to 458 million euros (461 million euros in 2020) and Telefónica Emisiones, S.A.U. totaling 986 million euros (1,089 million euros in 2020) which were partially offset by exchange gains amounting to 5 million euros (601 million in 2020).

Investment activity

The investment activity of the Company regarding additions, sales, valuation criteria and impact of this valuation in 2021 is described in Note 8 of these financial statements.

Share price performance

Global markets closed higher in 2021, with the MSCI World Index up +20.1%. In the United States, the main indices reached record highs at the end of the fourth quarter, with the S&P rising +26.9%, the Nasdaq +21.4% and the Dow Jones +18.7% for the year. Among the major European markets (EStoxx 50 +21.0%), the Cac 40 had the highest return (+28.9%) followed by the DAX (+15.7%) and FTSE 100 (+14.3%), while the IBEX 35 recorded a relatively weaker performance (+7.9%).

Market developments during the year were marked by the evolution of the COVID-19 pandemic and reaction of governments, the pace of recovery and outlook for global economic activity, tensions in supply chains and inflation, the degree of monetary tightening by central banks, as well as an escalation of tensions between the United States and China. In this regard, in the first half of the year the main markets rallied more than in the second half, posting double digit growth versus single digits, with defensive and value sectors being favoured first and growth and cyclical sectors later. Overall, low trading volumes and predominantly short-term movements were observed, with no clear market direction at many points during the year. Looking ahead to 2022, concerns remain focused on the evolution of the pandemic and its effects on economic growth, the impact on the economy of monetary policy tightening by major central banks, the impact and duration of current levels of inflation, and the ability to deal with supply chain problems.

While the telecommunications sector outperformed the market in the first quarter of the year (+12% for the DJ Telco vs. +8% for the Euro Stoxx 600), this trend reversed in the following quarters to close the year at +11.8% for the DJ Telco vs. +22.2% for the Euro Stoxx 600. Although the sector has proven to be essential for society and the

economy, it has been impacted by (i) the sectoral rotation of markets; (ii) expectations of increased investment in spectrum and new technologies; (iii) a high level of indebtedness; (iv) lack of growth; (v) high competition in certain markets; (vi) complex regulatory environment, despite several positive signs in this area during the year, and; (vii) roaming, which has not recovered to pre-pandemic levels. However, in 2021, the sector had its best absolute performance since 2015, with further upward revisions in estimates and record M&A news volume, supported by higher valuations assigned by private markets, along with consolidation rumours in several markets.

Thanks to the strength of Telefónica's business model and the execution of the strategy, with the achievement of major milestones such as the creation of the VMED O2 joint venture in the UK and the sale of Telxius towers, Telefónica's share closed 2021 at €3.85, +18.7% in the year, with a total shareholder return of +29.6%. Telefónica delivered higher organic growth during the year, with more efficient capital allocation and reduced net financial debt significantly, simplifying and digitalising the operating model, reducing complexity.

Regarding the dividend payment, in 2021 and under the voluntary flexible dividend modality, €0.35 per share was paid (€0.20 per share in June and €0.15 per share in December). The shareholder remuneration policy consisted of a dividend of €0.30 per share, €0.15 per share paid in December 2021 and €0.15 per share to be paid in June 2022. As a result, the dividend yield for the year was 7.8%.

Telefónica closed the 2021 financial year with a market capitalisation of €22,261 million, making it the 29th largest company in the global telecommunications sector.

Contribution and innovation

Vision

Global economic development demands greater social and environmental responsibility to ensure more inclusion, more ecosystem and biodiversity protection, and more shared wealth for the benefit of present and future generations.

The greater awareness of social actors has also permeated the business world, including the way business is carried out and how employees work from day to day.

In this context, we need to go a step further and assess and measure the social and environmental impact generated by companies, in order to quantify their value

and integrate this into organisational management as an indicator for consideration in decision-making processes.

At Telefónica, we use the Sustainable Development Goals (SDGs) defined in the UN's 2030 Agenda as a strategic framework for our commitment to society and environmental protection, and as a base for analysing and evaluating our contribution to socio-economic development.

Strategy and commitments

Over the last few years, we have been assessing and identifying the main goals and targets of the 2030 Agenda, and where we are generating the greatest value based on our technical and commercial capabilities and the geographical regions in which we operate.

Accordingly, we focus on three main lines of action in keeping with our strategic pillars, and we have identified **SDG 9 (Industry, Innovation and Infrastructure)** as the main goal where we are generating the greatest value, thanks to our deployment of communications infrastructures and our ongoing commitment to innovation and the promotion of entrepreneurship.

Evaluation of our contribution and impact

We define social and environmental impact as the changes experienced by people and the planet as a result of a particular activity, project, program or policy that affects human conditions in the long term.

Impact measurement and management is also defined as the identification and quantification of metrics agreed with stakeholders to measure the changes experienced by people and the planet as a result of a particular activity, project, program or policy and the extent to which the agent of change contributes to such changes. This results in a learning process that is to guide the organization's actions and determine the management of the intervention. These changes can be measurable, positive or negative, intended or unintended, tangible or intangible.

Based on these premises and bearing in mind that our contribution goes beyond financial results, at Telefónica we **assess our overall contribution and the impact of our strategic objective in different areas**. In this regard, in 2021, for the third consecutive year, we have carried out a comprehensive study of Telefónica's contribution to the most material issues, and where it can generate the greatest value or impact for the company's future:

- **Maximising our contribution** to the socio-economic development of the regions in which we are present, and
- **Minimising the negative impact** our activity and products and services can have on the environment and society.

We have developed a **comprehensive impact analysis model** that allows us to:

- Monitor the evolution of the company's main contribution and impact indicators
- Evaluate our contribution to the 2030 Agenda
- Detect and monitor risks that may affect our activity, and
- Facilitate decision-making to improve our business and increase our contribution to society.

To this end, we have adapted different methodologies and evaluation frameworks to the particularities of our sector and the characteristics of Telefónica. The main methodologies we have applied are based on the following international frameworks:

- The Impact Management Program (IMP) evaluation model
- Calculation methodologies defined in Harvard University's Impact Weighted Account Initiative (IWA)
- True Value methodology developed by the consultancy firm KPMG.

We have also taken into account new impact assessment guidelines and frameworks published by international organisations and academia.

Our integrated model adopts a two-pronged approach, depending on the type of evaluation we are looking for:

1. The Value Analysis Model: an assessment model that identifies the overall impact of our company, and
2. The Product and Service Assessment Model: in this case, we perform specific evaluations of the main projects or commercial solutions to analyse their impact on society or the environment.

Helping society thrive

Telefónica wants to bring the best connectivity and the latest technology to everyone. We advocate people-centred digitalisation to tackle unequal opportunities.

Impact assessment is the first step in understanding how value is actually generated. Accordingly, we have structured this pillar in three sub-categories to show the socio-economic contribution resulting from our investments in our business, as well as all the extra-financial impacts derived from the main telecommunications business:

- Economic contribution
- Entrepreneurship and training
- Contribution of our products and services

In addition to the monetised calculation of impact, we also monitor specific SDG indicators linked to our company strategy. Accordingly, for the strategic pillar 'Helping society thrive we have:

Lines of action for SDG 9

- Inclusive digitalisation (TARGET 9.1) - Strengthen and invest in very high-capacity networks that have proven to be critical for future competitiveness:
- Increase high-speed mobile network coverage (LTE) and drive the deployment of new 5G networks.
- Increase coverage of ultra-broadband (fibre) networks in all regions.
- State-of-the-art (TARGET 9.5) - Foster innovation and technological entrepreneurship through our open innovation programs.
- Accessible (TARGET 9.c - UNSTATS indicator 9.c.1) - Bring connectivity to where it is missing, connecting millions of people in rural or remote areas who have no, or very limited, access to the Internet.

We are deploying state-of-the-art networks not only to lead the markets where we operate and ensure a reliable and resilient service, but also to connect the greatest number of people possible.

We have digital services based on the latest technology, and we add a social component to our innovation, because we refuse to understand progress without people.

Over the past year, we have maintained our broadband network coverage roll-out efforts in both Europe and Latin America. Our LTE networks reach virtually the entire population in the European regions where we operate and we are driving the roll-out of 5G and fibre to all areas, including rural and remote areas.

However, beyond infrastructure, the promotion of innovation and entrepreneurship, through programs such as **Open Future**, **Telefónica Venture Capital** or **Wayra**, is proving to be a catalyst that prevents the flight of young talent to other parts of the world, driving innovation and economic development in many regions.

More specifically, over the last 10 years, Telefónica's open innovation area has invested more than €190M in 1,032 start-ups around the world, around 500 of which are currently part of our portfolio.

Contribution to SDG 9			
Target	Indicator	2020	2021
9.1			
	Investment in research, development and innovation	4,626	4,426
	Prepaid penetration	131,542	129,676
	Universal service (million euros)	174	169
9.5			
	R&D investment (million euros)	959	835
	Industrial property Rights portfolio (includes patents)	440	421
9.c			
	4G/LTE Mobile coverage (%)	83	87
	UBB - Ultra Broadband (real estate units passed)	61,797,906	68,853,722

Environment

Vision

In the last few decades, protecting the environment has become a priority for all enterprises due to the risks and opportunities entailed. Furthermore, we are experiencing a clear increase of awareness among consumers, investors and employees towards the planet and the need to carry on their business in a more sustainable manner.

At Telefónica, we are striving to ensure our impact on the environment is minimal and are committed to decoupling the growth of our business from our environmental footprint. We also want to contribute, through digitalisation, to make a **new economic paradigm** a reality, which, in accordance with the European Green Deal, puts the focus on protecting the environment. Digitalisation is, therefore, a crucial tool to face these environmental challenges: climate change, circular economy, water management, biodiversity, etc.

This commitment is part of the Company's general strategy and is the responsibility of the Board of Directors. Our performance in this area is regularly supervised by the Board's Sustainability Committee and the Responsible Business Office, made up of the global areas which execute that strategy alongside the business units.

We have **global environmental and energy management policies**, and we act at all levels of the organisation. The environment is a central issue throughout the Company, involving both operational and management areas as well as business and innovation

areas. The carbon reduction targets are part of the variable remuneration of all the Company's employees, including the Executive Committee.

Risks and opportunities

The Company's environmental and climate change risks are controlled and coordinated under the Telefónica Group's global risk management model, in accordance with the **precautionary principle**.

The major focal point of our environmental risk is the high geographic dispersion of our infrastructure, which is controlled through environmental management based on uniform processes and certified according to the ISO 14001 standard.

In 2021, the Telefónica Group has contracted, both locally and globally, several insurance programs in order to mitigate the possible occurrence of any incident arising from the risks of environmental liability and/or natural disasters, to guarantee business continuity. We currently have fully comprehensive insurance and coverage for all risks, material damages and loss of profit, in order to cover any material losses, damage to assets and loss of income and/or customers, among other problems, as a consequence of natural events. We also have insurance to cover the environmental liabilities set out by applicable laws and regulations. Both insurance policies are based on limits, sub-limits and cover which are appropriate to the risks and exposure of Telefónica and its Group of companies.

