



Individual Annual Report **2022**



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 2022, 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 2022, 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 data-bbox="277 456 847 512">Measurement of non-current investments in Group companies and associates</p> <p data-bbox="277 546 847 757">A relevant part of Telefónica, S.A.'s assets consist of equity investments in Group companies and associates. As described in note 8, non-current investments in Group companies and associates (equity instruments) amount to €55,445 million at 31 December 2022.</p> <p data-bbox="277 790 847 1093">To assess if there is an impairment in the investments in Group companies and associates, management conducts an impairment test at least annually or more frequently if events or circumstances indicate the carrying value may not be fully recoverable. Management calculates 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 data-bbox="277 1126 847 1337">As described in notes 4.c) and 8.2, when the recoverable amount is determined by calculating the present value of projected cash flows from the investments, management refers to the strategic plans approved by the Board of Directors covering a three-year period including the closing year.</p> <p data-bbox="277 1370 847 1673">Management's cash flows projections involved significant judgements when considering significant assumptions such as revenue growth, 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 data-bbox="277 1706 847 1827">As described in note 8.2, a net write down of impairment provision of €1,590 million has been recognised in the income statement for the year.</p> <p data-bbox="277 1861 847 2096">We identify this as a key audit matter due to the significant judgements made by management when estimating the significant assumptions that supports the recoverable amount of the investments in Group companies and associates which in turn led to a high degree of auditor judgement and audit effort in evaluating these assumptions.</p>	<p data-bbox="863 546 1461 725">We have performed audit procedures 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 and associates, including:</p> <ul data-bbox="863 759 1461 1809" style="list-style-type: none"> <li data-bbox="863 759 1461 943">• Understanding of the control environment, assessment and testing of the relevant controls over the Company's process for calculating the present value of future cash flows from investments in Group companies and associates. <li data-bbox="863 976 1461 1097">• Verification of the consistency of the data used in the calculation of the actual value with respect to the strategic plans approved by the Board of Directors. <li data-bbox="863 1131 1461 1220">• Evaluation of the cash flow discount model used, for which we have had the collaboration of our valuation experts. <li data-bbox="863 1254 1461 1375">• Analysis of the degree of budget achievement, with respect to the strategic plan approved in the previous year, as well as historical achievement. <li data-bbox="863 1408 1461 1653">• Assessment of the significant assumptions employed to determine the recoverable amount, testing reasonableness and consistency with available external information. We have had the collaboration of our valuation experts in evaluating the discount rates and perpetual growth rates considered by management. <li data-bbox="863 1686 1461 1807">• Evaluation of the adequacy of the disclosures included in the annual accounts in accordance with the applicable accounting standards. <p data-bbox="863 1841 1461 2020">Based on the procedures performed, we consider management's assessment to be reasonable and its conclusions on the value of investments in Group companies and associates 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 2022 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 2022 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 and control committee 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 2022 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 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 Directors' Remuneration 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 21 February 2023.

Appointment period

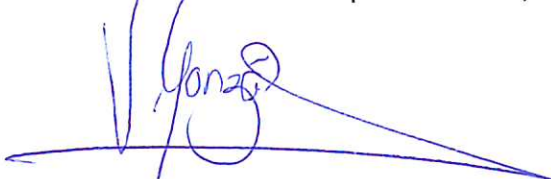
The General Ordinary Shareholders' Meeting held on 8 April of 2022 appointed us as auditors for a period of one year, for the year ended 31 December 2022.

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)



Vanesa González Prieto (21500)

23 de febrero de 2023



Annual financial statements and management report

for the year ended

2022

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Telefónica, S.A.

Balance sheet at December 31

Millions of euros			
ASSETS	Notes	2022	2021
NON-CURRENT ASSETS		59,929	60,476
Intangible assets	5	13	21
Software		7	7
Other intangible assets		6	14
Property, plant and equipment	6	131	136
Land and buildings		77	85
Plant and other property, plant and equipment items		50	49
Property, plant and equipment under construction and prepayments		4	2
Investment property	7	309	314
Land		100	100
Buildings		209	214
Non-current investments in Group companies and associates	8	55,705	55,067
Equity instruments		55,445	54,929
Loans to Group companies and associates		245	131
Other financial assets		15	7
Financial investments	9	3,288	3,890
Equity instruments	9	358	348
Derivatives	16	2,555	2,675
Other financial assets	9	375	867
Deferred tax assets	17	423	1,009
Non current account receivables and other		60	39
CURRENT ASSETS		8,813	11,399
Trade and other receivables	10	474	333
Current investments in Group companies and associates	8	1,530	3,698
Loans to Group companies and associates		1,470	3,641
Derivatives	16	5	9
Other financial assets		55	48
Investments	9	1,814	1,550
Loans to companies		26	53
Derivatives	16	614	751
Other financial assets		1,174	746
Current deferred expenses		6	11
Cash and cash equivalents		4,989	5,807
TOTAL ASSETS		68,742	71,875

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	2022	2021
EQUITY		20,325	22,754
CAPITAL AND RESERVES		19,793	22,713
Share capital	11	5,775	5,779
Share premium	11	3,825	4,233
Reserves	11	11,414	13,041
Legal & Statutory		1,113	1,096
Other reserves		10,301	11,945
Treasury shares and own equity instruments	11	(341)	(546)
Profit (Loss) for the year	3	(880)	206
UNREALIZED GAINS (LOSSES) RESERVE	11	532	41
Financial assets at fair value with changes through equity		(14)	(52)
Hedging instruments		546	93
NON-CURRENT LIABILITIES		37,659	38,740
Non-current provisions	18	601	660
Non-current borrowings	12	3,438	2,818
Bank borrowings	14	372	415
Derivatives	16	1,908	1,824
Other debts		1,158	579
Non-current borrowings from Group companies and associates	15	33,405	35,141
Deferred tax liabilities	17	189	91
Long term deferred revenues		26	30
CURRENT LIABILITIES		10,758	10,381
Current provisions	18	28	30
Current borrowings	12	458	1,782
Bonds and other marketable debt securities	13	—	30
Bank borrowings	14	181	1,416
Derivatives	16	276	336
Other financial liabilities	14	1	—
Current borrowings from Group companies and associates	15	9,950	8,364
Trade and other payables	18	301	191
Current deferred revenues		21	14
TOTAL EQUITY AND LIABILITIES		68,742	71,875

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	2022	2021
Revenue	19	1,949	6,426
Rendering of services to Group companies and associates		463	432
Rendering of services to non-group companies		21	15
Dividends from Group companies and associates		1,450	5,943
Interest income on loans to Group companies and associates		15	36
Impairment and gains (losses) on disposal of financial instruments	8	(1,590)	(4,411)
Impairment losses and other losses		(1,590)	(4,574)
Gains (losses) on disposal and other gains and losses		—	163
Other operating income	19	46	55
Non-core and other current operating revenue - Group companies and associates		36	36
Non-core and other current operating revenue - non-group companies		10	19
Employees benefits expense	19	(196)	(212)
Wages, salaries and others		(163)	(180)
Social security costs		(33)	(32)
Other operational expense		(313)	(417)
External services - Group companies and associates	19	(92)	(97)
External services - non-group companies	19	(213)	(292)
Taxes other than income tax		(8)	(28)
Depreciation and amortization	5, 6 and 7	(28)	(27)
Gains (losses) on disposal of fixed assets		(8)	—
OPERATING PROFIT (LOSS)		(140)	1,414
Finance revenue	19	1,429	423
Finance costs	19	(2,650)	(1,544)
Change in fair value of financial instruments		1	(50)
Net result on financial assets at fair value with changes through equity	9 and 11	1	(50)
Exchange rate gains (losses)	19	(181)	5
NET FINANCIAL EXPENSE		(1,401)	(1,166)
PROFIT (LOSS) BEFORE TAX	21	(1,541)	248
Income tax	17	661	(42)
PROFIT (LOSS) FOR THE YEAR		(880)	206

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	2022	2021
Profit (Loss) for the period		(880)	206
Total income and expense recognized directly in equity	11	888	1,218
From valuation of financial assets at fair value with impact in equity		37	122
From cash flow hedges		1,135	1,461
Income tax impact		(284)	(365)
Total amounts transferred to income statement	11	(397)	(562)
From valuation of financial assets at fair value with changes through equity		1	(50)
From cash flow hedges		(531)	(683)
Income tax impact		133	171
TOTAL RECOGNIZED INCOME AND EXPENSE		(389)	862

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, 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	—	—	—
Dividend distributions (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
Total recognized income and expense	—	—	—	(880)	491	(389)
Transactions with shareholders and owners	(4)	(1,575)	205	—	—	(1,374)
Capital decreases (Note 11)	(139)	(409)	548	—	—	—
Dividend distributions (Note 11)	135	(1,202)	—	—	—	(1,067)
Other transactions with shareholders and owners (Nota 11)	—	36	(343)	—	—	(307)
Other movements (Note 11)	—	(666)	—	—	—	(666)
Appropriation of prior year profit (loss)	—	206	—	(206)	—	—
Balance at December 31, 2022	5,775	15,239	(341)	(880)	532	20,325

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	2022	2021
A) CASH FLOWS FROM OPERATING ACTIVITIES		4,194	11,148
Profit (Loss) before tax		(1,541)	248
Adjustments to net results:		1,526	(331)
Depreciation and amortization	5, 6 and 7	28	27
Impairment of investments in Group companies and associates	8	1,590	4,574
Change in long term provisions		(36)	44
Gains on the sale of financial assets	8	—	(163)
Losses on disposal of fixed and intangible assets		8	—
Dividends from Group companies and associates	19	(1,450)	(5,943)
Interest income on loans to Group companies and associates	19	(15)	(36)
Net financial expense		1,401	1,166
Change in working capital		(68)	(26)
Trade and other receivables		43	7
Other current assets		(4)	(28)
Trade and other payables		(107)	(5)
Other cash flows from operating activities	21	4,277	11,257
Net interest paid		(1,062)	(1,431)
Dividends received and other		3,777	12,520
Income tax receipts		1,562	168
B) CASH FLOWS (USED IN) / FROM INVESTING ACTIVITIES	21	(2,769)	865
Payments on investments		(6,290)	(12,410)
Proceeds from disposals		3,521	13,275
C) CASH FLOWS USED IN FINANCING ACTIVITIES		(2,245)	(9,208)
Proceeds from equity instruments		13	—
(Payments) / Proceeds from financial liabilities	21	(934)	(8,113)
Debt issues		4,743	3,518
Repayment and redemption of debt		(5,677)	(11,631)
Acquisition of treasury shares	11	(365)	(478)
Dividends paid	21	(959)	(617)
D) NET FOREIGN EXCHANGE DIFFERENCE		2	(28)
E) NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS		(818)	2,777
Cash and cash equivalents at January 1		5,807	3,030
Cash and cash equivalents at December 31		4,989	5,807

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, 2022

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

d) 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 2022.

The accompanying financial statements for the year ended December 31, 2022 were prepared by the Company's Board of Directors at its meeting on February 22, 2023 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

Accounting policies applied in 2022 are consistent with those applied in 2021. 2021 figures are included in these financial statements for comparison purposes.

On October 31, 2022 the Boletín Oficial del Instituto de Contabilidad y Auditoría de Cuentas n° 131 (BOICAC 131) was published. Its 2nd question clarifies the valuation criteria to be used when assessing business units in a merger or spin-off agreement carried out among Group companies (see note 4). The impacts generated by the application of this criteria in 2022 has been detailed in notes 8 and 11.

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 880 million euros of losses in 2022.