However, our company finds more opportunities than risks in this area: it helps us to improve our financing thanks to a diversified investor base and access to a growing sustainable market; it contributes to lessening our dependence on fossil fuels and reducing CO₂ emissions, fostering more efficient energy consumption; and promotes our growth through Eco Smart products and services.

Strategy and commitments

Our environmental strategy seeks to **minimise our impact on the planet** and **maximise the environmental benefits** generated by our digital products and services. The strategy is built around three levels:

- The **first level** is related to the **responsibility** we assume as a company committed to our environment, managing our risks, implementing ISO management systems and carrying out proactive advocacy in favour of the environment.
- The **second level** has to do with the **decarbonisation and circularity** of the company, thanks to renewable energies, extending the life of electronic equipment and reducing resource consumption and CO₂ emissions to tackle climate change
- Finally, the **third level** is linked to our *raison d'être*, the **digitalisation of our customers**, through services with a positive impact on the environment thanks to technologies such as the Internet of Things (IoT), cloud and big data.

As part of the integration of the environment into the company's strategy, **we are progressively increasing the company's sustainable financing.**

Targets

Our major targets are to:

- Avoid 12 million tonnes of CO₂ per year for our customers in 2025.
- Reduce our CO₂ emissions (scope 1+2) by 90% in our main markets in 2025, and 80% globally in 2030
- Reduce CO₂ emissions in our value chain by 39% by 2025 compared to 2016 (scope 3).
- Continue to consume 100% renewable energy in our main markets and also reach 100% globally in 2030.
- Be a zero-waste company in 2030, through increasing ecodesign, reuse and recycling.

Environmental Management System

The **ISO 14001** Environmental Management System (EMS) is the model we chose to ensure environmental protection. **All our operators have an externally-certified EMS.**

We have a range of global standards incorporating the life-cycle perspective. We also incorporate the life-cycle perspective into the various aspects of our value chain and we pay particular attention to involving our partners in environmental management.

Having a certified EMS enables us to ensure that we successfully control and comply with the environmental legislation applicable to each operation, and this **preventive model of compliance** is associated with the Company's overall compliance process. We were not subject to any significant environmental penalties in 2021.

We manage all the main environmental aspects, such as energy and waste, but also others such as noise and water, progressively reducing our impact and increasing resilience through adaptation to climate change.

In addition, we renewed the Energy Management Systems (**ISO 50001**) certification for our operations in Spain and Germany and are working to extend it to other operations, such as those in Brazil (the EcoBerrini headquarters has already been certified).

Responsible network and biodiversity

With the goal of providing top quality service while promoting care for the environment, we successfully monitor environmental risks and impacts related to managing the network throughout its life cycle. In 2021, we invested around 20.8 million euros towards this goal (similar to the investment in 2020).

An example of the responsible management of the network is the fact that 98% of our waste was recycled in 2021.

In order to minimise the impact of network deployment, we implement best practices, such as noise insulation measures when necessary or infrastructure sharing. Thus, whenever possible during installation of our facilities, we share space with other operators. This enables us to optimise land occupation, visual impact, energy consumption and waste generation.

RESPONSIBLE NETWORK LIFE CYCLE

PLANNING AND CONSTRUCTION

Environmental licences and permits	1,614
Visual impact reduction measures	88
Base stations with renewable energy	854

OPERATION AND MAINTENANCE

Energy efficiency and managements projects	188
Renewable energy in own facilities (%)	79.4
GHG emissions (Scopes 1+2) (tCO ₂ eq)	536,737
Energy consumption by traffic (MWh/PB)	54

DISMANTLING

Network equipment reused	9,520
Hazardous waste (t)	3,268

Total waste recycled (%) 98

With regard to **biodiversity**, the impact of our facilities is limited. Nevertheless, we conduct environmental impact studies and implement corrective measures when necessary, such as in protected areas.

To analyse the impact of the Group's infrastructures on biodiversity in greater detail, a Geographic Information System (GIS) was used to put together the area occupied by each type of infrastructure and the different layers of information about protected areas and species obtained from renowned international organisations, such as the International Union for Conservation of Nature (IUCN).

This information has enabled us to establish the quality of the habitats in which some type of the company's infrastructure is present (classifying them into five levels, from very low to very high) and assess the potential impact on biodiversity (destruction of vegetation or habitat disturbance in the area of influence, such as fragmentation, alteration or introduction of invasive species). As a result, it has been observed that almost all facilities are in low or very low value habitats, and none of them are located in habitats with a very high value; therefore, the potential impact on biodiversity is very limited.

Human Resources

Vision

With people at the centre of our strategy, we are convinced that maximising employees' potential and increasing their motivation enables change and leads to sustainable growth. Our vision of people management is based on two pillars: the strength of teams and a mindset focused on growth. Through the power of teams we focus on organisational transformation, creating more flexible structures and fostering new ways of working to increase the impact they have. Through the growth mindset we focus on developing the skills we need in the

future through continuous learning, self-development and mobility. To continue building the company we want in the coming years, we need to empower and join these two pillars together, connecting our diverse talent with flexible, agile ways of working and a mindset focused on personal growth.

Risks and opportunities

The main challenges we face in human capital management come from the rapid transformation in which we are immersed and which is reflected in the working world. The technological revolution, automation and artificial intelligence demand new capabilities. We therefore need to attract and retain highly qualified professionals and develop the necessary in-house skills.

We have the opportunity to pioneer new flexible work models and play an essential role in defining the professional profiles of the future, capable of adapting to new situations with high-level versatility. With innovation, we can reduce inequalities, create jobs and help make the future fairer, more sustainable, more inclusive and more competitive.

We could not lead the digital revolution without the best talent, ensuring that all people, without exception, thrive in an inclusive work environment. This also makes us better at empathising with our customers and reflecting their diversity in our commercial value proposition.

These challenges are included in Telefónica's Risk Management Model as emerging risks in the People area.

Strategy and commitments

Telefónica's people strategy aims to transform and adapt our teams to the current context of permanent change, evolving the way we work to increase our teams' impact and maximize our internal capabilities.

To this end, we are driving continuous learning by aiming our training and development policies towards massive reskilling and upskilling programs, managing talent with a skills-based model that also includes leadership skills.

We promote diversity and inclusion, fostering an inclusive work culture and leadership style to ensure a working environment where all people can do their best and develop on an equal footing.

We are also redefining our ways of working to be more digital, more flexible and collaborative to increase the engagement, satisfaction and productivity of our teams. Digital disconnection and both physical and emotional well-being also form part of our model.

We involve our employees in sustainability and the long term through variable remuneration, where we consider factors such as customer and social trust, diversity and the contribution to the fight against climate change.

Attraction, Retention and Capacity-Building

Careers have moved from being vertical and stable to being more cross-cutting and flexible. As a result, development is no longer conditioned by a person's current job, but rather by what they want to become in the future.

Our Skills Workforce Planning process seeks to ensure the alignment between the skills we have in the organization and the skills we need to grow our businesses, and this enables us to make the right decisions to close the skills gap.

Accordingly, we are firmly committed to the internal development of the new skills we need, together with the incorporation of external talent.

For talent recruitment, in addition to traditional mechanisms, we are committed to new channels to ensure the incorporation of the right profiles in a more global, digital and efficient way and also to establish a long-term relationship with candidates and simplify selection processes. In particular, we are very active in digital job fairs, forums, employability roundtables, social media and universities with technological specializations.

For internal skills development, we are implementing mass reskilling and upskilling programs to develop critical skills for our business and improve employability. And we are developing the learning model further to use artificial intelligence engines to personalise and adapt the training offer to the preferences of each professional (learning on demand).

The situation arising from the Covid-19 pandemic has presented us with an opportunity to speed up the digitisation of learning. Accordingly, we offer our employees a much larger number of training programs in digital or hybrid formats. The shift towards mostly digital training means that programs are shorter in duration than in the past, but more tailored and focused on requirements. Examples of these programs include video formats, podcasts, video games, interviews, role plays and articles adapted to each person's needs in the skills of their choice.

One of the key elements of our skills development model is SkillsBank, a software tool developed internally on the basis of big data and artificial intelligence that lets us know the skills we have active in the organisation in real time. SkillsBank incorporates employee recommendations for positions that best match skills and training content based on preferences and motivations.

For the development of new skills, we also encourage geographic and functional mobility as a key aspect of talent retention. We therefore foster an open and innovative environment that makes it possible to match our employees' interests and backgrounds with real opportunities to maximise learning and progress into the roles of the future.

Universitas Telefónica

Telefónica's development offer combines technical and human skills. Universitas Telefónica presents a complete range of on-line training options for our professionals to accelerate the transformation and adoption of new ways of working and leadership, aligning priorities and nurturing a single culture throughout the company by empowering employees.

Its technological evolution, together with the opening of a new physical campus at the Company's headquarters, equipped with face-to-face, virtual and hybrid executive education facilities, means that, by early 2022, we will be in a position to offer a personalised, orderly and on-demand proposal and make the greatest possible impact. This will enable more than 50% of employees to take part in annual skilling programs and actions.

Employee commitment and motivation

Our professionals' commitment has always been high on Telefónica's agenda. For several years now, we have been measuring this through the Employee Net Promoter Score (eNPS), which indicates the degree to which the Company's employees recommend the organisation by answering the question:

How likely would you be to recommend your company to people close to you as a good place to work? (1=I would definitely not recommend it, 10=I would definitely recommend it).

It enables us to align ourselves with the customer satisfaction measurement, using the same logic as the Net Promoter Score. This variable measures the percentage of those in favour (those who award scores of 9 or 10) minus the percentage of those against (those who award scores from 1 to 6).

The result is calculated directly for each country and weighted with the number of local employees to give the global figure. This year 2021 we have achieved a result of 67%, which is a decrease of 2 points compared to 2020.

A result above 40% is considered excellent and we are one of the few companies above 60%.

Our challenge now is to continue to increase our professionals' pride of belonging, convinced that their motivation is the multiplying factor of results.

In addition to this annual measurement, in each of our operations we conduct various internal listening exercises, such as opinion surveys, and put out regular feelers to test the level of engagement.

This is complemented by performance appraisals, outgoing interviews, incident tracking and whistle-blowing channels.

Culture of recognition: People of Courage

This program aims to promote a culture of meritocracy through our leaders' personal recognition of employees and their recognition of each other, giving visibility to the individuals and teams that stand out for their differential contribution and day-to-day behaviour. It also recognises social volunteers or volunteer teams for their extraordinary contribution to a social cause or in an emergency or humanitarian crisis.

During 2021, we adapted the insignias to the new brand and created new ones such as Positive Leadership and Exceptional Work.

Overall, we recorded around 53,854 awards to colleagues and teams, demonstrating that recognition is still part of Telefónica's DNA, and we will continue to promote it to connect talent.

Diversity and inclusion GRI 102-15, 103

At Telefónica we incorporate diversity and inclusion management as a cross-cutting part of our strategy. Diversity not only follows principles of social justice, but also helps us achieve better business results. We therefore design initiatives aimed at fostering team diversity and promoting an organisational culture of equality, plurality and inclusion in which our employees' unique skills, abilities and ways of thinking help us make the best decisions for the business.