Accordingly, the Company's Board of Directors will submit the following proposed appropriation of 2022 net results for approval at the General Shareholders' Meeting:

Millions of euros	
Proposed appropriation:	
Loss for the year	(880)
Distribution to:	
Unrestricted reserves	(880)

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, 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 to which the assets are allocated, approved by the Board of Directors' of Telefónica, S.A. 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 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

"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, 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 business units between Group companies and in the case of in-kind dividend distributions, the valuation of the assets and liabilities should be done in accordance with the Standards on Preparing Consolidated Financial Statements (Spanish "NOFCAC"), at their pre-transaction carrying amount in the consolidated financial statements of the group or subgroup with a Spanish parent company. Prior to the filing of BOICAC 131, 2nd question (see note 2), which was filed in 2022, the valuation of assets and liabilities could be done applying the carrying value in the standalone financial statements as of the transaction date, when the group was discharged from the obligation of preparing NOFCAC consolidated financial statements. Nevertheless, there was also the option of using consolidated values under IFRS as adopted by the European Union, provided that this consolidated information did not significantly differ from that obtained by applying NOFCAC. In addition, the Company could 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 could be used, unless the net equity amount was higher, in which case this amount was 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 2022 and 2021 are as follows:

Millions of euros		
Item	2022	2021
Total assets	109,642	109,213
Equity:		
Attributable to equity holders of the parent	25,088	22,207
Attributable to minority interests	6,620	6,477
Revenue from operations	39,993	39,277
Profit for the year:		
Attributable to equity holders of the parent	2,011	8,137
Attributable to minority interests	308	2,580

Note 5. Intangible assets

The movements in the items composing intangible assets and the related accumulated amortization in 2022 and 2021 are as follows:

2022						
Millions of euros	Opening balance	Additions and allowances	Disposals	Transfers	Closing balance	
INTANGIBLE ASSETS, GROSS	269	7	–	–	276	
Software	167	4	–	1	172	
Other intangible assets	102	3	–	(1)	104	
ACCUMULATED AMORTIZATION	(248)	(7)	–	–	(255)	
Software	(160)	(5)	–	–	(165)	
Other intangible assets	(88)	(2)	–	–	(90)	
DEPRECIATION ACCRUAL	–	(8)	–	–	(8)	
NET CARRYING AMOUNT	21	(8)	–	–	13	

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	

As of December 31, 2022 and 2021 commitments to acquire intangible assets amount to 2.9 and 3.8 million euros, respectively.

As of December 31, 2022 and 2021, the Company had 243 and 231 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 2022 and 2021 are as follows:

2022					
Millions of euros	Opening balance	Additions and allowances	Disposals	Transfers	Closing balance
PROPERTY, PLANT AND EQUIPMENT, GROSS	551	11	—	(3)	559
Land and buildings	201	—	—	(2)	199
Plant and other PP&E items	348	6	—	2	356
PP&E under construction and prepayments	2	5	—	(3)	4
ACCUMULATED DEPRECIATION	(415)	(13)	—	—	(428)
Buildings	(116)	(6)	—	—	(122)
Plant and other PP&E items	(299)	(7)	—	—	(306)
NET CARRYING AMOUNT	136	(2)	—	(3)	131

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

Firm commitments to acquire property, plant and equipment at December 31, 2022 and 2021 amounted to 0.2 and 1.2 million euros, respectively.

At December 31, 2022 and 2021, the Company had 264 and 261 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 62 and 65 million euros at 2022 and 2021 year-ends, respectively. It also includes the net carrying amount of the remaining assets in this site (mainly property, plant and equipment items) of 22 and 16 million euros at December 31, 2022 and 2021, respectively.

Note 7. Investment properties

The movements in the items composing investment properties in 2022 and 2021 and the related accumulated depreciation are as follows:

2022					
Millions of euros	Opening balance	Additions and allowances	Disposals	Transfers	Closing balance
INVESTMENT PROPERTIES, GROSS	436	—	—	3	439
Land	100	—	—	—	100
Buildings	336	—	—	3	339
ACCUMULATED DEPRECIATION	(122)	(8)	—	—	(130)
Buildings	(122)	(8)	—	—	(130)
NET CARRYING AMOUNT	314	(8)	—	3	309

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

"Investment properties" mainly includes in both 2022 and 2021 the value of land and buildings leased by Telefónica, S.A. to other Group companies at Distrito Telefónica, headquarters in Madrid.

In 2022 the Company has buildings with a total area of 290.881 square meters (334,499 square meters in 2021) leased to several Telefónica Group companies, equivalent to an occupancy rate of 82,22% of the buildings it has earmarked for lease (94.31% in 2021).

Total income from leased buildings in 2022 and 2021 (see note 19.1.a) amounted to 37 and 42 million euros respectively.

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

Millions of euros	2022	2021
	Future minimum recoveries	Future minimum recoveries
Up to one year	29	31
Between two and five years	—	—
Total	29	31

The most significant lease contracts held with subsidiaries occupying Distrito Telefónica have been renewed in 2022 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:

2022									
Millions of euros	Opening balance	Additions	Disposals	Transfers	Exchange rate impacts	Dividends	Net investment hedges	Closing balance	Fair value
Equity instruments (Net) (1)	54,929	5,116	(5,231)	–	–	(66)	698	55,445	75,396
Equity instruments (Cost)	93,986	6,706	(8,513)	–	–	(66)	698	92,810	
Impairment losses	(39,057)	(1,590)	3,282	–	–	–	–	(37,365)	
Loans to Group companies and associates	131	–	–	121	(7)	–	–	245	238
Other financial assets	7	27	–	(19)	–	–	–	15	15
Total non-current investment in Group companies and associates	55,067	5,143	(5,231)	102	(7)	(66)	698	55,705	75,649
Loans to Group companies and associates	3,641	2,534	(4,636)	(121)	53	–	–	1,470	1,471
Derivatives	9	–	(4)	–	–	–	–	5	5
Other financial assets	48	10	(22)	19	–	–	–	55	55
Total current investments in Group companies and associates	3,698	2,544	(4,662)	(102)	53	–	–	1,530	1,531

(1) Fair value at December 31, 2022 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.

2021									
Millions of euros	Opening balance	Additions	Disposals	Transfers	Exchange losses	Dividends	Net investment hedges	Closing balance	Fair value
Equity instruments (Net) (1)	58,754	4,404	(2)	(1)	–	(8,620)	394	54,929	76,958
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	77,101
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.) 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 2022 and 2021 as well as their accounting impacts are described below:

2022

In June 2022 the Company, as sole shareholder of Telefónica Tech, S.L., decided to increase the share capital in the subsidiary by an in-kind contribution of the shares of Telefónica Cybersecurity & Cloud Tech, S.L. which amounted to 1,122 million euros. The impact of this transaction implies an addition to the investment in Telefónica Tech, S.L. amounting to 839 million euros, which is shown within Additions in the 2022 chart of movements and a disposal of the carrying amount of the contributed investment. Prior to this transaction, Telefónica Cyber Cloud & Tech, S.L. carried out a capital increase of 342 million euros fully subscribed and paid by Telefónica, S.A. also reflected within Additions in the same chart.

On August 10, 2022 the deed of partial segregation of Telefónica, S.A. to Telefónica Latinoamérica Holding, S.L. (TLH) was filed to Madrid Companies' Register. The segregation involved the business consisting in the shares owned by Telefónica, S.A. in Telefónica Móviles Argentina, S.A. and Telefónica de Argentina, S.A. together with some other items associated with the business. This transaction has increased the net investment value of TLH by 1,150 million euros, shown as Additions in the 2022 chart of movements as well as the disposal of the investment in Telefónica Móviles Argentina, S.A. and Telefónica de Argentina, S.A., reflected as net Disposals accordingly by 1,006 and 88 million euros, respectively in the already mentioned 2022 chart of movements (Cost of investment by 1,360 million offset by 354 million euros of impairment losses for Telefónica Móviles Argentina, S.A. and Cost of investment by 119 million euros offset by 31 million euros of impairment losses for Telefónica de Argentina, S.A.).

On September 15, 2022, a partial spin-off of TLH took place. This transaction involved the transfer of the business consisting in the shares owned by TLH in Telefónica Móviles Argentina, S.A. and Telefónica de Argentina, S.A. together with some other related items to a newly created subsidiary, TLH Holdco, S.L. owned 100% by Telefónica, S.A. This transaction implies an addition of the new company, TLH Holdco, S.L. amounting to 1,582 million euros and a net disposal in TLH by 1,561 million euros (2,396 million euros of investment cost offset by 835 million euros of impairment losses). These amounts have been reflected as Additions and Disposals, respectively, in the 2022 chart of movements.

On October 31, 2022 the liquidation of Sao Paulo Telecomunicações, Ltda. has completed with the distribution to its shareholders of the assets and liabilities pro-rata their ownership percentage. As a consequence of the liquidation, an amount of 3,493 million euros has been recorded as disposal in the cost of investment line offset by a 2,039 million euros of impairment loss

disposal. Telefónica owned 39.40% of the subsidiary and after the liquidation receives an additional 8.06% of the share capital in Telefônica Brasil, S.A. (calculated based on the issued share capital) amounting to 903 million euros and is shown as Addition in 2022 chart of movements.

All the aforementioned transactions have been valued in accordance with BOICAC 131, 2nd question (see note 2)

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 was also a direct investment of Telefónica, S.A. This transaction had had no impact in the income statement, and it is shown as Transfers in 2021 chart of movements.

Other movements

After the sale of the investment in El Salvador, on January 13, 2022, the General Shareholders' Meeting of Telefónica Centroamérica Inversiones, S.L. agreed a dividend distribution to its shareholders pro-rata the ownership percentage. 76 million USD (equivalent to 66 million euros) were distributed to Telefónica, S.A. This proceed has been registered as an investment reimbursement and reflected as Dividends in 2022 chart of movements.

"Transfers" of "Loans to Group Companies and Associates" in 2022 includes the reclassification from current to long-term of the loan granted in March 2022 to Telefónica Cybersecurity & Cloud Tech, S.L., and whose maturity was extended in June 2022 until 2027 (see note 8.5).

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 corresponded to contribution payback and was shown as "Dividends" in 2021 chart of movements. The rest of the amount was 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 corresponded to contribution payback, shown as "Dividends" in 2021 chart of movements. The rest of the amount was registered as "Dividend revenue" (see note 19).

"Transfers" of "Loans to Group Companies and Associates" in 2021 included the reclassification from long-term to current of the loans granted to Telxius Telecom, S.A.U. which were due in 2022 and have been cancelled accordingly during this year.

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

Millions of euros		
Companies	2022	2021
TLH Holdco, S.L.	1,646	—
Telefónica Hispanoamérica, S.A.	1,192	370
Telefónica Latinoamérica Holding, S.L.	1,150	—
Telefónica Brasil, S.A.	903	—
Telefónica Tech, S.L.	839	52
Telefónica Infra, S.L.	555	197
Telefónica Cybersecurity & Cloud Tech, S.L.	342	750
Telefónica Deutschland, A.G.	48	51
Telefónica O2 Holdings, Ltd	—	1,631
Telefónica Digital España, S.L.U.	—	185
O2, Ltd.	—	5,656
Other companies	31	86
Total group and associated companies	6,706	8,978

2022

On December 20, 2022 TLH Holdco, S.L. has carried out a capital increase of 64 million euros, fully subscribed and paid by Telefónica, S.A.. The amount in 2022 Additions chart includes not only this amount but also the figure of the segregation transaction of Argentinian businesses as detailed at the beginning of this note (1,582 million euros).

On February 2, 2022 Telefónica Hispanoamérica, S.A. filed the deed of the capital increase by 1,192 million euros subscribed and paid in full by the Company.

The amounts related to Telefónica Latinoamérica Holding, S.L, Telefônica Brasil, S.A. and Telefónica Tech, S.L. refer to the transactions described at the beginning of this note.

On May 11, 2022 the deed of capital increase carried out by Telefónica Infra, S.L. amounting to 38 million euros was filed to the Companies' Register. It had been fully subscribed and paid by Telefónica, S.A. In addition, during 2022 the Company has agreed to fund contributions to Telefónica Infra, S.L. (with no new shares issued) totaling 517 million euros.

During 2022 the Company has continued acquiring in the stock market shares of Telefónica Deutschland Holding, A.G. (19.1 million shares) up to a 1.36% of direct ownership as of 31.12.2022 as detailed in Appendix I of the present financial statements.

2021

On January 28, 2021 the deed of the capital increase of Telefónica Hispanoamérica, S.A. amounting to 370 million euros was filed in the Companies' Register. It was fully subscribed and paid by Telefónica, S.A.

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.

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.

On March 25, 2021 Telefónica Cybersecurity & Cloud Tech, S.L. 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.

During the second half of 2021 the Company acquired in the stock market 21,3 million shares of Telefónica Deutschland Holding, A.G. obtaining a 0,71% direct ownership in the subsidiary.

On May 26, 2021 Telefónica O2 Holdings, Ltd. 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 was fully subscribed and paid by the Company.

On May 26, 2021 O2, Ltd. 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.

In 2021 Telefónica decided to partly cancel the accounts receivable that the subsidiaries had with the Group companies in Argentina. Telefónica, S.A. 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 raised to 11.43%.

b) Disposals of investments and capital decreases:

Millions of euros		
Companies	2022	2021
Sao Paulo Telecomunicações, Ltda.	3,493	—
Telefónica Latinoamérica Holding, S.L	2,396	—
Telefónica Móviles Argentina, S.A.	1,360	—
Telefónica Cybersecurity & Cloud Tech, S.L	1,122	—
Telefónica de Argentina, S.A.	119	—
Jubii Europe, N.V.	—	13
Other companies	23	—
Total group and associated companies:	8,513	13

2022

The figure of Sao Paulo Telecomunicações, Ltda. relates to the liquidation of the Company detailed at the beginning of the note.

The amounts for Telefónica Latinoamérica Holding, S.L., Telefónica Móviles Argentina, S.A. and Telefónica de Argentina, S.A. refer to the transaction of segregation and unification of the Argentinian business described at the beginning of this note.

The Disposal of Telefónica Cybersecurity & Cloud Tech, S.L. is framed in the in-kind contribution described at the beginning of this note.

Other companies includes the liquidation of Corporación Real Time Team, S.L., Centro de Experimentación de la Realidad Virtual, S.L. y Telco TE, which have been carried out in 2022.. The companies were fully impaired and the same amount has been recorded as disposals in the impairment losses line.

2021

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

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 revenue growth, 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.

As a result of these estimations and the effect of the net investment hedge in 2022, an impairment provision of 1,590 million euros was recognized (write-off of 4.574 million euros in 2021). This amount derives mainly from the following companies:

- a write down, net of hedges, of 1.594 million euros for Telefónica O2 Holdings, Ltd. (write down of 2,790 million euros, net of hedges, was registered in 2021);
- a write down reversal, net of hedges, of 449 million euros for Telefônica Brasil, S.A. (write down amounting to 588 million euros in 2021) and a reversal of 15 million euros for Sao Paulo Telecomunicações, Ltda, registered prior to its liquidation (write down amounting to 64 million euros in 2021);
- a write down by 1,252 million euros for Telefónica Hispanoamérica, S.A. (write down of 1,008 million euros in 2021) mainly due to the impact of the valuation in its investments in Chile and Colombia.
- a write down reversal of 1,001 million euros for Telefónica Latinoamérica Holding, S.L. (write down by 277 million euros in 2021) mainly due to its investment in Brazil.
- a write down of 130 million euros for Telefónica Digital España, S.L.U. (a write down of 22 million euros in 2021).
- In 2021 a write down reversal of 155 million euros was recorded for Telefónica Móviles Argentina, S.A.

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

During 2022 United Kingdom has passed through a difficult year. In addition to the inflation rate increase due to external factors (such as a rise in the energy price, mismatches in the supply chain and rising prices of food) and internal factors (a highly dynamic labour market) there has been an increase in the interest rates, negatively impacting the families' and companies' incomes resulting in a reduction unknown in decades. During the second half of the year a highly volatile financial scenario originated by inconsistent fiscal policy measures causing further uncertainty. Despite the difficult macroeconomic context VMED O2 UK has delivered its set guidance and made strong strategic and operational progress throughout the year. The company introduced new products, such as TV Stream and Switch up and continues to drive fixed mobile convergence with its VOLT product. VMED O2 UK delivered synergies according to its plan and the fixed footprint reached 16.1 million homes passed, meeting the full year build targets. In mobile, it expanded 5G services to more than 1,600 towns and cities, on-track to deliver 5G services to 50% of the UK population in 2023. In addition, on December 15, 2022, Telefónica Infra, Liberty Global and InfraVia Capital Partners entered into a joint venture which will deploy fibre to the home (FTTH) to 5 million homes in the UK not currently served by VMED O2 UK's network, with the possibility of expansion to an additional 2 million homes. The fibre network will offer wholesale FTTH access to telecommunications service providers, with VMED O2 UK acting as the anchor tenant, as well as providing a range of technical services.

The ratios of operating variables included in the valuation are within the ranges expected by analysts for comparable companies in the region. As far as the revenues are concerned, the UK business plan envisages trend of improvement or stability in the projections aligned with the evolution of the group's analysts expectation. Moreover, the long-term OIBDA margin two-year analysts' estimates for VMED O2 UK are in a range within 35% to 39%. With respect to the long-term investment over revenues ratio, the investment needs are forecasted by analysts to be around 19%. The WACC (Weighted average cost of capital) used to discount the cash flows is 7.3% for 2022. Terminal growth rate is set at 1%, below the real terminal growth forecast for the UK economy. Finally, it is necessary to consider the evolution of the exchange rate of the pound sterling against the euro in 2022, with a depreciation of 5.31% (see note 19.8), which has a direct effect on the value in use of the investment in euro terms.

During 2022 Brazil has been one of the only countries whose growth perspectives have been substantially improved notwithstanding external uncertainties. Estimations at the beginning of the year envisaged a growth stagnation in the country. However, the final

growth rate in 2022 situated in 3%. The positive economic evolution can be explained because the country has profited from the rising prices of raw materials (Brazil being an exporter of these products), the policies supporting families income and preventing a higher rise in the inflation rate and a swifter than expected overcome of the pandemic. In terms of revenues, the plan is in line with the average three-year estimates made by analysts, which include a trend towards stability or improvement. 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 16%). The interest rates increase has resulted in an increase in the cost of debt of the company, and the WACC has risen from 12% in 2021 to 12.6% in 2022. 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 nominal GDP growth rate of around 5.5%, according to market expectations. Moreover, the appreciation of Brazilian real against euro by 13.48% should also be taken into account as it has an impact, net of hedges, in the value of the investment (see note 19.8).

The economic activity in Colombia has continued growing at a significant rates. Despite this growth and the rising prices of raw materials worldwide, the country has failed in correcting the imbalances in relation with external (deficit of current debt) and internal (tax deficit) stakeholders. This fact, in addition to a period of political uncertainties caused by a change in the government, has created volatility in financial variables. Within this framework, the financial discount rate has increased by 140 b.p. when compared to the previous year, with a negative impact in the fair value of the investment in Telefónica Colombia. With respect to revenues, the business plan figures are estimated in accordance with the evolution previewed by the Groups analysts. Regarding OIBDA margin, the projections envisage a future scenario of stability after a change in the investment plans. For long term investment ratio, and as a consequence of the change in the fiber deployment programs, capex investments will be focused on mobile business and the investment ratio is aligned with the analysts' estimations for the region in the middle term.

Chilean economy dramatically slowed down in 2022 as a consequence of several factors negatively impacting families' income. The most relevant were the withdrawal of tax policies, the deceleration in the labour market and the high inflation rate above 10% which forced the Chilean Central Bank to increase interest rates abruptly. On the other hand, the constitutional reforms set in force and then withdrawn have added further uncertainties about the short term growth estimation in the country. In this scenario, the financial discount rate has increased to 9.4%, that is, about 60 b.p. when compared to the previous year. This fact as well as the economic

slowdown reflected in the 2022 business figures have resulted in a decline in the value of the investment in Telefónica Chile. Business plans for the following years involve a sustained revenue growth with a stable margin. For long term investment ratio, and as a consequence of the change in the fiber deployment programs, capex investments will be focused on mobile business and the investment ratio is aligned with the analysts' estimations for the region in the middle term.

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 1, 2022 Telefónica Audiovisual Digital, S.L. (TAD) carried out the merger by absorption of CIT, Compañía Independiente de Televisión, S.L. with the consequent dissolution of the latter entity and the full transfer of its corporate assets which, as the absorbing company, acquired by universal succession the rights and obligations of the absorbed entity.

On June 28, 2022 Telefónica, S.A. as sole shareholders of Telefónica Tech, S.L. approved and signed a decision to a capital increase carried out by an in-kind contribution of the shares of Telefónica Cybersecurity & Cloud Tech, S.L. The deed was filed in the Companies' Register on July 8, 2022. This transaction meant the contribution of the shares of Telefónica Cybersecurity & Cloud Tech, S.L. with a net book value of 1,122 million euros (fiscal value of 1,182 million euros) in exchange for shares of Telefónica Tech, S.L. with a net book value of 839 million euros.

On July 28, 2022 Telefónica, S.A. as sole shareholder of Telefónica Ingeniería de Seguridad, S.A. approved a partial segregation for the latter in favor of a new subsidiary named TIS Hispanoamérica, S.L. The deed has been filed to the Companies' Register on September 30, 2022. Telefónica, the sole owner of the segregated company, delivered shares of Telefónica Ingeniería de Seguridad, S.A. amounting to 0.8 million euros (both net book value and tax value) and received shares of the new company with the same net book value.

On August 10, 2022 Telefónica, S.A. transferred to its subsidiary Telefónica Latinoamérica Holding, S.L. via share exchange and an in-kind contribution of the investment in Telefónica Móviles Argentina, S.A. and Telefónica de Argentina, S.A. as well as some other balances associated with the business. After the completion of the transaction, Telefónica Latinoamérica Holdings S.L. acquires 73,20% and 10,75% of the shares in Telefónica Móviles Argentina S.A y Telefónica de Argentina S.A., respectively. Telefónica Latinoamérica Holding, S.L. has booked the shares received by a net book value of 1,155 million euros. The tax value of the shares is 1,460 million euros.

Telefónica, S.A. has delivered the investments in Telefónica Móviles Argentina, S.A. and Telefónica de Argentina, S.A. with a net book value of 1,093 million euros and a tax value of 1,460 million euros. In addition, the Company has received shares of Telefónica Latinoamérica Holding, S.L. with a net book value of 1,150 million euros.

On September 15, 2022 Telefónica Latinoamérica Holding, S.L. carried out a segregation of the Argentinian business to TLH Holdco, S.L. The segregation included the shares in Telefónica Móviles Argentina, S.A. and Telefónica de Argentina, S.A. as well as other balances related to the business. With the conclusion of the segregation, TLH Holdco, S.L. acquires 100% and 19,81% of the ownership in Telefónica Móviles Argentina, S.A. and Telefónica de Argentina, S.A., respectively. Telefónica, S.A. became the sole stockholder of TLH Holdco, S.L.