Diversity management helps us attract and retain high-potential professionals, get the best out of our employees, empathise with our customers and innovate.

Governance

We have a structure of internal bodies and figures to evaluate and monitor progress on equality, diversity and inclusion. These bodies also monitor compliance with indicators and strategic objectives and ensure the involvement of senior management.

- i. Global Diversity Council: composed of top-level executives, its purpose is to promote and monitor the Company's diversity strategy.
- ii. Transparency Commission: composed of the Chairman and four senior managers, it ensures the presence of both genders on short-lists for selection processes.
- iii. Chief Diversity Officer: supports the Board and the People department.
- iv. Diversity Champions: act as internal change agents in all areas of the Company.

Monitoring Committees of the local Equality Plans.

Beyond our local policies and plans, all our operations ensure the presence of both genders on the short-lists of candidates for internal and external selection processes

for management positions. The Transparency Commission, referred to above, monitors compliance with this rule.

Committed to equal pay: closing the pay gap

Telefónica not only promotes equal treatment and opportunities for men and women, but also reinforces the application of the principle of equal pay for equal work or work of equal value, i.e. equal pay for equal work regardless of the employee's gender.

Based on clear, transparent communication, we conduct detailed analyses of gender pay data within the Group in order to identify possible inequalities and establish measures to correct them. We do this by considering all items related to salary, benefits and other short- and long-term incentives, i.e. all payments received by the employee during the year.

The wage inequalities or differences that can be found, also called 'gender pay gaps', are comparisons between the average total pay of men versus the average total pay of women.

In making this comparison, the most important thing to understand is how it is done, what items are included and how the difference between men's and women's average total pay is measured.

If we only compare average total pay, without taking into account factors other than gender, we are talking about the gross pay gap. When, in addition to gender, consideration is given to the country, legal entity, professional category, functional area in which each employee works, length of service and working hours (full-time or part-time), we are talking about an adjusted pay gap. This concept brings us closer to pay equality: equal pay for jobs of equal value.

The result of this comparison between the average total pay of men versus the average total pay of women is much more than a number; it provides us with information at all levels. We analyse not only salary information, but also the socio-economic situation, labour structure and business challenges. This information helps us implement measures to close the gap and drive projects forward.

The main reasons for the gender pay gap are very diverse and depend on the country, the nature of the business and the history of the company. The most common are:

- Higher proportion of men overall and in leadership and income-generating positions in the telecommunications sector. In 2015 we had 19% women in management positions and in 2021 the percentage of women managers in the group is 30.4% (including the UK) and 29.5% (excluding the UK). The number of women in income-generating positions in the Company in 2021 was 38%.
- Higher proportion of women on reduced working hours: 6 out of 10 employees on reduced working

hours are women. To reverse this situation, new flexible working models can act as leverage for improvement (see section 2.6.5.3 New ways of working).

- Low presence of women in STEM (Science, Technology, Engineering and Mathematics) careers. To increase this, we have launched various initiatives to encourage and promote greater access for women and young people to these careers. At present, 20% of the Company's STEM positions are held by women.

Understanding the reasons behind the figures allows us to guide the strategy and implementation of initiatives that ensure equal opportunities for all, ultimately closing the pay gap.

New ways of working

Before the COVID-19 pandemic, Telefónica was in the process of transforming the way we work, implementing a working culture that allowed us to focus on our customers' needs, prioritising the delivery of value through greater efficiency and innovation, and providing teams with greater autonomy and speed in decision-making processes. All these changes have been accelerated by the pandemic, where, thanks to the distance we had already covered in digitisation and internal innovation, we managed to achieve 95% of our staff working remotely at the height of the crisis. Thanks to these learning processes, during 2021 we have consolidated a new hybrid, flexible and digital working model in all our business units.

This new work model also includes the redefinition of our workspaces to be more digital, flexible and collaborative, the commitment to digital disconnection (Telefónica pioneered an agreement with all trade union organisations in 2019) and the physical and emotional well-being of our people.

To design our post-pandemic working model, we consulted employees through surveys and focus groups on how we should work and what should be done in the office. Following the replies received, we have decided on a hybrid model that gives us flexibility and the benefits of working in the office (recommended for team-building activities or creative workshops) and at home (suitable for analytical activities that require concentration). Employees can also choose to work from a second residence (always in the country of employment).

The commitment to a hybrid model is having a positive impact on the motivation, delivery of value and well-being of our employees, as shown by the various surveys we are conducting. 80% of employees in the Global Units and Spain team feel that their team is more productive working as a hybrid model.

Beyond the workplace, we focus on agility as a key lever to becoming a more flexible and adaptable organisation,

more agile and focused on delivering value to our customers.

For Telefónica, the new agile ways of working are much more than method; they are a means of driving cultural transformation, with support from the different local Agile offices. These offices combine Business, Transformation and People teams and act as the main driver and enabler of change. They also allow agile frameworks to be adapted to the particularities of each business and aligned with the strategic priorities of each Unit.

During 2021, further progress was made in adopting agile ways of working in every unit in the Group. In the motivation survey, 38% of employees state that they use some kind of agile framework (scrum, kanban, design thinking, lean, etc.) and we currently have more than 400 teams working on agile initiatives in every country.

We know that these new ways of working involve a change of mindset and therefore our aim is to develop the role of leaders and teams in the new working environments to achieve a flexible and digital culture.

Workspaces at Telefónica are open and shared, and they are technologically equipped for the hybrid model. We also have space management tools and, in places that do not yet have these tools, we are rolling out pilots to implement them in the future.

Similarly, we provide employees with the equipment they need to be able to perform their work remotely in an appropriate manner, enabling interaction and fostering innovation with collaborative technology such as Microsoft Teams or the Workplace corporate social media, where we also share relevant news and inspirational content.

In addition, in Spain, we provide our employees with different tools so that they can record the start and end of the working day from any location, as required by current local labour legislation.

100% of our employees have access to Office 365 and Microsoft Teams for collaboration in a digital environment. 60% of employees are active users of the Workplace corporate social media.

Work-life balance

The hybrid model is developed by putting the employee and their family at the centre and taking care of their digital health. These new ways of working incorporate new healthy habits that place priority on the physical and emotional well-being of our workers in a holistic way.

In addition, depending on the geographical area where we operate, we provide our professionals with ergonomic chairs, mobile phones with unlimited data tariffs and the possibility of acquiring office furniture under good conditions.

Reinforcing the digital disconnection agreement the company signed in 2019, we provide courses with new routines and tips on how to maintain a healthy balance between work and free time and organise teamwork in the best possible way.

Strategy for health, safety and well-being at work

At Telefónica we understand the concept of occupational health and safety in reference to a state of complete physical, mental and social well-being in harmony with the environment. Measures that promote health within the company not only help employees and ensure long-term business success, but also have positive effects on society as a whole.

The Quality and Sustainability Committee is responsible for driving the development of our Global Responsible Business Plan, which is approved by the Board of Directors and emphasises safeguarding and promoting the Health, Safety and Well-being (HS&W) of our employees at work.

Management systems: prevention of work-related incidents and occupational diseases

We establish procedures to identify hazards and assess risks in order to prevent work-related incidents and occupational diseases. We also ensure compliance with the legal requirements in force in each country. In addition, we adopt further requirements based on local regulations or international standards in accordance with the principle of prevention.

The processes for identifying hazards, assessing risks and preventing incidents and occupational diseases are set out in the global Health and Safety Policy and in the various local health and safety policies. These processes vary from country to country, but they all focus on eliminating hazards and minimising risks.

Occupational health services

In every country we have health services whose essential function is the prevention and promotion of health. In some countries they are covered by own staff.

And, in most workplaces, medical services are available on-site; where they are unavailable, employees have access to medical services through various health plans.

Employee training and representation

Training and awareness-raising

All employees have on-line courses available to them on occupational health, safety and well-being. We also provide ongoing, specific training with the local country teams on the implementation of health, safety and well-being management systems and numerous health and awareness-raising campaigns.

Representativeness and worker participation

We promote worker and other stakeholder information, consultation and participation to ensure healthy, safe workplaces. Employee representation on joint health and safety committees is the model in place in the countries in which we operate, and 90% of our employees are represented on said committees.

Promoting workers' health

At Telefónica, we encourage and promote the physical and mental health of our employees both in the workplace and in their personal and family environments. In line with our aim to be a benchmark for corporate well-being, generating a positive impact on our employees, collaborators, their environment and the organisation, we implement initiatives to foster a culture of well-being at every level of the organisation, offering workers health and well-being benefits.

We also raise awareness through various health programs. We offer a portfolio of social benefits, adapted to local practices in the markets in which we operate, including universal health insurance for all employees and support for people with disabilities.

We promote well-being and a healthy psychosocial environment in the workplace to reduce emotional and mental stress.

All these programs help to implement corrective and preventive measures in each country.

In addition, the psychosocial working environment is one of the performance indicators that Telefónica has publicly committed to addressing.

We enable workers' access to these services and wellness programs through comprehensive communication campaigns. We also run various training courses on emotional health, stress management, time management, leadership style, suicide prevention and others.

Employee health and safety: COVID-19 crisis management

In 2021, the pandemic has posed numerous challenges in all the countries where we are present and our management has focused on the safety of our employees, customers and partners.

The formula that has made it possible for us to manage this pandemic is a balanced mix of data analysis, participation in international forums (WHO and United Nations) and the daily interpretation of qualitative information (press, trends, news agencies and specialised studies).

With minor adaptations to existing tools, we have extracted maximum performance from the data and

made safe progress on both health protection targets and business challenges.

We have made significant efforts to protect our employees by ensuring safe and healthy workplaces.

Therefore, this year, 2021, we have continued to move forward with the previously designed return plan and the following targets: safeguard people's health and safety; ensure the activity of people and service to our customers; and prevent future risks.

Actions to achieve these targets have varied according to how the pandemic has evolved in each country and criteria based on business activities and employee groups.

Each of these stages has been agreed with the main trade union bodies both in Spain and globally: UGT, CC.OO. and UNI Global Union (Trade Union Coordination).

The time planning differs in each country and is subject to many variables: key country indicators, active cases of the Company in the location, conditions for return to work. For this reason, although the plan is the same, implementation occurs at different times.

At all times, the return to work plan has been addressed jointly between Telefónica and the main trade unions in Spain, i.e. UGT and CC.OO., as well as UNI Global Union.

During 2021, each country has established locally appropriate systems through health and safety committees, temporary commissions linked to COVID-19 or other dialogue instruments to ensure compliance with agreements and review any extraordinary incidents that may arise until the pandemic is under control.

This also includes a commitment to create spaces for collaboration in the field of collective bargaining to analyse and capitalise on the lessons learned from the management of the pandemic in order to consolidate home-working and flexibility schemes, as well as new health and coexistence protocols.

Liquidity and capital resources

Financing

There were no financing transactions carried out in the bond market during 2021.