TLH Holdco, S.L. registered the investment received with a net book value of 1,623 million euros. The tax value of the assets received amounts to 4,008 million euros.

As for Telefónica, S.A. the net book value of the shares delivered is 1,561 million euros and its tax value totals 4,008 million euros. The book value of the shares received amounts to 1,582 million euros.

8.5. Maturity of loans to Group companies and associates

The breakdown and maturity of loans to Group companies and associates in 2022 and 2021 are as follows:

2022							
Millions of euros							
Company	2023	2024	2025	2026	2027	2027 and subsequent years	Final balance, current and non-current
Telefónica Móviles España, S.A.U.	99	—	—	—	—	—	99
Telefónica Cybersecurity & Cloud Tech, S.L.	1	—	—	—	113	—	114
Telfisa Global, B.V.	16	—	—	—	—	—	16
Telefónica de España, S.A.U.	415	—	—	—	—	—	415
Telxius Telecom, S.A.	—	50	—	50	—	—	100
Telefônica Brasil, S.A.	189	—	—	—	—	—	189
Telefónica Finanzas, S.A.U.	198	—	—	—	—	—	198
Bluevía Fibra, S.L.	527	—	—	—	—	—	527
Other companies	25	—	—	—	—	32	57
Total	1,470	50	—	50	113	32	1,715

2021							
Millions of euros							
Company	2022	2023	2024	2025	2026	2026 and subsequent years	Final balance, current and non-current
Telefónica Móviles España, S.A.U.	785	—	—	—	—	—	785
Telefónica O2 Holding, Ltd.	1,190	—	—	—	—	—	1,190
Telfisa Global, B.V.	364	—	—	—	—	—	364
Telefónica de España, S.A.U.	402	—	—	—	—	—	402
Telxius Telecom, S.A.U.	100	—	50	—	50	—	200
Telefônica 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

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

- The outstanding balance with Telefónica Móviles España, S.A.U. in 2021 included dividends distributed and uncollected as of December 2021 amounting to 560 million euros received in December 2022.

The outstanding balance in 2022 amounts to 99 million euros of tax balances are receivable from this subsidiary for its tax expense declared in the consolidated tax return (225 million euros in 2021).

- On March 21, 2022 the Company granted a credit to its subsidiary Telefónica Cybersecurity & Cloud Tech, S.L. of 140 million pounds sterling and maturity date on June 21, 2022. At maturity date, the credit was partially cancelled and the outstanding amount, 100 million pounds sterling, extended the maturity date until 2027. As of December 31, 2022 the equivalent amount of this credit amounts to 113 million euros. Moreover, there is 1 million euros of uncollected interests accounted as current.

- The receivable with Telefónica O2 Holdings, Ltd. included in 2021 dividends distributed and uncollected as of December 2021 amounting to 1,000 million pounds sterling (equivalent to 1,190 million euros) which have been received in 2022.
- In December 2022, Telfisa Global, B.V. has approved the distribution of dividends totaling 14 million euros that remain unpaid as of the formulation date of these financial statements (357 million euros in 2021).

Included in current caption there is an uncollected amount of 2 million euros referring to the financial net result sharing agreement signed with Telfisa Global, B.V. as stated in note 19.1.c).

Moreover, in 2021 there were uncollected balances of 7 million euros of tax balances are receivable from this subsidiary for its tax expense declared in the consolidated tax return. The amount of this concept in 2022 is inferior to 1 million euros and therefore it is not shown in the chart.

- The balance of Telefónica de España, S.A.U. in 2021 included an amount of 301 million euros in dividends distributed which have been received in December 2022.
- In 2022 the full outstanding amount of 415 million euros refers to tax receivables from the subsidiary for its tax expense declared in the consolidated tax return (101 million euros in 2021).
- 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 was an early partial cancellation of these credits. At year end, the outstanding amount is 100 million euros with maturity date in 2024 and 2026. In 2022 the installment of 100 million euros has been canceled as scheduled.
- The balance totaling 189 million euros shown in 2022 with Telefônica Brasil, S.A. entirely corresponds to dividends agreed by the subsidiary and unpaid at year end (181 million euros in December 2021).
- The balance of Telefónica Finanzas, S.A.U. in December 2022 amounting to 182 million euros includes dividends distributed and uncollected at year end (67 million euros in 2021).

Moreover, in 2022 there are uncollected balances of 16 million euros of tax balances are receivable from this subsidiary for its tax expense declared in the consolidated tax return.

- On December 20, 2022 Telefónica, S.A. granted a credit facility with maturity in 3 months to Bluevía Fibra, S.L. amounting to 526 million euros. The uncollected interests amount to 1 million euros and are also shown in the 2023 column of the chart of movements.
- The balance of Telefónica Hispanoamérica, S.A. in 2021 fully related to the tax receivables from the subsidiary for its tax expense declared in the consolidated tax return. In 2022 there is no uncollected balance for this concept.

In the 2022 chart of movements, additions of current loans to group companies and associates comprise 548 million euros (873 million euros in 2021) 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 873 million euros (549 million euros in 2021).

Total accrued interest receivable at December 31, 2022 and 2021 included under "Current loans to group companies and associates" amount to 2.4 and 0.5 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 2022 and 2021 with a maturity date longer than 2023 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, 2022 and 2021 is as follows:

2022	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	358	738	1,817	2,913	358	2,555	–	–	375	375	375	3,288	3,288
Equity instruments	358	–	–	358	358	–	–	–	–	–	–	358	358
Derivatives (Note 16)	–	738	1,817	2,555	–	2,555	–	–	–	–	–	2,555	2,555
Loans to third parties and other financial assets	–	–	–	–	–	–	–	–	375	375	375	375	375
Current financial investments	–	289	325	614	–	614	–	26	1,174	1,200	1,200	1,814	1,814
Loans to third parties and other financial assets	–	–	–	–	–	–	–	26	1,174	1,200	1,200	1,200	1,200
Derivatives (Note 16)	–	289	325	614	–	614	–	–	–	–	–	614	614
Total financial investments	358	1,027	2,142	3,527	358	3,169	–	26	1,549	1,575	1,575	5,102	5,102

2021

Millions of euros	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 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							
Non-current financial investments	348	779	1,896	3,023	348	2,675	–	–	867	867	867	3,890	3,890	
Equity instruments	348	–	–	348	348	–	–	–	–	–	–	348	348	
Derivatives (Note 16)	–	779	1,896	2,675	–	2,675	–	–	–	–	–	2,675	2,675	
Loans to third parties and other financial assets	–	–	–	–	–	–	–	–	867	867	867	867	867	
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	348	3,426	–	53	1,613	1,666	1,667	5,440	5,441	

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, 2022 and 2021 (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, 2022 and 2021 are as follows:

December 31, 2022

Millions of euros	Opening balance	Disposals	Fair value adjustments	Closing balance
Banco Bilbao Vizcaya Argentaria, S.A.	232	–	17	249
China Unicom (Hong Kong), Ltd.	80	–	25	105
Promotora de Informaciones, S.A. (PRISA)	36	(36)	4	4
Total	348	(36)	46	358

December 31, 2021

Millions of euros	Opening balance	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

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, 2022 and 2021 Telefónica, S.A.'s investment in BBVA represents 0.732% and 0.66%, respectively, of that company's share capital at each year-end.

Promotora de Informaciones, S.A. (Prisa)

At December 31, 2022 and 2021 Telefónica, S.A.'s investment in Prisa represents 1.87% and 9.03%, respectively of its share capital, at each year-end.

On May 19, 2022, Telefónica, S.A. sold 50 million shares of Prisa. The revenue from the sale amounts to 5 million euros and it is reflected under the caption "Net result on financial assets at fair value with changes through equity".

In December 2022 the Company registered a write-off on this investment amounting to 4 million euros under the caption "Net result on financial assets at fair value with changes through equity" caused by the significant drop in the quotation of Prisa's shares (50 million euros in 2021).

China Unicom (Hong Kong), Ltd.

The investment in China Unicom (182 million shares) represents 0.593% of that company's share capital both in 2022 and 2021. The shares are quoted in Hong Kong stock exchange.

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 2022 and 2021 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, 2022 and 2021 is as follows:

Millions of euros	2022	2021
Financial assets at amortized cost, non-current:		
Deposits related to real state properties	7	7
Collateral guarantees	365	565
Marketable debt securities	3	295
Financial assets at amortized cost, current:		
Loans to third parties	26	53
Marketable debt securities	939	591
Collateral guarantees	235	150
Other current financial assets	—	5
Total	1,575	1,666

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.

In 2022, marketable debt securities under current caption 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 2021 these instruments were accounted for as current and non-current according to the maturity date.

In relation with collateral contracts, there is an additional guarantee of 79,034 bonds issued by Telefónica Emisiones, S.A.U. deposited in a securities account owned by Telefónica, S.A. with a notional of 78 million euros as of December 31, 2022 (there were 166,678 bonds with a notional of 173 million euros as of December 31, 2021).

9.4.1 Loans to third parties

In 2022 and 2021 the concept of loans to third parties includes the uncollected amounts from financial entities as a result of the maturity of derivative instruments.

Note 10. Trade and other receivables

The breakdown of “Trade and other receivables” at December 31, 2022 and 2021 is as follows:

Millions of euros	2022	2021
Trade receivables	–	3
Trade receivables from Group companies and associates	166	191
Other receivables	2	–
Employee benefits receivable	1	1
Tax receivables (Note 17)	305	138
Total	474	333

“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 2022 and 2021 include balances in foreign currency equivalent to 66 and 98 million euros, respectively.

In 2022 these amounts relate to receivables in US dollars and pounds sterling. The brand fee contract with Telefónica Venezuela which was nominated in Venezuelan bolivars has been amended in 2022 to US dollars. Accordingly, there are no outstanding amounts in Venezuelan bolivars as of December 2022.

In 2021 the amount corresponded to accounts receivable in US dollars and Venezuelan bolivars.

These balances give rise to exchange rate profits in the income statement of 3 million euros in 2022 (6 million euros of exchange rate losses in 2021).

Note 11. Equity

11.1 Capital and reserves

a) Share capital

2022

As of December 31, 2022, the share capital of Telefónica, S.A. was set at 5,775,237,554 euros and was divided into 5,775,237,554 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.

The impacts in 2022 share capital are detailed below:

On April 8, 2022 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 the same date.

The share capital was reduced by 139,275,057 euros after the amortization of 139,275,057 treasury shares, with a par value of 1 euro each. The share capital of the Company was set at 5,639,772,963 euros, corresponding to 5,639,772,963 shares with a par value of 1 euro each. As a consequence of this transaction, the share premium reserve was reduced by 409 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 (139,275,057 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. Therefore, in accordance with the Section 335.c) of the Corporate Enterprises Act, the creditors of the Company can not claim the opposition right disclosed in article 334 of the Corporate Enterprise Act.

On April 22, 2022 the deed of the capital decrease was registered in the Madrid Companies' Register.

On June 24, 2022, the deed was registered for a paid-up capital increase in the amount of 135,464,591 euros, in which 135,464,591 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 5,775,237,554 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).

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.

The impacts in 2021 share capital are detailed below:

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 the same date.

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.

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 2022, 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.

On the other hand, 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, 2022 and 2021, 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 2022	85,217,621	4.00	3.39	288	1.476 %
Treasury shares at Dec 31 2021	139,329,370	3.92	3.85	537	2.411 %

(*) Millions of euros

The movement in treasury shares of Telefónica, S.A. during the years 2022 and 2021 is as follows:

	Number of shares
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	90,403,530
Scrip dividend (see Note 11.d)	563,415
Share capital decrease	(139,275,057)
Employee share option plan (See Note 19.3)	(5,391,956)
Disposals	(411,681)
Treasury shares at 12/31/22	85,217,621

Acquisitions

In 2022 and 2021 acquisition of treasury shares amounting to 365 and 478 million euros respectively, have been registered (see note 21).

Share redemption and disposals

On April 8, 2022 following the agreement of the General Shareholders' Meeting held on April 8, 2022, the share capital decrease was carried out with the amortization of 139,275,057 treasury shares with an impact of 548 million euros in this caption.

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.

Employee share option plan

Treasury shares related to share plans redemptions in 2022 and 2021 amount to 22 and 20 million euros, respectively.

Other instruments

The Company also has different derivative instruments, to be settled by offset, on a nominal value equivalent to 193 million of Telefónica shares in 2022 (192 million shares in 2021) registered in the balance sheet in accordance with their maturity date and fair value at year end 2022.

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, 2022 and 2021, this reserve amounted to 1,059 and 1,038 million euros representing 18.34% and 17.97% of the share capital at the date, respectively.

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 2022 and 2021, an amount of 4 million euros,, corresponding to revaluation reserves subsequently considered unrestricted has been reclassified to "Other reserves". The balance of this reserve at December 31, 2022 and 2021 was 54 and 58 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, 2022 and 2021 totals 954 and 814 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 addition, this caption includes the equity impacts of the corporate transactions described in note 8. Thus, the segregation of the Argentinian business had a positive impact in reserves amounting to 84 million euros and shown as "Other movements" in the Statements of changes in Equity. On the other hand, the in-kind contribution of the investment in Telefónica Cyber Cloud & Tech, S.L. to Telefónica Tech, S.L. implied a

negative impact in reserves of 317 million euros. Moreover the liquidation of Sao Paulo Telecomunicações, S.A. has raised a negative effect in reserves amounting to 441 million euros shown in the same line item.

d) Dividends

Dividend distribution in 2022

Approval was given at the General Shareholders' Meeting of April 8, 2022 to pay a dividend in two tranches. The first tranche through a scrip dividend amounting to approximately 0.15 euros per share took place on June 2022 and consist on the assignment of free allotment rights with an irrevocable purchase commitment by the Company. The second tranche amounting to approximately 0.15 euros per share took place in December 2022, after the adoption of the corresponding corporate resolutions.

At its meeting held on May 25, 2022, 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 25.54% of the free-of-charge allotment rights accepted the irrevocable purchase commitment assumed by Telefónica, S.A. The payment to these shareholders was made on June 16, 2022. The gross impact of this dividend amounts to 213 million euros.

On the other hand, the shareholders of 74.46% 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 June 24, 2022 in the capital increase was 135,464,591 shares with a nominal value of 1 euro each.

The second tranche of the dividend was paid on December 15, 2022 and had an impact in equity amounting to 854 million euros.

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.

11.2 Unrealized gains (losses) reserve

The movements in the items composing "Unrealized gains (losses) reserve" in 2022 and 2021 are as follows:

2022

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)	(52)	37	—	1	—	(14)
Cash flow hedges	93	1,135	(284)	(531)	133	546
Total	41	1,172	(284)	(530)	133	532

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

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, 2022 and 2021 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	860	1,048	1,908	–	1,908	–	34,935	32,336	36,843	34,244
Payable to Group companies and associates			–	–	–	–	33,405	30,772	33,405	30,772
Bank borrowings			–	–	–	–	372	406	372	406
Derivatives (Note 16)	860	1,048	1,908	–	1,908	–	–	–	1,908	1,908
Other financial liabilities	–	–	–	–	–	–	1,158	1,158	1,158	1,158
Current financial liabilities	269	7	276	–	276	–	10,132	10,133	10,408	10,409
Payable to Group companies and associates	–	–	–	–	–	–	9,950	9,950	9,950	9,950
Bank borrowings	–	–	–	–	–	–	181	182	181	182
Derivatives (Note 16)	269	7	276	–	276	–	–	–	276	276
Other financial liabilities	–	–	–	–	–	–	1	1	1	1
Total financial liabilities	1,129	1,055	2,184	–	2,184	–	45,067	42,469	47,251	44,653

2021	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	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
Loans with financial entities	–	–	–	–	–	–	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
Loans with financial entities	–	–	–	–	–	–	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

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, 2022 and 2021, only includes a promissory notes program.

The features of the 2022 program are the following:

Amount	Placement system	Nominal amount of the Promissory notes	Terms of the Promissory notes	Placement
500 millions of euros	Auctions	100,000 euros	30, 60, 90, 180 and 364 days	Competitive auctions
	Tailored	100,000 euros	Between 3 and 364 days	Specific transactions

The features of the 2021 program are the following:

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, 2022 and 2021 are as follows:

Millions of euros	2022	2021
	Other marketable debt securities (Promissory notes)	Other marketable debt securities (Promissory notes)
Opening balance	30	269
Additions	—	54
Disposals	(30)	(293)
Closing balance	—	30
Details of maturities:		
Non-current	—	—
Current	—	30

There were no promissory notes issuance in 2022 (the average interest rate during 2021 was -0.45%).

Note 14. Interest-bearing debt and derivatives

14.1 Detail of debt balances

The balances at December 31, 2022 and 2021 are as follows:

December 31, 2022			
Millions of euros	Current	Non-current	Total
Loans with financial entities (Note 12)	181	372	553
Derivatives (Note 16)	276	1,908	2,184
Total	457	2,280	2,737

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

14.2 Disclosure of nominal amount of debts

The nominal values of the main interest-bearing debts at December 31, 2022 and 2021 are as follows:

2022					
Description	Value Date	Maturity Date	Currency	Limit 12/31/2022 (millions of local currency)	Balance (millions of euros)
Structured Financing (*)	02/22/2013	01/31/2023	USD	12	12
Structured Financing (*)	08/01/2013	10/31/2023	USD	27	25
Structured Financing (*)	12/11/2015	03/11/2026	USD	238	223
Structured Financing (*)	12/11/2015	03/11/2026	EUR	161	161
Bilateral Loan	09/26/2022	12/15/2032	EUR	–	150

(*) Facilities with amortization schedule, showing in the column "Limit 12/31/2022" the outstanding amount.

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

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

14.3 Maturities of balances

The maturity of balances at December 31, 2022 and 2021 are as follows:

December 31, 2022		Maturity					
Millions of euros	2023	2024	2025	2026	2027	Subsequent years	Closing balance
Loans with financial entities	181	40	111	77	(5)	149	553
Derivatives (Note 16)	276	109	70	103	515	1,111	2,184
Total	457	149	181	180	510	1,260	2,737

December 31, 2021		Maturity					
Millions of euros	2022	2023	2024	2025	2026	Subsequent years	Closing balance
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

14.4 Interest-bearing debt arranged or repaid in 2022

The most significant transactions in 2022 mainly includes the following:

Description	Limit Dec 31 2022 (millions)	Currency	Outstanding balance Dec 31 2022 (million euros)	Arrangement date	Maturity date	Drawdown 2022 (million euros)	Repayment 2022 (million euros)
Telefónica, S.A.							
Bilateral Loan	—	EUR	150	09/26/2022	12/15/2032	150	—
Syndicated (1)	5,500	EUR	—	03/15/2018	01/13/2027	—	—
Bilateral Loan	125	EUR	—	12/23/2022	—	—	—

(1) On January 13, 2022, there was a maturity extension of the syndicated credit facility of Telefónica, S.A. for 5,500 million euros. The loan has two annual extension options at Telefónica, S.A. request with a maturity maximum up to 2029.

14.5 Average interest on loans and borrowings

The average interest rate in 2022 on loans and borrowings denominated in euros was -0.128% (0.2467% in 2021) and 2.289% (1.512% in 2021) 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, 2022 and 2021, Telefónica had undrawn credit facilities amounting to 9,994 million euros and 10,415 million euros, respectively.

Financing arranged by Telefónica, S.A. at December 31, 2022 and 2021 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 2022 and 2021 year ends is as follows:

December 31, 2022			
Millions of euros	Non-current	Current	Total
Loans	33,396	9,381	42,777
Trade payables to Group companies and associates	7	122	129
Derivatives (Note 16)	–	21	21
Tax Group payables to subsidiaries	2	426	428
Total	33,405	9,950	43,355

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

The maturity of these loans at the 2022 and 2021 year ends is as follows (figures in millions of euros):

December 31, 2022							
Company	2023	2024	2025	2026	2027	2028 and subsequent years	Final balance, current and non-current
Telefónica Emisiones, S.A.U.	1,625	999	2,009	1,840	3,636	16,359	26,468
Telefónica Europe, B.V.	1,466	999	1,297	997	996	4,264	10,019
Telfisa Global, B.V.	6,290	–	–	–	–	–	6,290
Total	9,381	1,998	3,306	2,837	4,632	20,623	42,777

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

Financing raised by Telefónica, S.A. through its subsidiary Telefónica Europe, B.V. at December 31, 2022 amounting 10,019 million euros (10,499 million euros in 2021). 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 4.11% (3.64% in 2021). The main source of this financing was the funds obtained through the issuance of undated deeply subordinated reset rate guaranteed securities amounting to 7,564 million euros (7,443 million euros in 2021), bonds and debentures amounting to 1,689 million euros (1,557 million euros in 2021) and commercial paper amounting to 500 million euros (999 million euros in 2021).

Financing raised by Telefónica, S.A. through Telefónica Emisiones, S.A.U. at December 31, 2022 was 26,468 million euros (28,817 million euros in 2021). 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 2022 was 3.23% (3.40% in 2021). 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 2022 by tapping the European capital markets, issuing bonds totaling 1,100 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, 2022 and 2021 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 6,290 million euros in 2022 (3,580 million euros in 2021).

In 2021 disclosure chart it is shown a loan granted in September 2021 by Telefónica de 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. The loan has been repaid prior to its maturity during 2022, as detailed in note 21.

15.2 Tax liabilities

The balance of "Payable to subsidiaries due to taxation on a consolidated basis" was 428 and 314 million euros at December 31, 2022 and 2021, 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 in 2022 correspond to Telefónica Latinoamérica Holding, S.L. amounting to 370 million euros, Telefónica Hispanoamérica, S.A. amounting to 24 million euros and Telefónica Digital España, S.L. amounting 8 million euros.

The most significant balances in 2021 corresponded to Telefónica de España, S.A.U. amounting to 110 million euros, Telefónica Móviles de España, S.A.U. amounting to 40 million euros, Telefónica Latinoamérica Holding, S.L. amounting to 52 million euros, Telefónica Hispanoamérica, S.A. amounting to 36 million euros and Telefónica Digital España, S.L.U. amounting 21 million euros.