The main transaction arranged in 2021 in the bank market is as follows:

- On March 26, 2021, Telefónica, S.A. signed and drew down 200 million euros of its bilateral loan and originally scheduled to mature in 2022. On June 28, 2021 an early repayment took place.

Available funds

At December 31, 2021 Telefónica, S.A.'s available funds from undrawn lines of credit in different financial institutions totaled 10,415 million euros (of which 10,227 million euros maturing in more than 12 months). Additionally, cash and cash equivalents as of December 31, 2021 amount to 5,807 million euros.

Additional information on sources of liquidity and undrawn lines of credit available to the Company, on liquidity risk management, on the Company's debt levels, and on capital management is provided in Notes 13, 14, 15 and 16 of the financial statements.

Contractual commitments

Note 19 to the financial statements provides information on firm commitments giving rise to future cash outflows and associated with operating leases, primarily.

Credit risk management

The credit risk in Telefónica, S.A. mainly refers to the one associated with financial derivative instruments arranged with different entities. The detailed description of how those risks are managed and hedged is included in Note 16.

Credit rating

At December 31, 2021, Telefónica, S.A.'s long-term issuer default rating is "BBB stable outlook" from Fitch, "BBB-stable outlook" from Standard & Poor's and "Baa3 stable outlook" from Moody's. During 2021, there have not been changes in the long-term credit ratings by any of the three agencies. Last changes in the credit ratings took place in 2020 when Standard and Poor's revised the outlook to "negative" from "stable" on April 1, 2020 and later, on November 20, 2020 downgraded the rating to "BBB - stable" from "BBB negative". On November 7, 2016 Moody's downgraded the rating to "Baa3 stable" from "Baa2 negative" and on September 5, 2016 Fitch downgraded the rating to "BBB stable" from "BBB+ stable".

In 2021, measures taken to protect the credit rating included an active portfolio management through the closing of the sale of telecommunications towers division in Europe (Spain and Germany) and in Latin America (Brazil, Peru, Chile and Argentina), the completion of the sale of the entire share capital of Telefónica de Costa Rica TC and the agreement reached for the sale of the entire share capital of Telefónica Móviles El Salvador.

Telefónica also closed various strategic deals to reinforce its business profile, on one side with Liberty Global plc, with which it has agreed to combine their respective operating businesses in the United Kingdom in a 50-50 joint venture, and on the other side, Telefónica has also closed the agreement reached between Telefónica Chile and KKR Alameda Aggregator for the sale of 60% of the shares of InfraCo, that will provide wholesale connectivity services to Telefónica Chile on InfraCo's fibre network and have close the agreement with CDPQ for the construction, development and operation of a fibre (FTTH) network in Brazil. Finally, Telefónica Colombia has entered into a sale and purchase agreement on fibre assets with a Colombian company controlled by KKR. Apart from that, Telefónica decided to maintain the distribution of dividends through two voluntary scrip dividends in 2021 and Telefónica España signed a social pact for employment supported by the largest trade unions that contemplates an individual suspension plan of employment, fully voluntary.

Dividend policy

Telefónica, S.A.'s dividend policy is revised yearly based on the Group's earnings, cash generation, solvency, liquidity, flexibility to make strategic investments.

On March 2017 the Board of Directors of Telefónica, S.A. decided to define the corresponding payment periods of the dividends. Therefore, from there on, the dividend payment in the second quarter will take place in June, and the dividend payment in the fourth quarter will take place in December, in both cases on or before the third Friday of the corresponding month.

In February 2020, Telefónica announced the dividend policy for the year 2020: 0.40 euros per share payable in December 2020 (0.20 euros per share) and in June 2021 (0.20 euros per share).

In May 2020, after the corresponding analyses, it was concluded that the Company had a sufficiently healthy cash position to maintain the previously announced dividends payment. However, for reasons of financial prudence in the context of the COVID-19 health crisis and in order to grant greater flexibility in regard to cash outflows and different alternatives for the shareholders, it was deemed appropriate to propose for approval of the Annual General Shareholders Meeting held on June 12, 2020 the implementation of the payment of sums to be made during this fiscal year 2020 through separate scrip dividends (the "Telefónica Flexible Dividend"), which as is known, provides all shareholders with the choice of

receiving the relevant compensation in shares or in cash, at the shareholder's discretion.

The Annual General Shareholders Meeting held on June 12, 2020 approved the Proposals of the scrip dividend, which were executed in June and December 2020.

In February 2021, Telefónica announced the dividend policy for the year 2021, which consists of an amount of 0.30 euros per share, payable in December 2021 (0.15 euros per share) and in June 2022 (0.15 euros per share).

The Annual General Shareholders Meeting held on April 23, 2021 approved the Proposals of the scrip dividend, which were executed in June and December, 2021.

For the payment in Jun 2022, the adoption of the corresponding corporate resolutions will be proposed to the Annual General Meeting to be held in 2022.

Treasury shares

Telefónica has performed, and may consider performing, transactions with treasury shares and financial instruments or contracts that confer the right to acquire treasury shares or assets whose underlying is Company shares.

Treasury share transactions will always be for legitimate purposes, including:

- Undertaking treasury share acquisitions approved by the Board of Directors or pursuant to General Shareholders' Meeting resolutions.
- Honoring previous legitimate commitments assumed.
- Covering requirements for shares to allocate to employees and management under stock option plans.
- Other purposes in accordance with prevailing legislation. In the past, treasury shares purchased on the stock market were exchanged for other shares-securities (as in the case of preferred capital securities), swapped for stakes in other companies (e.g. the share exchange with KPN) acquired to reduce the number of shares in circulation (by redeeming the shares acquired), thereby boosting earnings per share, the delivery of treasury shares in exchange for the acquisition of a stake in another company (such as the agreement with Prosegur Compañía de Seguridad, S.A.).

Treasury share transactions will not be performed in any event based on privileged information or in order to intervene in free price formation. In particular, any of the conduct referred to in Articles 83.ter.1 of the Spanish Securities Market Law and 2 of Royal Decree 1333/2005 of November 11 implementing the Spanish Securities Market Law, with regards to market abuse will be avoided.

The disclosure of number of treasury shares at the end of 2021 and 2020, as well as the explanation about the evolution of the figure and the transactions involving treasury shares in 2021, are described in Note 11 of these financial statements.

Risk Factors

The Telefónica Group is affected by a series of risk factors that affect exclusively the Group, as well as a series of external factors that are common to businesses of the same sector. The main risks and uncertainties faced by Telefónica, which could affect its business, financial condition, results of operations and/or cash flows are set out below and must be considered jointly with the information set out in these Financial Statements.

These risks are currently considered by the Telefónica Group to be material, specific and relevant in making an informed investment decision in respect of the Company. However, the Telefónica Group is subject to other risks that have not been included in this section based on the Telefónica Group's assessment of their specificity and materiality based on the Group's assessment of their probability of occurrence and the potential magnitude of their impact.

Risks are presented in this section grouped into four categories: business, operational, financial, and legal and compliance.

These categories are not presented in order of importance. However, within each category, the risk factors are presented in descending order of importance, as determined by Telefónica at the date of this document. Telefónica may change its vision about their relative importance at any time, especially if new internal or external events arise.

Risks related to the Business Activities.

Telefónica's competitive position in some markets could be affected by the evolution of competition and market consolidation.

The Telefónica Group operates in highly competitive markets and it is possible that the Group may not be able to market its products and services effectively or respond successfully to the different commercial actions carried out by its competitors, causing it to not meet its growth and customer retention plans, thereby jeopardizing its future revenues and profitability.

The reinforcement of competitors, the entry of new competitors (new players or OTTs), or the merger of operators in certain markets, may affect Telefónica's competitive position, negatively affecting the evolution of its revenues and market share or increasing its costs. In

addition, changes in competitive dynamics in the different markets in which the Telefónica Group operates, such as in Chile, Colombia, Peru and Argentina where there are aggressive customer acquisition offers, including unlimited data and discounts on certain services, among others, can affect the competitive position and the efficiency of Telefónica's operations.

If Telefónica is not able to successfully face these challenges, the Group's business, financial condition, results of operations and/or cash flows could be adversely affected.

The Group requires government concessions and licenses for the provision of a large part of its services and the use of spectrum, which is a scarce and costly resource.

The telecommunications sector is subject to laws and sector-specific regulations. The fact that the Group's business is highly regulated affects its revenues, operating income before depreciation and amortization ("OIBDA") and investments.

Many of the Group's activities (such as the provision of telephone services, Pay TV, the installation and operation of telecommunications networks, etc.) require licenses, concessions or authorizations from governmental authorities, which typically require that the Group satisfies certain obligations, including minimum specified quality levels, and service and coverage conditions. If the Telefónica Group breaches any such obligations, it may suffer consequences such as economic fines or, in a worst-case scenario, other measures that would affect the continuity of its business. Exceptionally, in certain jurisdictions, the terms of granted licenses may be modified before the expiration date of such licenses or, at the time of the renewal of a license, new enforceable obligations could be imposed or the renewal of a license could be refused.

Additionally, the Telefónica Group could be affected by the regulatory actions of antitrust authorities. These authorities could prohibit certain actions, such as new acquisitions or specific practices, create obligations or impose heavy fines. Any such measures implemented by the antitrust authorities could result in economic and/or reputational loss for the Group, in addition to a loss of market share and/or harm to the future growth of certain of its businesses.

Any of the foregoing could have an adverse effect on the business, financial condition, results of operations and/or cash flows of the Group.

Access to new concessions/ licenses of spectrum.

The Group requires sufficient spectrum to offer its services. The Group's failure to obtain sufficient or appropriate spectrum capacity in the jurisdictions in which it operates, or its inability to assume the related costs, could have an adverse impact on its ability to

maintain the quality of existing services and on its ability to launch and provide new services, which may materially adversely affect Telefónica's business, financial condition, results of operations and/or cash flows.

The intention of the Group is to maintain current spectrum capacity and, if possible, to expand it, specifically through the participation of the Group in spectrum auctions which are expected to take place in the next few years, which will likely require cash outflows to obtain additional spectrum or to comply with the coverage requirements associated with some of the related licenses.

In Spain, the Ministry of Economic Affairs and Digital Transformation launched a public consultation on the 26 GHz band in December 2021. This consultation raises the possibility of assigning part of the spectrum to companies, industries and organizations operating in a specific sector, that deploy private networks to support their connectivity needs (verticals). This could mean more competition in the private corporate network segment and a possible increase in spectrum prices during the auction. The auction is expected to take place during 2022.