Note 16. Derivative financial instruments and risk management policies

a) Derivative financial instruments

During 2022, 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, 2022, the total outstanding balance of derivatives transactions was 64,079 million euros (64,658 million euros in 2021), of which 42,040 million euros related to interest rate risk and 22,039 million euros to foreign currency risk. In 2021, 38,248 million euros related to interest rate risk and 26,410 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, 2022, Telefónica, S.A. had transactions with financial institutions to hedge exchange rate risk for other Telefónica Group companies amounting to 631 million euros (501 million euros in 2021). At year-end 2022 and 2021, 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, 2022, their notional amounts at year end and the expected maturity schedule is as follows:

2022					
Millions of euros					
Type of risk	Value in Euros	Telefónica receives		Telefónica pays	
		Carrying	Currency	Carrying	Currency
Euro interest rate swaps	25,792				
Fixed to floating	14,439	14,439	EUR	14,439	EUR
Floating to fixed	11,353	11,353	EUR	11,353	EUR
Foreign currency interest rate swaps	16,248				
Fixed to floating					
GBPGBP	451	400	GBP	400	GBP
USDUSD	14,935	15,943	USD	15,943	USD
Floating to fixed					
USDUSD	862	920	USD	920	USD
Exchange rate swaps	16,908				
Fixed to fixed					
EURUSD	2,185	2,185	EUR	2,333	USD
GBPEUR	582	500	GBP	582	EUR
Fixed to floating					
JPYEUR	95	15,000	JPY	95	EUR
Floating to floating					
EURUSD	703	703	EUR	750	USD
GBPEUR	448	400	GBP	448	EUR
USDEUR	12,895	14,403	USD	12,895	EUR
Forwards	5,131				
BRLEUR	209	1,143	BRL	209	EUR
EURPEN	30	30	EUR	122	PEN
CZKEUR	85	2,095	CZK	85	EUR
EURBRL	2,567	2,567	EUR	14,296	BRL
EURCLP	57	57	EUR	52,274	CLP
EURGBP	796	796	EUR	706	GBP
EURMXN	1	1	EUR	30	MXN
EURUSD	750	750	EUR	801	USD
GBPEUR	25	21	GBP	25	EUR
USDBRL	20	21	USD	113	BRL
USDCLP	7	6	USD	6,054	CLP
USDCOP	2	2	USD	11,543	COP
USDEUR	571	609	USD	571	EUR
USDPEN	3	3	USD	11	PEN
CLPUSD	1	1,404	CLP	1	USD
BRLUSD	7	43	BRL	8	USD
TOTAL	64,079				

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	7,008	754	2,073	2,262	1,919
Loans	2,174	1,004	1,057	18	95
In national currency	1,575	775	800	–	–
In foreign currencies	599	229	257	18	95
Debentures and bonds MtM	44,352	4,866	489	12,705	26,292
In national currency	6,500	2,200	125	100	4,075
In foreign currencies	37,852	2,666	364	12,605	22,217
Other underlying (*)	10,545	8,226	319	–	2,000
CCS	2,185	2,185	–	–	–
Forward	5,132	5,132	–	–	–
IRS	3,228	909	319	–	2,000
Total	64,079	14,850	3,938	14,985	30,306

(*) 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 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					
CHFEUR	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
Subtotal	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 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), (ii) the value of non-current liabilities at fixed interest rates and (iii) financial expenses and principal payments of inflation-linked financial instruments, considering interest rate risk as the impact of changes in inflation 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 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 case of depreciation in foreign currencies relative to the euro, any potential losses is hedged in the value of the business investment in foreign currency. 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.

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, 2022, net financial debt in pounds sterling was equivalent to 597 million euros (374 million euros at December 31, 2021). 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.

	Impact on Consolidated P/L	Impact on Telefónica, S.A. P/L	Impact on Consolidated Equity	Impact on Telefónica, S.A. Equity
+100bp	(34)	(18)	61	(107)
-100bp	34	18	(61)	107

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, 2022 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

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 2022 the Euro, Brazilian Real, British Pound 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.

positions at December 31, 2022 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 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. In 2021, the General Shareholder's Meeting 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.

Additionally, the 2022 Shareholder's Meeting approved a share plan for the incentivized purchase of shares for employees of the Telefónica Group, which was implemented in June 2022. 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, 2022 might be used to hedge 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

Telefónica 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. Telefónica'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. Telefónica 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

Telefónica 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 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).

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. 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 (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 2022 the Company recognized a loss of 0.3 million euros for the ineffective part of cash flow hedges (a loss of 33 million euros in 2021).

The fair value of Telefónica, S.A.'s derivatives with third parties amounted to a positive MtM (accounts receivable) of 985 million euros in 2022 (1.266 million euros in 2021).

The fair value of Telefónica, S.A.'s intragroup derivatives amounted to a negative MtM (accounts payable) of 16 million euros in 2022 (positive MtM of 7 million euros in 2021).

The breakdown of the Company's derivatives with third party counterparties at December 31, 2022 and 2021 by type of hedge, their fair value at year end and the expected maturity schedule of the notional amounts is as follows:

2022	Millions of euros	Fair value (**)	Notional amount maturities (*)				
			2023	2024	2025	Subsequent years	Total
Derivatives							
Interest rate hedges		(94)	(800)	–	(302)	(5,360)	(6,462)
Cash flow hedges		(17)	–	–	(177)	177	–
Fair value hedges		(77)	(800)	–	(125)	(5,537)	(6,462)
Exchange rate hedges		(972)	(78)	–	–	6,438	6,360
Cash flow hedges		(966)	–	–	–	6,438	6,438
Fair value hedges		(6)	(78)	–	–	–	(78)
Interest and exchange rate hedges		(2)	110	80	46	760	996
Cash flow hedges		(2)	110	80	46	760	996
Net investment Hedges		(18)	(2,474)	–	–	–	(2,474)
Other derivatives		101	(2,624)	(479)	(348)	(49)	(3,500)
Interest rate		174	(1,539)	(688)	(348)	(2,435)	(5,010)
Exchange rate		(244)	(1,792)	–	–	2,386	594
Other		171	707	209	–	–	916

(*) 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.

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.

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 2022 and 2021 comprised 47 and 45 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, 2022 and 2021 are as follows:

Millions of euros	2022	2021
Tax receivables:	728	1,147
Deferred tax assets:	423	1,009
Deferred income tax (income)	118	155
Long-term tax credits for loss carryforwards	38	580
Unused tax deductions	267	274
Current tax receivables (Note 10):	305	138
Withholdings	9	19
Corporate income tax receivable	292	113
VAT and Canary Islands general indirect tax refundable	4	6
Tax payable:	347	142
Deferred tax liabilities:	189	91
Current payables to public administrations (Note 18):	158	51
Personnel income tax withholdings	5	5
Withholding on investment income, VAT and other	151	44
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 2,003 million euros at December 31, 2022.

Dec 31 2022	Total carry-forwards	Less than 1 year	More than 1 year	Total recognized
Tax Group tax credits for loss carryforwards	1,755	—	1,755	153
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, 2022 amounts to 38 million euros (580 million euros in 2021).

During 2022, Telefónica, S.A., as head of the Telefónica tax group, made payments on account of income tax amounting to 289 million euros (71 million euros in 2021).

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, 2022 and 2021 are as follows:

2022					
Millions of euros	Tax credits	Temporary differences, assets	Deductions	Total deferred tax assets	Deferred tax liabilities
Opening balance	580	155	274	1,009	91
Additions	58	14	253	325	250
Disposals	(600)	(51)	(286)	(937)	(152)
Transfers to the tax group's net position	—	—	26	26	
Closing balance	38	118	267	423	189

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
Additions	—	53	—	53	—
Disposals	(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

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, 2022 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 Law 38/2022 setting a limit to the compensation of loss within subsidiaries within Consolidated Tax Groups).

Following this analysis, in 2022 a reversal of deferred tax assets for loss carryforwards and deductions amounting to 203 million euros has been recorded with a balancing entry in income tax (410 million euros of loss carryforwards and activation of 207 million euros of deductions in 2021).

Moreover, in 2021 a long term tax provisions (see note 18) and the related deferred tax assets were reversed by 143 million euros after the state aid recuperation procedure corresponding to the tax deductibility of financial goodwill from 2005 to 2018 (see 17.3 Tax deductibility of financial goodwill in Spain).

The arising of "deferred tax liabilities" in 2022 is mainly due to the accounting of the tax effect in the valuation of financial derivative instruments with changes through equity amounting to 250 million euros. This concept in 2021 was a reversal of 255 million euros of temporary differences, assets.

In 2021 the recoverability analysis of deferred tax assets of the Group in Spain was concluded with a reversal of 106 million euros of deferred tax assets for loss carryforwards and deductions amounting to 273 million euros

With respect to the execution of the ruling filed by the Spanish *Audiencia Nacional* on October 29, 2021; as detailed in section 17.3, it is shown in 2022 chart of movements a reversal of 512 million euros of deferred tax assets for loss carryforwards and a reversal of 269 million euros of deductions.

Moreover, an addition of 58 million euros of tax assets for loss carryforwards and a reversal of 16 million euros of tax credits from deductions has been recorded with a balancing entry in income tax in the income statement.

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 2022 and 2021 is as follows.

Millions of euros	2022	2021
Accounting profit (loss) before tax	(1,541)	248
Permanent differences	(1,853)	(1,816)
Temporary differences:	(37)	2
Arising in the year	28	57
Arising in prior years	(65)	(55)
Tax result	(3,431)	(1,566)
Gross tax payable	(858)	(391)
Corporate income tax refundable	(858)	(391)
Activation/Reversal of loss carryforwards and/or deductions	137	381
Temporary differences for tax valuation	9	(1)
Other effects	30	29
Corporate income tax accrued in Spain	(682)	18
Foreign taxes	21	24
Income tax	(661)	42
Current income tax	(761)	(853)
Deferred income tax	100	895

The permanent differences mainly correspond to the impairment of the investments in Group companies, to the non-taxable dividends received, to the last corporate simplification carried out in Brazil due to the approval in 2021 of a new Telecommunications Law (Law 14.195 of 26 August 2021), the consequent repeal of Decree 2.617/1998, which abolishes the obligation to control a telecommunications company through a Brazilian company (see note 8) and to the financial goodwill.

The heading "Activation/reversion of loss carryforwards and/or deductions" mainly includes the activations of deductions by 207 million euros (293 million euros in 2021) and the reversal of loss carryforwards by 410 million euros in 2022 (108 million euros in 2021).

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 years 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 and disposals of deferred tax assets detailed in the 2021 chart of movements in this note. 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 filed an appeal against this resolution to the economic-administrative tax court including the non-agreed adjustments, mainly corresponding to the "*juros over equity*". On December 9, 2022 the Company received a rejected resolution by the *Economic-Administrative Central court* which is being appealed by the Company to the *Contencioso-Administrativo court in the Spanish Audiencia Nacional*.

With respect to the inspection proceedings for the years 2008-2011, in July 2022 a Supreme Court resolution was notified with the dismissal of the appeal filed by the Government lawyers against the resolution of the Spanish *Audiencia Nacional* dated October 29, 2021, which validated the liquidation criteria of negative loss carryforwards and deductions used by Telefónica, S.A. in the inspections agreements of those years.

On October 24, 2022 an execution agreement filed by the Spanish *Audiencia Nacional* ordering a payment to Telefónica, S.A. amounting to 790 million euros as notional of the taxes as well as 526 million euros of interests (note 19.6). Said amounts were collected on October 28, 2022.

At year-end of 2022, after the closed inspection proceedings detailed, 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 Spanish 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, 2022, was 2,042 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, for the years 2016 to 2018 and it is been informed in December 2022 the recovery for the years ended 2019 to 2020. 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 12 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 decided to reverse the recovered part amounted to 143 million euros and continues accruing the amount of the goodwill amortized for tax purposes, totaling 406 million euros as of 31 December 2022 (343 million euros as of 31 December 2021).

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	2022	2021
Suppliers	84	95
Accounts payable to personnel	49	39
Other payables	10	6
Other payables to public administrations (Note 17)	158	51
Total	301	191

Information on deferred payments to third parties. Third additional provision, "Information requirement" of Law 15/2010 of July, 5, amended by Law 28/2022 of September, 28

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

	2022	2021
	Number of days	Number of days
Weighted average maturity period	26	36
Ratio of payments	25	38
Ratio of outstanding invoices	34	21
	Millions of euros	Millions of euros
Total Payments	266	275
Outstanding invoices	22	20

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 2022 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 2022 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.

Additional information required by Law 18/2022, amending the third additional provision of Law 15/2020 is disclosed below:

	2022
Monetary volume of invoices paid in a period less than the maximum established in the regulations (millions of euros)	255
Percentage over total payments	96 %
Number of invoices paid in a period less than the maximum established in the regulations	8,537
Percentage over the total number of invoices paid	92 %

B) Provisions

In 2022 and 2021 the concepts and amounts under the provisions caption are the following:

2022			
Millions of euros	Non-current	Current	Total
Tax Provisions	406	–	406
Termination plans (Note 19)	81	26	107
Other provisions	114	2	116
Total	601	28	629

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

Movements in the provisions during 2022 and 2021 are disclosed below:

Millions of euros	2022	2021
Opening balance:	690	731
Additions	84	132
Amortization and reversals	(148)	(175)
Fair value adjustments and others	3	2
Closing balance:	629	690
Non-current	601	660
Current	28	30

In 2022 and 2021 the caption "Additions" included 62 and 53 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 2022 and 2021, the programs launched in 2019 (Plan 5 and Plan 10) with requirements regarding age and seniority in the Company for active employees have been carried on. Additional expense of 2 and 25 million euros has been registered in 2022 and 2021, respectively, to cover the programs.

In addition, the Company 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 has been implemented during the first months of 2022 and it amounted to an expense of 11 million euros in 2021 income statement. In 2022 no new termination plans have been set up.

In 2022 and 2021 amortization of 28 and 20 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 2022 and 2021, "Rendering of services to Group companies and associates" included 400 and 345 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., Telefónica Hispanoamérica, S.A., Telxius Telecom, S.A.U. and Telefónica Germany, GmbH. In September 2022 Telefónica Hispanoamérica, S.A. partially transferred the contract signed with Telefónica, S.A. to TLH Holdco, S.L. so that Telefónica, S.A. went on to provide these services also to TLH Holdco, S.L. from January 1st, 2022. Revenues received for this concept in 2022 and 2021 amounted to 24 and 39 million euros, respectively, recognized under "Rendering of services to Group companies and associates".

Revenues in 2022 and 2021 also include property rental income amounting to 37 y 42 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 2022 and 2021 is as follows:

Millions of euros	2022	2021
Telfisa Global, B.V.	14	356
Telefónica O2 Holdings Limited	909	2,345
Telefónica Móviles España, S.A.U.	—	560
Telefónica Brasil, S.A.	309	272
Sao Paulo Telecomunicações, Ltda	18	56
Pontel Participaciones, S.L.	—	2,196
Telefónica Finanzas, S.A.U	182	67
Telfin Ireland, Ltd.	—	80
Other companies	18	11
Total	1,450	5,943

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	2022	2021
Telefónica Cybersecurity & Cloud Tech, S.L.	5	—
Telfisa Global, B.V.	6	29
Telxius Telecom, S.A.U.	2	5
Telefónica Europe, B.V.	2	2
Total	15	36

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 2022 and 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	2022	2021
Wages, salaries and other personnel expenses	163	167
Pension plans	9	9
Social security costs	24	36
Total	196	212

In 2022 and 2021, "Wages, salaries and other personnel expenses" includes compensation accruals amounting to 2 million euros (36 million euros in 2021) 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, 2022, 2,289 participants have signed up for the plan (2,220 participants in 2021). 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 2022 and 2021.

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 million euros in both 2022 and 2021, respectively. In 2022 and 2021 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 3 and 2 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 2022-2021 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 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 and 4.4394 euros for the TSR. 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 and last cycle commenced in 2020 and has ended on December 31, 2022. The maximum number of shares assigned as of January 1, 2020 to this cycle of the plan was 5,346,508 shares with a fair value of 3.2136 euros per share for the FCF and 1,6444 euros for the TSR. The outstanding shares at December 31, 2022 were 4,595,621 (1,799,717 shares corresponding to Telefónica, S.A.). Once considered the target fulfillment levels for 2020, 2021 and 2022 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.

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.

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, 2022 was 18,544,534, with the following breakdown:

First cycle	N° of shares assigned	Outstanding shares at 12/31/2022	Unit fair value (euros)
TSR Objective	9,712,749	9,272,267	2.64
FCF Objective	7,770,200	7,417,814	3.15
N.E. CO2 Objective	1,942,550	1,854,453	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, 2022 amounting to 7,758,829).

The second cycle commenced in 2022, with delivery of the respective shares in 2025. The maximum number of shares assigned to this cycle of the plan was 15,069,650 and the outstanding shares at December 31, 2022 was 14,969,799, with the following breakdown:

Second cycle	N° of shares assigned	Outstanding shares at 12/31/2022	Unit fair value (euros)
TSR Objective	7,534,825	7,484,899	2.43
FCF Objective	6,027,860	5,987,920	2.95
N.E. CO2 Objective	1,506,965	1,496,980	2.95

The maximum number of shares assigned to Telefónica, S.A.'s employees amounts to 7,209,211 (outstanding shares as of December 31, 2022 amounting to 7,203,521).

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 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 and 4.4394 euros for the TSR. 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 finalized on December 31, 2022. The maximum number of shares assigned to this cycle of the plan was 897,400 shares assigned as of January 1, 2020 with a fair value of 3,2136 euros per share for the FCF and 1,6444 euros for the TSR and there were 761,600 outstanding shares at December 31, 2022 (99,400 shares corresponding to Telefónica, S.A. employees). Once considered the target fulfillment levels for 2020, 2021 and 2022, 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.

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. .

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, 2022 was 1,659,500, with the following breakdown:

First cycle	N° of shares assigned	Outstanding shares at 12/31/2022	Unit fair value (euros)
TSR Objective	875,750	829,750	2.64
FCF Objective	700,600	663,800	3.15
N.E. CO2 Objective	175,150	165,950	3.15

From this total, the shares assigned to Telefónica, S.A.'s employees are 232,500. The outstanding shares as of December 31, 2022 are 222,000.

The second cycle commenced in 2022, with delivery of the respective shares in 2025. The maximum number of shares assigned to this cycle of the plan was 1,646,500 and the outstanding shares at December 31, 2022 was 1,611,000, with the following breakdown:

Second cycle	N° of shares assigned	Outstanding shares at 12/31/2022	Unit fair value (euros)
TSR Objective	823,250	805,500	2.43
FCF Objective	658,600	644,400	2.95
N.E. CO2 Objective	164,650	161,100	2.95

From this total, the shares assigned to Telefónica, S.A.'s employees are 219,000. The outstanding shares as of December 31, 2022 are 215,500.

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

The Telefónica, S.A.'s Ordinary General Shareholders' Meeting on April 8, 2022 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. Nevertheless, the total free shares to be delivered can not exceed 0.38% of the share capital of Telefónica, S.A. as of the approval date in 2022 Ordinary General Shareholders' meeting.

The purchase period commenced in October 2022 and will end in September 2023. In March 2024 the vesting period of the plan will end. As of December 31, 2022 27,518 Group employees were compromised with the Plan, out of which 730 were Telefónica, S.A.'s employees.

19.4 Average number of employees in 2022 and 2021 and number of employees at year-end

2022

Professional category	Employees at 12/31/22			Average no. of employees in 2022		
	Females	Males	Total	Females	Males	Total
Chairman and General Managers	—	1	1	—	1	1
Directors	50	107	157	48	106	154
Managers	142	133	275	140	138	278
Project Managers	136	157	293	132	150	282
University graduates and experts	155	134	289	150	131	281
Administration, clerks, advisors	93	3	96	94	3	97
Total	576	535	1,111	564	529	1,093

2021

Professional category	Employees at 12/31/2021			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

According to the 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	2
Administration, clerks, advisors	1
Total	4

19.5 External services

The items composing "External services" are as follows:

Millions of euros	2022	2021
Rent	4	4
Independent professional services	105	145
Donations	74	58
Marketing and advertising	96	106
Other expenses	26	76
Total	305	389

In 2022 and 2021 the line Donations includes funds contributed and paid to Fundación Telefónica amounting to 71 and 57 million euros..

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, renewable for another 6 years.

Future minimum rentals payable under non-cancellable operating leases without penalization at December 31, 2022 and 2021 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 compromised payments 2022	26	5	8	8	5
Future compromised payments 2021	24	4	7	6	7

The increase of compromises in 2022 figures is mainly due to the revaluation according to rising price index.

19.6 Finance revenue

The items composing "Finance revenue" are as follows:

Millions of euros	2022	2021
Dividends from other companies	22	13
Other third parties financial revenues and gains on derivative instruments	1,407	410
Total	1,429	423

The caption "Other third parties financial revenues and gains on derivative instruments" includes the interests amounting to 526 million euros from the proceed executed by Spanish Audiencia Nacional regarding the tax agreement disclosed in note 17.3.

The significant increase in financial revenue is mainly due to the rise in interest rates of euro and Brazilian real. The rise of the interest rate in both currencies has a relevant impact also in finance costs.

"Other third parties financial revenues and gains on derivative instruments" includes the effect of the financial hedges arranged to unwind positions for 2022 and 2021, 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	2022	2021
Interest on borrowings from Group companies and associates	1,331	1,455
Finance costs payable to third parties and losses on interest rates of financial hedges	1,319	89
Total	2,650	1,544

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

Millions of euros	2022	2021
Telefónica Europe, B.V.	417	458
Telefónica Emisiones, S.A.U.	902	986
Other companies	12	11
Total	1,331	1,455

The significant increase in third party finance costs shown in 2022 is related with the rise in the interest rates in euro and Brazilian real.

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	2022	2021
On current operations	124	102
On loans and borrowings	100	95
On derivatives	986	849
On other items	4	231
Total	1,214	1,277

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

Millions of euros	2022	2021
On current operations	58	105
On loans and borrowings	58	79
On derivatives	1,236	1,077
On other items	43	11
Total	1,395	1,272

The variation in exchange gains and losses is due to the fluctuations in the main currencies the Company works with. In 2022 euro exchange rate has depreciated against US dollar (6.10%) and Brazilian real (13.48%). has revalued against pound sterling (5.31%).

In 2021 euro exchange rate has depreciated against US dollar (8.32%), pound sterling (6.90%) and Brazilian real (0.87%).

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

Note 20. Other information

a) Financial guarantees

At December 31, 2022, Telefónica, S.A. had provided financial guarantees for its subsidiaries and affiliates to secure their transactions with third parties amounting to 36,019 million euros (37,638 million euros at December 31, 2021). These guarantees are measured as indicated in note 4.g).

Millions of euros		
Nominal Amount	2022	2021
Debentures and bonds and equity instruments	35,412	36,524
Loans and other payables	107	115
Other marketable debt securities	500	999
Total	36,019	37,638

The debentures, bonds and equity instruments in circulation at December 31, 2022 issued by Telefónica Emisiones, S.A.U., and Telefónica Europe, B.V. were guaranteed by Telefónica, S.A. The nominal amount guaranteed was equivalent to 35,412 million euros at December 31, 2022 (36,524 million euros at December 31, 2021). During 2022 Telefónica Emisiones, S.A.U. issued 1,100 million euros of instruments on capital markets (there were no issuance of instruments in 2021) and 2,787 million euros matured during 2022 (4,471 million euros during 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, 2022 was 500 million euros (999 million euros at December 31, 2021).