In Latin America, several auction processes are expected in the near term: (i) in Colombia, the "5G Plan" as well as the 2020-2024 Spectrum Public Policy and the 2020-2024 Spectrum Allocation Framework Plan were published. These policy documents announced actions to auction the remaining spectrum in the 700 MHz, 1,900 MHz and 2,500 MHz bands, without indicating a concrete time frame. Additionally, with regards to spectrum in the 3.5 GHz band, the Ministerio de las Tecnologías de la Información y las Comunicaciones ("MinTic") postponed the auction without indicating a specific date to start the process. Telefónica has requested MinTic to delay any spectrum auction until the review of the existing spectrum valuation methodology, in order to align costs with the spectrum value generation capacity is completed, and specific measures to avoid resource monopolization by the dominant operator are put in place; and (ii) in Peru, Telefónica del Perú S.A.A. was pre-selected for the auction on the 1,750 - 1,780 MHz, 2,150 - 2,180 MHz and 2,300 - 2,330 MHz bands. The auction has been postponed to the end of February and further delays are foreseeable. With regards to 5G and the spectrum auction for the 3.5 GHz and 26 GHz band, the new government has not yet adopted any decision.

Existing licenses: renewal processes and modification of conditions for operating services.

The revocation or failure to renew the Group's existing licenses, authorizations or concessions, or any challenges or amendments to their terms, could materially adversely affect Telefónica's business, financial condition, results of operations and/or cash flows.

With respect to Latin America:

In Brazil, the Agencia Nacional de Telecomunicações ("ANATEL") approved, on February 8, 2021, Resolution 741/2021 which sets the Regulation for the adaptation of Fixed Commuted Telephony Service ("STFC") Concessions. ANATEL is still working on the methodology for calculating the migration balance and there is a risk that consensus between the parties on the migration calculation may not be reached. In any case, if a decision is made by Telefónica not to migrate from the concession regime to the authorization regime, the STFC concession held by Telefónica will remain in force until December 31, 2025. Resolution 744/2021 of April 8, 2021 establishes that, at the end of the life of the concession contracts, the transfer of the right of use of shared-use assets will be guaranteed under fair and reasonable economic conditions, in the event that the Granting Authority or the company that succeeds the provider wishes to make use of these assets to maintain the continuity of the provision of STFC under the public regime. In addition, Telefónica could lose its right to operate spectrum in the 450 MHz band, granted in certain states, if Telefónica's appeal against a decision adopted by the regulator in June 2019 is not successful. Furthermore, regarding the extension of the 850 MHz band authorizations, if the legal and regulatory requirements are met, ANATEL agreed to extend the current authorizations for the use of radio frequencies in Bands A and B, proposing their approval, on a primary basis, until November 29, 2028. However, specific conditions for renewal, including those related to the economic valuation criteria and obligations, were challenged by the affected service providers (including Telefónica). After ANATEL dismissed the appeals filed by the providers, a decision on the issue is still pending and requires a positioning from the Federal Court of Accounts.

In Peru, an arbitration process was started by the Group, to challenge the decision adopted by the Ministry of Transportation and Communications ("MTC"), denying the renewal of concessions for the provision of fixed-line services, valid until 2027. Nevertheless, Telefónica del Perú S.A.A. holds other concessions for the provision of fixed-line services that allow it to provide these services beyond 2027. The renewal of the 1,900 MHz band in all of Peru (except for Lima and Callao), which expired in 2018, and of other telecommunications services were requested by the Group and a decision by the MTC is still pending. Nevertheless, these concessions are valid while the procedures are in progress.

In Colombia, in April 2021, the renewal of the license to use 15 MHz in the 1,900 MHz band was requested (the current license expired on October 18, 2021). On October 15, 2021, MinTic issued a resolution setting the conditions for the renewal of such license. The company has appealed such decision before the MinTic in order to reduce the amount proposed by the authority and, to this date, a resolution is pending.

In Argentina, in connection with Decree of Necessity and Urgency 690/2020 ("DNU 690/2020"), Telefónica de Argentina, S.A. and Telefónica Móviles Argentina, S.A. (collectively, "Telefónica Argentina") filed a lawsuit against the Argentine State, alleging that price regulations set by DNU 690/2020 constitute a breach of a series of contracts for licenses to provide services and spectrum use authorizations entered into between Telefónica Argentina and the Argentine State, including the licenses resulting from the 2014 spectrum auction. Such contracts and their regulatory framework stated that the services provided by Telefónica Argentina were private and prices would be freely set by Telefónica Argentina. However, DNU 690/2020, by providing that the services will be "public services" and that prices will be regulated by the Argentine State, substantially modifies the legal status of those contracts, affecting the performance of their obligations and substantially depriving Telefónica Argentina of essential rights derived from those contracts. The lawsuit filed by Telefónica Argentina was rejected in September 2021 and the company appealed this decision. On December 17, 2021, the first instance ruling was revoked and the application of articles 1, 2, 3, 5 and 6 of DNU 690/2020 and resolutions 1666/2020, 204/2021 and 1467/2020 (relating to the control of tariffs and the universal basic service) was suspended during six months or until the final decision is adopted. During this period, Telefónica will not be subject to the provisions contained in the DNU 690/2020 in relation to price and public service regulations.

During 2021, the Group's consolidated investment in spectrum acquisitions and renewals amounted to 1,704 million euros, mainly due to the acquisition of spectrum in Brazil, the United Kingdom (before the establishment of JV VMED O2 UK), Spain and Chile (compared to 126 million euros in 2020). In the event that the licenses mentioned above are renewed or new spectrum is acquired, it would involve additional investments by Telefónica.

Further information on certain key regulatory matters affecting the Telefónica Group and the concessions and licenses of the Telefónica Group can be found in the Appendix VI of the 2021 Consolidated Financial Statements: "Key regulatory issues and concessions and licenses held by the Telefónica Group".

Telefónica depends on its suppliers.

The existence of critical suppliers in the supply chain, especially in areas such as network infrastructure, information systems or handsets with a high concentration in a small number of suppliers, poses risks that may affect Telefónica's operations. This may cause legal contingencies or damages to its image in the event that a participant in the supply chain engages in practices that do not meet acceptable standards or that otherwise fail to meet Telefónica's performance expectations. This may include delays in the completion of projects or

deliveries, poor-quality execution, cost deviations and inappropriate practices.

As of December 31, 2021, the Group depended on three handset suppliers (one of them located in China) and eight network infrastructure suppliers (two of them located in China), which, together, accounted for 83% and 80%, respectively, of the aggregate value of contracts awarded in 2021 to handset suppliers and network infrastructure suppliers, respectively. One of the handset suppliers represented 46% of the aggregate value of contracts awarded in 2021 to handset suppliers.

These suppliers may, among other things, extend delivery times, raise prices and limit supply due to their own stock shortfalls and business requirements or for other reasons.

If suppliers cannot supply their products to the Telefónica Group within the agreed deadlines or such products and services do not meet the Group's requirements, this could hinder the deployment and expansion plans of the network. This could in certain cases affect Telefónica's compliance with the terms and conditions of the licenses under which it operates, or otherwise adversely affect the business and operating results of the Telefónica Group. In addition, the possible adoption of new protectionist measures in certain parts of the world, including as a result of trade tensions between the United States and China and/or the adoption of lockdown or other restrictive measures as a result of the COVID-19 pandemic or any other crisis or pandemic, may have an adverse impact on certain of Telefónica's suppliers and other players in the industry. The semiconductor industry in particular is facing various challenges, as a result mainly of supply problems at a global level, which in turn is affecting multiple sectors (including technology) through delivery delays and price increases, which could affect the Telefónica Group or others who are relevant to its business, including its customers, suppliers and partners. During 2020 and 2021 specific monitoring has been carried out and action plans have been developed by the Group with respect to the supply chain challenges resulting from the COVID-19 pandemic, as well as the potential discontinuation of use of some suppliers as a result of the U.S.-China conflict.

The imposition of trade restrictions and any disruptions in the supply chain, such as those related to international transport, could result in higher costs and lower margins or affect the ability of the Telefónica Group to offer its products and services and could adversely affect the Group's business, financial condition, results of operations and/or cash flows.

Telefónica operates in a sector characterized by rapid technological changes and it may not be able to anticipate or adapt to such changes or select the right investments to make.

The pace of innovation and Telefónica's ability to keep up with its competitors is a critical issue in a sector so

affected by technology such as telecommunications. In this sense, significant additional investments will be needed in new high-capacity network infrastructures to enable Telefónica to offer the features that new services will demand, through the development of technologies such as 5G or fiber optic.

New products and technologies are constantly emerging that can render products and services offered by the Telefónica Group, as well as its technology, obsolete. In addition, the explosion of the digital market and the entrance of new players in the communications market, such as mobile network virtual operators ("MNVOs"), internet companies, technology companies or device manufacturers, could result in a loss of value for certain of the Group's assets, affect the generation of revenues, or otherwise cause Telefónica to have to update its business model. In this respect, revenues from traditional voice business are shrinking, while new sources of revenues are increasingly derived from connectivity and digital services. Examples of these services include video, Internet of Things (IoT), cybersecurity, big data and cloud services.

One of the technologies currently being developed by telecommunications operators, including Telefónica (in Spain and Latin America), is the new FTTx type networks which allow the offering of broadband accesses over fiber optics with high performance. However, the deployment of such networks, in which the copper of the access loop is totally or partially replaced by optical fiber, requires high levels of investment. As of December 31, 2021, in Spain, fiber coverage reached 26.9 million premises. There is a growing demand for the services that these new networks can offer to the end customer. However, the high levels of investment required by these networks result in the need to continuously consider the expected return on investment, and no assurance can be given that these investments will be profitable.

In addition, the ability of the Telefónica Group's IT systems (operational and backup) to adequately support and evolve to respond to Telefónica's operating requirements is a key factor to consider in the commercial development, customer satisfaction and business efficiency of the Telefónica Group. While automation and other digital processes may lead to significant cost savings and efficiency gains, there are also significant risks associated with such transformation processes. Any failure by the Telefónica Group to develop or implement IT systems that adequately support and respond to the Group's evolving operating requirements could have an adverse effect on the Group's business, financial condition, results of operations and/or cash flows.

The changes outlined above force Telefónica to continuously invest in the development of new products, technology and services to continue to compete effectively with current or future competitors, and, for this reason, the Group's profit and margins may be reduced or such investment could not lead to the successful

development or commercialization of new products or services. To contextualize the size of the Group's investments, total research and development expenditure in 2021 was 835 million euros (959 million euros in 2020). These expenditures represented 2.1% and 2.2% of the Group's consolidated revenues in 2021 and 2020, respectively. These figures have been calculated using the guidelines established in the Organization for Economic Co-operation and Development ("OECD") manual.

If Telefónica is not able to anticipate and adapt to the technological changes and trends in the sector, or to properly select the investments to be made, this could negatively affect the Group's business, financial condition, results of operations and/or cash flows.

The Telefónica Group's strategy which is focused on driving new digital businesses and providing data-based services, increases its exposure to risks and uncertainties arising from data privacy regulation.

The Telefónica Group's commercial portfolio includes products and/or services which are based on the use, standardization and analysis of data, as well as the deployment of advanced networks and the promotion of new technologies related to big data, cloud computing, cybersecurity, artificial intelligence and IoT.

The large amount of information and data that is processed throughout the Group (with approximately 369.1 million accesses associated with telecommunications services, digital products and services and Pay TV and an average number of 107,776 employees in 2021), increases the challenges of complying with privacy regulations. Moreover, there is a risk that measures adopted in response to these regulations may stifle innovation. Conversely, the Group's efforts to promote innovation may increase compliance risks and costs.

One of the most important pieces of regulation for the Telefónica Group's operations in the European Union is Regulation (EU) 2016/679 of the European Parliament and Council of April 2016, on the protection of natural persons with regard to the processing of personal data and on the free movement of such data ("GDPR"), whose content has become a benchmark for all countries where the Telefónica Group operates. In addition, progress continues to be made on the proposal for a future European regulation concerning the respect for privacy and protection of personal data in electronic communications ("e-Privacy Regulation"), which would repeal Directive 2002/58/EC. If approved, this proposal could establish additional and more restrictive rules than those established in the GDPR, which may increase compliance risks and costs.

Moreover, given that the Telefónica Group operates its business on a global scale, it frequently carries out

international transfers of personal data of its customers, users, suppliers, employees and other data subjects to countries outside the European Economic Area ("EEA") that have not been declared to have an adequate level of data protection by the European Commission, either directly or through third parties. In this context, it is particularly relevant to have all the necessary legal controls in place to ensure that such international data transfers are carried out in accordance with the GDPR. However, there can be no assurance that the data transfers which took place under the framework of the EU-U.S. Privacy Shield did not result in a breach of the GDPR.

One of the relevant contractual measures to ensure the lawfulness of international data transfers to any country outside the EEA not found by the European Commission to have an adequate level of data protection, is the signing, between the data importer and the data exporter, of the new standard contractual clauses ("SCC") approved by the European Commission according to Implementing Decision (EU) 2021/914 of June 4, 2021. These new SCC, which entered into force on June 27, 2021, repeal the old SCC and include a novel modular set of clauses for their application according to the data processing role of both the exporter and the importer. Furthermore, the entry into force of the new SCC obliges companies that are going to use them to legitimize their transfers to assess and adopt additional measures deemed appropriate for the due protection of the data transferred to the third country. This is because SCC, in general, are not sufficient for this purpose, as the public authorities of the third country, in accordance with their local regulations, may have the power to access or request access to the data transferred. The additional measures to be adopted are mainly technical such as data encryption, and derive in particular from the impact analysis of each transfer and the country of destination, all following the guidelines issued by the European Data Protection Board in its Recommendations 01/2020. Furthermore, the adoption of the new SCC by the European Commission as the main legal tool to legitimize transfers, obliges companies to replace the old SCC, as the old SCC will cease to be legally valid at the end of 2022 in accordance with the aforementioned Implementing Decision. The entry into force of the new SCC and their novel module structure and dispositive parts to be negotiated between data exporters and importers, the possible uncertainty about their scope of application and implementation, the mandatory assessment and analysis of each international transfer and changeable local regulations of the country of destination and also the obligation to renew all agreements that include the old SCC, pose a challenge for the Group and, with it, a potential risk of non-compliance in the performance of international data transfers in accordance with the GDPR.

In addition, the following recent and prospective regulatory developments may be material to the Telefónica Group's operations: (i) in the United Kingdom,

its exit from the European Union on January 1, 2021 means that the Group must monitor how its operations and business in the United Kingdom are affected in terms of applicable privacy regulations and, specifically, the flow of data to and from the United Kingdom. The European Commission declared the United Kingdom as a country with an adequate level of data protection according to the Adequacy Decision of June 28, 2021. Accordingly, entities that transfer data between both territories will not be required to adopt additional tools or measures to legitimize international transfers. The Adequacy Decision establishes an initial period of validity of four years, which may only be extended if the United Kingdom demonstrates that it continues to ensure an adequate level of data protection. In this regard, it is worth mentioning that, since European Union regulations no longer apply in the United Kingdom, in September 2021, the United Kingdom began the appropriate public consultations to analyze the modification of its local privacy and data protection regulations with a view to updating them in the face of new technological challenges and business opportunities in the use of data. The result of this amendment could impact the Telefónica Group's business in the United Kingdom and the aforementioned international data transfers to and from the United Kingdom, either because additional regulatory restrictions or impositions are imposed that reduce the capacity for innovation and the development of new services and products, or because the European Union authorities consider that the United Kingdom is no longer a country with an adequate level of data protection, in which case the Telefónica Group may face similar challenges and risks as it is currently facing with respect to data transfers to the United States or other territories not declared as having an adequate level of protection; and (ii) in Latin America, Law No. 13,709 in Brazil imposes standards and obligations similar to those required by the GDPR, including a sanctioning regime which is in force from August 2021, with fines for non-compliance of up to 2% of the Group's income in Brazil in the last financial year subject to a limit of 50 million Brazilian reais (approximately 8 million euros based on the exchange rate as of December 31, 2021) per infraction, which may increase compliance risks and costs.

Furthermore, in the case of Ecuador, the Organic Law on Data Protection has entered into force, although the effectiveness of the sanctioning regime is postponed for a two-year adaptation period and, in other countries of Latin America where the Group operates, such as Argentina and Chile, there are regulatory proposals to bring regulation more in line with the provisions set forth in the GDPR, which may increase compliance risks and costs.

Data privacy protection requires careful design of products and services, as well as robust internal procedures and rules that can be adapted to regulatory changes where necessary, all of which entails compliance risk. Failure to maintain adequate data security and to comply with any relevant legal

requirements could result in the imposition of significant penalties, damage to the Group's reputation and the loss of trust of customers and users.

Telefónica's reputation depends to a large extent on the digital trust it is able to generate among its customers and other stakeholders. In this regard, in addition to any reputational consequences, it is important to note that, in the European Union, very serious breaches of the GDPR may entail the imposition of administrative fines of up to the larger of 20 million euros and 4% of the infringing company's overall total annual revenue for the previous financial year. Furthermore, once it is approved, the e-Privacy Regulation may set forth sanctions for breaches of it similar to those provided for in the GDPR.

Any of the foregoing could have an adverse effect on the business, financial condition, results of operations and/or cash flows of the Group.

Telefónica may not anticipate or adapt in a timely manner to changing customer demands and/or new ethical or social standards, which could adversely affect Telefónica's business and reputation.

To maintain and improve its position in the market vis-à-vis its competitors, it is vital that Telefónica: (i) anticipates and adapts to the evolving needs and demands of its customers, and (ii) avoids commercial or other actions or policies that may generate a negative perception of the Group or the products and services it offers, or that may have or be perceived to have a negative social impact. In addition to harming Telefónica's reputation, such actions could also result in fines and sanctions.

In order to respond to changing customer demands, Telefónica needs to adapt both (i) its communication networks and (ii) its offer of digital services.

The networks, which had historically focused on voice transmission, are evolving into increasingly flexible, dynamic and secure data networks, replacing, for example, old copper telecommunications networks with new technologies such as fiber optics, which facilitate the absorption of the exponential growth in the volume of data demanded by the Group's customers.

In relation to digital services, customers require an increasingly digital and personalized experience, as well as a continuous evolution of the Group's product and service offering. In this sense, new services such as "Smart Wi-Fi" or "Connected Car", which facilitate certain aspects of the Group's customers' digital lives, are being developed. Furthermore, new solutions for greater automation in commercial services and in the provision of the Group's services are being developed, through new apps and online platforms that facilitate access to services and content, such as new video platforms that offer both traditional Pay TV, video on demand or multi-device access. However, there can be no assurance that

these and other efforts will be successful. For example, if streaming television services, such as Netflix or others, become the principal way television is consumed to the detriment of the Group's Pay TV service, the Group's revenues and margins could be affected.

In the development of all these initiatives it is also necessary to take into account several factors: first, there is a growing social and regulatory demand for companies to behave in a socially responsible manner, and, in addition, the Group's customers are increasingly interacting through online communication channels, such as social networks, in which they express this demand. Telefónica's ability to attract and retain clients depends on their perceptions regarding the Group's reputation and behavior. The risks associated with potential damage to a brand's reputation have become more relevant, especially due to the impact that the publication of news through social networks can have.

If Telefónica is not able to anticipate or adapt to the evolving needs and demands of its customers or avoid inappropriate actions, its reputation could be adversely affected, or it could otherwise have an adverse effect on the business, financial condition, results of operations and/or cash flows of the Group.

Operational Risks

Information technology is key to the Group's business and is subject to cybersecurity risks.

The risks derived from cybersecurity are among the Group's most relevant risks due to the importance of information technology to its ability to successfully conduct operations. Despite advances in the modernization of the network and the replacement of legacy systems in need of technological renewal, the Group operates in an environment increasingly prone to cyber-threats and all of its products and services, such as mobile Internet or Pay TV services, are intrinsically dependent on information technology systems and platforms that are susceptible to cyberattacks. Successful cyberattacks could prevent the effective provision by the Group of products and services to customers. Therefore, it is necessary to continue to identify and remedy any technical vulnerabilities and weaknesses in the Group's operating processes, as well as to strengthen its capabilities to detect and react to incidents. This includes the need to strengthen security controls in the supply chain (for example, by focusing on the security measures adopted by the Group's partners and other third parties), as well as to ensure the security of the services in the cloud. As a result of the circumstances brought by the COVID-19 pandemic, security measures related to remote access and teleworking of employees and collaborators were reviewed and strengthened, but no assurance can be provided that such security measures will be entirely effective.

Telecommunications companies worldwide face continuously increasing cybersecurity threats as businesses become increasingly digital and dependent on telecommunications, computer networks and Cloud Computing technologies. Cybersecurity threats may include gaining unauthorized access to the Group's systems or propagating computer viruses or malicious software to misappropriate sensitive information like customer data or disrupt the Group's operations. In addition, traditional security threats, such as theft of laptop computers, data devices and mobile phones may also affect the Group along with the possibility that the Group's employees or other persons may have access to the Group's systems and leak data and/or take actions that affect the Group's networks or otherwise adversely affect the Group or its ability to adequately process internal information or even result in regulatory penalties.

In particular, in the past three years, the Group has suffered several cybersecurity incidents. Attacks during this period include: (i) intrusion attempts (direct or phishing), exploitation of vulnerabilities and corporate credentials being compromised for ransomware deployment (through malicious software that encrypts business data); (ii) Distributed Denial of Service (DDoS) attacks, using massive volumes of Internet traffic that saturate the service; and (iii) exploitation of vulnerabilities to carry out fraud through online channels, usually through the subscription of services without paying for them. While none of these incidents had material consequences, this may change in the future.

Some of the main measures adopted by the Telefónica Group to mitigate these risks are early vulnerabilities detection, access control measures, proactive log review of critical systems, network segregation in zones and the deployment of protective systems such as firewalls, intrusion prevention systems and virus scanners among other physical and logical security measures. In the event that preventive and control measures do not prevent all damage to systems or data, backup systems are designed to provide for the full or partial retrieval of information.

Although Telefónica seeks to manage these risks by adopting technical and organizational measures, such as those referred to above, as defined in its digital security strategy, it cannot guarantee that such measures are sufficient to avoid or fully mitigate such incidents. Therefore, the Telefónica Group has insurance policies in place, which could cover, subject to the policies terms, conditions, exclusions, limits and sublimits of indemnity, and applicable deductibles, certain losses arising out of these types of incidents. To date, the insurance policies in place have covered some incidents of this nature, however due to the potential severity and uncertainty about the evolution of the aforementioned events, these policies may not be sufficient to cover all possible losses arising out of these risks.

Natural disasters, climate change and other factors beyond the Group's control may result in unanticipated network or service interruptions or quality loss.

Unforeseen service interruptions can be due to system failures, natural disasters caused by natural or meteorological events or phenomena, lack of electric supply, network failures, hardware or software failures, theft of network elements or cyber-attacks. Any of the foregoing can affect the quality of, or cause interruption to, the provision of the services of the Telefónica Group.

Changes in temperature and precipitation patterns associated with climate change may increase the energy consumption of telecommunications networks or cause service disruption due to extreme temperature waves, floods or extreme weather events. In addition, these changes may cause increases in the price of electricity due to, for example, reduction in hydraulic generation as a result of recurrent droughts. Further, as a result of global commitments to tackle climate change, new carbon dioxide taxes may be imposed and could affect, directly or indirectly, the Company, and may have a negative impact on the Group's operations results. The Company analyzes these risks in accordance with the recommendations of the TCFD (Task force on Climate-related financial disclosures).

Network or service interruptions or quality loss could cause customer dissatisfaction, a reduction in revenues and traffic, the realization of expensive repairs, the imposition of sanctions or other measures by regulatory bodies, and damage to the image and reputation of the Telefónica Group, or could otherwise have an adverse effect on the business, financial condition, results of operations and/or cash flows of the Group.

Financial Risks

Worsening of the economic and political environment could negatively affect Telefónica's 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, and the growing geopolitical tensions, 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.

As of December 31, 2021 and 2020, the contribution of each segment to Telefónica Group's total assets was as follows: Telefónica Spain 22.9% (22.9% in 2020), VMED O2 UK 11.1% (the former Telefónica United Kingdom 12.6% in 2020), Telefónica Germany 18.3% (19.3% in 2020),

Telefónica Brazil 19.7% (19.1% in 2020) and Telefónica Hispam 14.3% (14.3% in 2020). Additionally, net assets (calculated as total assets minus total liabilities) of Telefónica Hispam represented 4.6% of the total net assets of Telefonica Group as of December 31, 2021 (11.0% in 2020) (see Note 4 to the Consolidated Financial Statements). Part of these assets are located in countries that do not have an investment grade credit rating (in order of importance, Brazil, Argentina, Ecuador, Costa Rica, El Salvador and Venezuela). Likewise, Venezuela and Argentina are considered countries with hyperinflationary economies in 2021 and 2020.

The main risks are detailed by geography below:

In Europe, there are several risks of both an economic and health nature. Among the latter, and although the region has set an example in the advancement of vaccination, there is the possibility, as is currently the case, of a new outbreak of the COVID-19 pandemic due to the emergence of new variants of COVID-19 that are more contagious or resistant to the developed vaccines. Among the economic risks, there is 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 stemming from the impact of the recent rise in inflation and the consequences of the normalization of U.S. monetary policy, or domestic factors such as a worsening of fiscal sustainability in a European country, which would affect the economic conditions of the countries in which Telefónica operates.

- *Spain*: there are several local sources of risks. One of them stems from the uncertainty regarding the execution of the Next Generation European funds (NGEU) and the necessary reforms (labor and pensions among the most important) in order to continue accessing them, given the high level of parliamentary fragmentation and the lack of agreement on key issues. Secondly, there is a risk that the effects of the COVID-19 pandemic could have a more persistent negative economic impact than expected in the event that, for example, supply chains disruptions and high commodity prices prolong the inflationary episode with a deeper impact on household incomes. 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 are an additional risk in the event of financial stress.
- *Germany*: In the short term, the main risk factor is related to the COVID-19 pandemic and its effects. The persistence of bottlenecks in the supply of raw

materials and intermediate goods in the manufacturing sector could continue to limit the expansion of economic activity. Another risk factor is the uncertainty arising from the new government in the short term, not only in terms of policies but also in terms of its ability to execute on its ambitious climate goals. As for the medium to long term, there is a risk that a potential escalation of geopolitical tensions could significantly reduce international trade, with a consequent impact on the country's potential growth, which is highly dependent on exports. In addition, long-term challenges remain, such as the aging of the population, in a context where the drivers of growth are showing a worrying stagnation.

- *United Kingdom*: in the short term, rising prices due to continued supply disruptions, together with a labor market showing signs of tightening, could lead to a faster and closer monetary tightening than expected, which would negatively affect growth. As for the medium-term, the formal exit of the United Kingdom from the European Union on December 31, 2020 (Brexit) will entail an economic adjustment regardless of the agreement reached on the new economic and commercial relationship between the two regions. The trade and bureaucracy costs of leaving the single market and the customs union (especially those related to non-tariff barriers) could weigh on the country's net trade. In addition, there are still many gaps to be closed in the area of services (particularly, financial and professional services), and others pending renegotiation, so variables such as investment, economic activity, employment and migratory flows could be among the most affected, as well as volatility in financial markets, which could limit or condition access to capital markets. These changes can be costly and disruptive to business relationships in the affected markets, including those of Telefónica with its suppliers and customers. The Group would also be adversely affected if the pound sterling were to depreciate. The catalyst for a depreciation, in addition to a more pressing impact from Brexit, could be doubts about the sustainability of government debt, at historically high levels following the COVID-19 impact.

In Latin America, the exchange risk is particularly notable. This risk is due to both external factors (global trade tensions, abrupt movements in commodity prices, concerns about growth, tightening US monetary policy and financial imbalances in China) and internal factors (challenges relating to controlling the COVID-19 pandemic and managing the underlying fiscal deterioration, see "Unexpected and uncertain events, such as the emergence of new variants of COVID-19 (coronavirus), significantly affect the Telefónica Group's operations"):

- *Brazil*: fiscal sustainability remains the main risk, especially after the government modified the spending cap to finance the new welfare program Auxílio Brasil, which implies a loss of credibility in fiscal prudence. Progress on structural reforms,

including administration and tax system reforms, seems less likely now, which would result in lower medium- and long-term growth. In this context, a more depreciated exchange rate adds even more pressure to already high inflation and monetary policy normalization, which could negatively affect disposable income. The fact that the country's rating is below investment grade and that its internal financing needs are high, poses an added financial risk in a hypothetical scenario of global financial stress, especially in view of the recent increase in financial needs, could also have a negative impact on the evolution of the exchange rate. On the political front, the presidential elections (October 2022), which are expected to be polarized, could imply greater volatility in asset prices, including episodes of exchange rate depreciation. Finally, Brazil also faces the risk of energy rationing due to the exceptional shortage of rainfall (which has been recently alleviated in part), which has already led to a significant increase in energy prices.

- *Argentina:* Despite a favorable external context for the country, macroeconomic and exchange rate risks remain high. The challenges facing the economy, both internal (the ongoing process of reducing the public deficit in a context of high inflation) and external (with significant financial maturities to be refinanced in the short and medium term), increase vulnerability to episodes of financial market volatility in a scenario with limited levers for action. In addition, the worsening inflation outlook because of the exchange rate split and unsustainable price containment measures threaten Telefónica's profitability. On the political front, after the defeat of the ruling party in the mid-term elections, there is a growing need to reach consensus with other political parties in order to legislate. Otherwise, the ruling party will have no margin left but to govern the last two years of its term of office by means of Necessity and Urgency Decrees.
- *Chile, Colombia and Peru:* are exposed not only to changes in the global economy, given their vulnerability and exposure to changes in commodity prices, but also to tightening of global financial conditions. On the domestic side, existing political instability and the possibility of further social unrest and the resurgence of populism could have a negative impact in both the short and medium term. The deteriorating fiscal situation resulting from COVID-19 could have negative effects on future economic performance and social stability to the extent that fiscal consolidation drives tax reforms or adjustments in the trajectory of social spending. The acceleration of inflation threatens to be more persistent than expected, which is generating a strong reaction from central banks that could eventually lead to an excessive deterioration in local financing conditions. In political terms, there is a risk that with the arrival of the new government in Chile,

which is also advancing in its particular constitutional process, there will be changes in the regulatory and normative framework that could affect the medium term.

Unexpected and uncertain events, such as the emergence of new variants of COVID-19 (coronavirus), significantly affect the Telefónica's Group operations.

Although the worst of the COVID-19 pandemic may have passed, the possibility of new outbreaks of the pandemic due to new, more contagious, virulent, and vaccine-resistant variants of COVID-19 remains. This could affect our operations as follows, among others: first, there is a possibility of further adverse supply shocks, primarily on the production side, in the form of further disruptions in supply chains, bottlenecks in the production of certain goods and/or restrictions on the transportation of goods, which could reduce aggregate supply, exerting upward pressure on price formation, or make certain products unavailable to us. Secondly, as occurred in the first months of the pandemic, it is likely that, in the face of an abrupt supply shock, households will tend to increase their savings as a precautionary measure, which could lead to falls in demand for the Company's products and services. In addition, there may be adverse income and wealth effects resulting from an eventual contraction in the level of employment and/or deterioration of the financial markets, which may lead to sharp drops in the valuation of certain assets. Finally, the appearance of new variants may lead to additional credit quality downgrades in the countries in which the Group operates, which could result in an increase in the cost of external financing and the depreciation of certain currencies (especially in emerging economies), which would adversely affect the Group's results.

The final impact of COVID-19 on the Group's business is difficult to predict due to the high uncertainty surrounding its duration, transmission, virulence and resilience, as well as the ability of authorities to manage its impact and, more generally, societal response to both COVID-19 and government measures.

The COVID-19 pandemic contributed to the depreciation of the main Latin American currencies against the euro. The adverse exchange rates evolution adversely affected the average exchange rates used to translate the income statements of our Latin American subsidiaries from local currency to euro in 2020 in comparison with 2019, and to a lesser extent 2021 compared with 2020. The change in the exchange rates of the main currencies of the countries in which the Group operates against the euro is shown below:

Variation of average exchange rate		
	2020 vs 2019	2021 vs 2020
Brazilian real	(24.1%)	(8.8%)
Pound sterling	(1.3%)	3.4%
New peruvian sol	(6.1%)	(13.2%)
Chilean peso	(12.9%)	0.6%
Colombian peso	(12.6%)	(5.1%)
Mexican peso	(11.5%)	1.6%

The Group has and in the future could experience impairment of goodwill, deferred tax assets or other assets.

In accordance with current accounting standards, the Telefónica Group reviews on an annual basis, or more frequently when the circumstances require it, the need to introduce changes to the book value of its goodwill (which as of December 31, 2021, represented 15.1% of the Group's total assets), deferred tax assets (which as of December 31, 2021, represented 5.1% of the Group's total assets) or other assets, such as intangible assets (which represented 10.7% of the Group's total assets as of December 31, 2021), and property, plant and equipment (which represented 20.8% of the Group's total assets as of December 31, 2021). In the case of goodwill, the potential loss of value is determined by the analysis of the recoverable value of the cash-generating unit (or group of cash-generating units) to which the goodwill is allocated at the time it is originated. By way of example, in 2021 impairment losses in the goodwill of Telefónica Perú were recognized for a total of 393 million euros. In 2020 impairment losses in the goodwill and other assets of Telefónica Argentina were recognized for a total of 894 million euros.

In addition, Telefónica may not be able to realize deferred tax assets on its statement of financial position to offset future taxable income. The recoverability of deferred tax assets depends on the Group's ability to generate taxable income over the period for which the deferred tax assets remain deductible. If Telefónica believes it is unable to utilize its deferred tax assets during the applicable period, it may be required to record an impairment against them resulting in a non-cash charge on the income statement. By way of example, in 2021 deferred tax assets corresponding to the tax Group in Spain amounting to 294 million euros were derecognized. In 2020 deferred tax assets corresponding to the tax Group in Spain amounting to 101 million euros were derecognized.

Further impairments of goodwill, deferred tax or other assets may occur in the future which may materially adversely affect the Group's business, financial condition, results of operations and/or cash flows.

The Group faces risks relating to its levels of financial indebtedness, the Group's ability to finance itself, and its 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 the development of new technologies, the renewal of licenses and the expansion of the Telefónica Group's business in countries where it operates, may require a substantial amount of financing.

The Telefónica Group is a relevant and frequent issuer of debt in the capital markets. As of December 31, 2021, the Group's gross financial debt amounted to 42,295 million euros (50,420 million euros as of December 31, 2020), and the Group's net financial debt amounted to 26,032 million euros (35,228 million euros as of December 31, 2020). As of December 31, 2021, the average maturity of the debt was 13.63 years (10.79 years as of December 31, 2020), including undrawn committed credit facilities.

A decrease in the liquidity of 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, results of operations and/or cash flows.

Funding could be more difficult and costly in the event of a deterioration of conditions in the international or local financial markets due, for example, to monetary policies set by central banks, including increases in interest rates and/or decreases in the supply of credit, increasing global political and commercial uncertainty and oil price instability, or if there is an eventual deterioration in the solvency or operating performance of Telefónica.

As of December 31, 2021, the Group's gross financial debt scheduled to mature in 2022 amounted to 7,005 million euros, and gross financial debt scheduled to mature in 2023 amounted to 2,235 million euros.

In accordance with its liquidity policy, Telefónica has covered its gross debt maturities for the next 12 months with cash and credit lines available as of December 31, 2021. As of December 31, 2021, the Telefónica Group had undrawn committed credit facilities arranged with banks for an amount of 12,182 million euros (11,791 million euros of which were due to expire in more than 12 months). Liquidity could be affected if market conditions make it difficult to renew undrawn credit lines. As of December 31, 2021, 3.2% of the aggregate undrawn amount under credit lines was scheduled to expire prior to December 31, 2022.

In addition, given the interrelation between economic growth and financial stability, the materialization of any of

the economic, political and exchange rate risks referred to above could adversely impact the availability and cost of Telefónica's financing and its liquidity strategy. This in turn could have a negative effect on the Group's business, financial condition, results of operations and/or cash flows.

Finally, any downgrade in the Group's credit ratings may lead to an increase in the Group's borrowing costs and could also limit its ability to access credit markets.

The Group's financial condition and results of operations may be adversely affected if it does not effectively manage its exposure to foreign currency exchange rates or interest rates.

Interest rate risk arises primarily in connection with changes in interest rates affecting: (i) financial expenses on floating-rate debt (or short-term debt likely to be renewed); and (ii) the value of long-term liabilities at fixed interest rates.

In nominal terms, as of December 31, 2021, 88% of the Group's net financial debt plus commitments had its interest rate set at fixed interest rates for periods of more than one year. To illustrate the sensitivity of financial expenses to variations in short-term interest rates as of December 31, 2021: (i) a 100 basis points increase in interest rates in all currencies in which Telefónica had a financial position at that date would have led to an increase in financial expenses of 33 million euros, whereas (ii) a 100 basis points decrease in interest rates in all currencies (even if negative rates are reached), would have led to a reduction in financial expenses of 33 million euros. For the preparation of these calculations, a constant position equivalent to the position at that date is assumed, which takes into account the financial derivatives contracted by the Group.

Exchange rate risk arises primarily from: (i) Telefónica's international presence, through its investments and businesses in countries that use currencies other than the euro (primarily in Latin America and the United Kingdom); (ii) debt denominated in currencies other than that of the country where the business is conducted or the home country of the company incurring such debt; and (iii) trade receivables or payables in a foreign currency to the currency of the company with which the transaction was registered. According to the Group's calculations, the impact on results, and specifically on net exchange differences, due to a 10% depreciation of Latin American currencies against the U.S. dollar and a 10% depreciation of the rest of the currencies to which the Group is most exposed, against the euro would result in exchange gains of 17 million euros for the year ended December 31, 2021. These calculations have been made assuming a constant currency position with an impact on profit or loss for the year ended December 31, 2021, taking into account derivative instruments in place.

In 2021, the evolution of exchange rates negatively impacted the Group's results, decreasing the year-on-year growth of the Group's consolidated revenues and OIBDA by an estimated 2.3 percentage points and 2.7 percentage points, respectively, mainly due to the depreciation of the Brazilian real (6.5 percentage points and 8.0 percentage points, respectively, in 2020). Furthermore, translation differences in 2021 had a positive impact on the Group's equity of 4,088 million euros (negative impact of 5,801 million euros in 2020).

The Telefónica Group uses a variety of strategies to manage this risk including, among others, the use of financial derivatives, which are also exposed to risk, including counterparty risk. The Group's risk management strategies may be ineffective, which could adversely affect the Group's business, financial condition, results of operations and/or cash flows. If the Group does not effectively manage its exposure to foreign currency exchange rates or interest rates, it may adversely affect its business, financial condition, results of operations and/or cash flows.

Legal and Compliance Risks

Telefónica and Telefónica Group companies are party to lawsuits, antitrust, tax claims and other legal proceedings.

Telefónica and Telefónica Group companies operate in highly regulated sectors and are and may in the future be party to lawsuits, tax claims, antitrust and other legal proceedings in the ordinary course of their businesses, the outcome of which is unpredictable.

The Telefónica Group is subject to regular reviews, tests and audits by tax authorities regarding taxes in the jurisdictions in which it operates and is a party and may be a party to certain judicial tax proceedings. In particular, the Telefónica Group is currently party to certain litigation in Peru concerning certain previous years' income taxes, in respect of which a contentious-administrative appeal is currently pending, and to certain tax and regulatory proceedings in Brazil, primarily relating to the ICMS (a Brazilian tax on telecommunication services) and the corporate tax.

With respect to the latter, as of December 31, 2021, Telefónica Brazil maintained provisions for tax contingencies amounting to 340 million euros and provisions for regulatory contingencies amounting to 314 million euros. Although the Group considers its tax estimates to be reasonable, if a tax authority disagrees, the Group could face additional tax liability, including interest and penalties. There can be no guarantee that the payment of such additional amounts will not have a significant adverse effect on the Group's business, results of operations, financial condition and/or cash flows.

An adverse outcome or settlement in these or other proceedings, present or future, could result in significant

costs and may have a material adverse effect on the Group's business, financial condition, results of operations and/or cash flows.

The Telefónica Group is exposed to risks in relation to compliance with anti-corruption laws and regulations and economic sanctions programs.

The Telefónica Group is required to comply with the anti-corruption laws and regulations of the jurisdictions where it conducts operations around the world, including in certain circumstances with laws and regulations having extraterritorial effect such as the US Foreign Corrupt Practices Act of 1977 and the United Kingdom Bribery Act of 2010. The anti-corruption laws generally prohibit, among other conduct, providing anything of value to government officials for the purposes of obtaining or retaining business or securing any improper business advantage or failing to keep accurate books and records and properly account for transactions.

In this sense, due to the nature of its activities, the Telefónica Group is increasingly exposed to this risk, which increases the likelihood of occurrence. In particular, it is worth noting the continuous interaction with officials and public administrations in several areas, including the institutional and regulatory fronts (as the Telefónica Group carries out a regulated activity in different jurisdictions), the operational front (in the deployment of its network, the Telefónica Group is subject to obtaining multiple activity permits) and the commercial front (the Telefónica Group provides services directly and indirectly to public administrations). Moreover, Telefónica is a multinational group subject to the authority of different regulators and compliance with various regulations, which may be domestic or extraterritorial in scope, civil or criminal, and which may lead to overlapping authority in certain cases. Therefore, it is very difficult to quantify the possible impact of any breach, bearing in mind that such quantification must consider not only the economic amount of sanctions, but also the potential negative impact on the business, reputation and/or brand, or the ability to contract with public administrations.

Additionally, the Telefónica Group's operations may be subject to, or otherwise affected by, economic sanctions programs and other forms of trade restrictions ("sanctions") including those administered by the United Nations, the European Union and the United States, including the US Treasury Department's Office of Foreign Assets Control. The sanctions regulations restrict the Group's business dealings with certain sanctioned countries, individuals and entities. In this context, the provision of services by a multinational telecommunications group, such as the Telefónica Group, directly and indirectly, and in multiple countries, requires the application of a high degree of diligence to prevent the contravention of sanctions (which take various forms, including economic sanctions programs

applicable to countries, lists of entities and persons sanctioned or export sanctions). Given the nature of its activity, the Telefónica Group's exposure to these sanctions is particularly noteworthy.

Although the Group has internal policies and procedures designed to ensure compliance with the above mentioned applicable anti-corruption laws and sanctions regulations, there can be no assurance that such policies and procedures will be sufficient or that the Group's employees, directors, officers, partners, agents and service providers will not take actions in violation of the Group's policies and procedures (or, otherwise in violation of the relevant anti-corruption laws and sanctions regulations) for which the Group, its subsidiaries or they may be ultimately held responsible. In this regard, the Group is currently cooperating with governmental authorities (and, where appropriate, conducting the relevant internal investigations) regarding requests for information potentially related, directly or indirectly to possible violations of applicable anti-corruption laws. Telefónica believes that, considering the size of the Group, any potential penalty as a result of matters relating to those specific information requests would not materially affect the Group's financial condition.

Notwithstanding the above, violations of anti-corruption laws and sanctions regulations could lead not only to financial penalties, but also to exclusion from government contracts, licenses and authorizations revocation, and could have a material adverse effect on the Group's reputation, or otherwise adversely affect the Group's business, financial condition, results of operations and/or cash flows.

Events after the reporting period

The events regarding the Company that took place between the reporting date and the date of preparation of the accompanying financial statements have been disclosed in Note 22.

Annual Corporate Governance Report

See Chapter 4 (Annual Corporate Governance Report) of the 2021 Consolidated Management Report of Telefónica, S.A.

This document is also available in the public registers of the National Securities Market Commission (CNMV).

Annual Report on the Remuneration of the Directors

See Chapter 5 (Annual Report on the Remuneration of the Directors) of the 2021 Consolidated Management Report of Telefónica, S.A.

This document is also available in the public registers of the National Securities Market Commission (CNMV).