Telefónica, S.A. provides operating guarantees granted by external counterparties, which are offered during its normal commercial activity. At December 31, 2022, these guarantees amounted to approximately 31 million euros (41 million euros at December 31, 2021).

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 2022 (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 antitrust 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. In April 2022, Telefónica paid the fine of 67 million euros imposed, bringing the procedure to an end.

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 to 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.

Once the Tribunal was constituted, on February 9, 2023, Telefónica filed a request for urgent injunctive relief together with a request for injunctive relief, requesting the suspension of the administrative litigation (acción contencioso-administrativa or ACA) related to the income tax for the years 1998, 2000 and 2001, as well as the extension of the deadline for submission by Telefónica of the memorial or claim. Following response of Peru, on February 16, 2023, the Tribunal ruled to dismiss Telefónica's request for urgent injunctive relief, to establish the procedural calendar to process the request for injunctive relief and to grant Telefónica two additional weeks to file the memorial or claim.

UK High Court claim by Phones 4 U Limited against various mobile network operators and other companies, among others, Telefónica, S.A., Telefonica O2 Holdings Limited and Telefonica 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 trial was held between May and July 2022. The parties are awaiting the issuance of the sentence.

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 and March 31, 2022 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 amended. By virtue of these amendments the term may be extended for those adhered companies that decide to extend their services beyond the initial term.

In addition, on July 29, 2022 a new amendment was executed by virtue of which the term may be extended for those adhered companies in Latinoamérica that decide to extend some of their services.

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 (T. Infra), the infrastructure unit of the Telefónica Group, 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 were fulfilled, on May 24, 2022, the complete closing of the transaction took place, and T. Infra reached a 20% stake in Nabiax. 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 ending in 2031.

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 (as amended, the "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.

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. From such date, Telefónica and Liberty Global each hold 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").

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 the 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 periods of two to six years, depending on the service. The services provided by the Telefonica 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 Telefonica 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.

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 2022, the total amount of compensation accrued by the Directors of Telefónica, in their capacity as such, was 2,851,801 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 2022 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 2023 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 seven years (i.e. 2022, 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.

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 2023 financial year is equal to the one received in the years 2022, 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 2022. 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.

Based on the information provided by CaixaBank, S.A. for the 2022 Annual Report Corporate Governance, as updated per share capital of Telefónica, S.A. as of December 31, 2022, the shareholding of CaixaBank, S.A. in Telefónica's share capital were 3.50%.

Based on the information provided by Banco Bilbao Vizcaya Argentaria, S.A. (BBVA) for the 2022 Annual Report on Corporate Governance, as updated per share capital of Telefónica, S.A. as of December 31, 2022, the shareholding of BBVA in Telefónica's share capital were 4.87%. Likewise, and according to the aforementioned information provided by BBVA, the percentage of economic rights attributed to Telefónica, S.A. shares owned by BBVA amounts to 4.97%.

Based on the information notified by BlackRock, Inc to the CNMV on March 31, 2020, as updated per the share capital of Telefónica, S.A. as of December 31, 2022, the shareholding of BlackRock, Inc in Telefónica's share capital were 4.48%. Based on the Schedule 13G/A filed with the SEC, on October 7, 2022, BlackRock, Inc. beneficially owned 4.96% of Telefónica, S.A. shares and 4.49% of voting rights.

During 2022 and 2021, 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 CaixaBank, other than the payment of the dividend corresponding to its shareholding, carried out at market prices, is as follows:

2022		
Millions of euros	BBVA	Caixabank
Financial expenses	4	1
Receipt of services	1	2
Total expenses	5	3
Financial revenues	2	–
Dividends received (1)	15	–
Total revenues	17	–
Financing transactions	1	–
Time deposits	289	43

(1) As of December 31, 2022 Telefónica holds 0.732% investment in BBVA (See note 9.3).

2021		
Millions of euros	BBVA	Caixabank
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

(1) As of December 31, 2021 Telefónica held 0.66% investment in BBVA.

In addition, the nominal outstanding value of derivatives held with BBVA and CaixaBank in 2022 amounted to 5,286 and 264 million euros, respectively (6,226 million euros held with BBVA and 264 million euros with CaixaBank in 2021). The fair value of these derivatives in the balance sheet is 227 and 41 million euros, respectively, in 2022 (331 and 26 million euros, respectively, in 2021). 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 2022 there are collateral guarantees (liabilities) of certain derivatives held with BBVA and CaixaBank amounting to 134 and 43 million euros, respectively (a liability of 251 and 21 million euros, respectively, in 2021).

Telefónica, S.A. holds a 50% interest in Telefónica Consumer Finance, E.F.C., S.A., a company controlled by CaixaBank. (see Appendix I).

Telefónica, S.A. holds a 50% interest in Telefónica Factoring España and a 40,5% interest in its subsidiaries in Peru, Colombia and México as well as a 40% interest in its subsidiary in Brazil, in which BBVA and CaixaBank have minority interests. (see Appendix I).

On July 21, 2022, Telefónica, S.A. and CaixaBank Payments and Consumer E.F.C., E.P., S.A. incorporated the company Telefónica Renting, S.A. 50% each. This company is controlled by CaixaBank. (see Appendix I).

Balances with Group and Associated companies

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, 2022 and 2021 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 2022 of 6,598,467.33 euros (5,303,931.42 euros in 2021). This scheme provides coverage for Telefónica, S.A. and its subsidiaries in certain cases. Out of this amount, Telefónica, S.A. has paid 3,622,176.07 euros (3,010,258.35 euros in 2021).

g) Auditors' fees

The services commissioned to PricewaterhouseCoopers Auditores, S.L., the Principal Auditor of Telefónica, S.A. for the years 2022 and 2021, 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 3.96 and 3.52 million euros in 2022 and 2021, respectively.

The detail of these amounts is as follows:

Millions of euros	2022	2021
Audit services	3.20	3.07
Audit-related services	0.76	0.45
Total	3.96	3.52

"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 2022 and 2021, the principal auditor has not performed services, other than the audit services or the audit-related services in Telefónica, S.A.

h) Environmental matters

Commitment to protect the environment is part of the Company's general strategy and is the responsibility of the Board of Directors. The 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.

The Group has global environmental and energy management policies, and externally certified environmental management systems in accordance with ISO 14001 in all Group companies. The environment is a central issue throughout the Company, involving both operational and management areas as well as business and innovation areas.

Managing environmental impact and energy consumption is a strategic priority and carbon reduction targets are part of the variable remuneration of all Company employees, including the Senior Management. In addition, Telefónica, S.A.'s long-term share-based incentive plans 2021-2025 (see note 19) include CO2 Emission Neutralization targets, in line with the target set by the Company.

Sustainable financing is a key tool for supporting the transformation of the business through investment in projects with a positive environmental and social impact. In 2018, the Company published its Sustainable Financing Framework. This was updated in January 2021 and, in both cases, was endorsed by a second party opinion from Sustainalytics. The framework is linked to the United Nations Sustainable Development Goals and aligned with the Green Bond, Social Bond and Sustainable Bond Principles of the International Capital Market Association (ICMA).

Telefónica was the first issuer of senior green bonds and hybrid instruments (green and sustainable) in the telecommunications sector. The funds that were obtained have been allocated to projects focused on switching our network from copper to fiber, which is more efficient and suffers fewer faults; the rollout and improvement of mobile connectivity in rural areas; and the promotion of entrepreneurship and job creation through investments in start-ups. Even when the above mentioned issuances have not been directly carried out by the Company, they are guaranteed by Telefónica, S.A.

In addition to senior green bonds and hybrid instruments, the Company uses other sustainable bank financing tools, such as loans and credits linked to sustainability objectives that make it possible to progress steadily towards such important corporate targets as reducing emissions and gender equality. Also in this case, the main

syndicated loan of the Company is linked to sustainability criteria in line with the corporate Sustainability-linked Loan Framework, which was drawn up in late 2021 with a second opinion from Sustainalytics.

In 2022, the Company maintained an active presence in the capital market through several issuances, guaranteed by Telefónica, S.A., These included its first sustainable senior bond issuance for 1,000 million euros in May with a term of nine years. The funds obtained from this issuance will be allocated to projects related to transformation of the telecommunications network via the rollout of fiber optics and 5G technology, as well as social projects aimed at promoting inclusive connectivity, entrepreneurship and job creation.

The Group's second hybrid green instrument issuance took place in November for the value of 750 million euros, guaranteed by Telefónica, S.A., with the first redemption date at six years. In this case, the investment from funds will be used to switch off obsolete equipment and transform mobile infrastructures through energy efficiency projects.

Despite the market instability, these two issues were well received by the market with a broadly international and diversified investor base.

Already in January 2023, a new issue of a green hybrid bond for an amount of 1,000 million euros, guaranteed by Telefónica, S.A. has been carried out (see note 22).

During 2022, Telefónica, S.A. or instrumental companies of the Group, with the guarantee of Telefónica, S.A. committed lines and bilateral financing operations were also carried out during the year with numerous financial entities, obtaining a total volume of **3,864** million euros at the close of 2022, the interest applied to which is also linked to compliance with sustainability targets.

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 2022 amounts to a loss of 1,541 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 impairment of investments in Group companies, associates and other investments of 1,590 million euros (in 2021 a write down of 4,574 million euros).
- Declared dividends as income in 2022 for 1,450 million euros (5,943 million euros in 2021), interest accrued in 2022 on loans granted to subsidiaries of 15 million euros (36 million euros in 2021) and a net financial expense of 1,401 million euros (1,166 million euros in 2021), 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" amount to 4,277 million euros (11,257 million euros in 2021). The main items included are:

a) Net interest paid:

Payments of net interest and other financial expenses amounted to 1,062 million euros (1,431 million euros in 2021), including:

- Net proceeds to external credit entities, net of hedges, for 212 million euros, (net payments of 49 million euros in 2021 offset by their hedges), and
- Interest and hedges paid to Group companies of 1,274 million euros (1,383 million euros in 2021).

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

Millions of euros	2022	2021
Telefónica Filiales España, S.A.U.	—	105
Telefónica Móviles España, S.A.U.	560	1,949
Telefónica O2 Holdings, Ltd.	2,106	5,290
Telefónica de España, S.A.U.	301	906
Telfisa Global, B.V.	357	1,364
Telefónica Finanzas, S.A.U. (TELFISA)	67	178
Telfin Ireland, Ltd.	—	216
Telefónica Brasil, S.A.	332	240
Sao Paulo Telecomunicações, Ltda	15	52
Pontel Participaciones, S.L.	—	2,196
Other dividend collections	39	24
Total	3,777	12,520

In addition to the dividends declared in 2022 (see note 19.1) and collected in the same period, this caption also includes dividends from previous periods collected in 2022.

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 289 million euros on account of income tax were made in 2022 (71 million euros in 2021) as disclosed in note 17. In 2022 the tax inspection carried out by the Tax Authorities regarding the period 2014-2017 has ended with the payment of 19 million euros and the proceeds from 2020 and 2021 income tax totaling 41 and 73 million euros, respectively and the proceeds from the execution of the agreement resolution by Spanish Audiencia Nacional of October 24, 2022 as explained in note 17 amounting to 791 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.: total collection of 295 million euros, corresponding to: 186 million euros for the 2021 income tax settlement and 109 million euros in payments on account of 2022 income tax.

In 2021, there was an income collection of 67 million euros, corresponding to: 27 million euros for the

2020 income tax settlement and 40 million euros in payments on account of 2021 income tax.

- Telefónica de España, S.A.U.: collection of 199 million euros, corresponding to: 53 million euros for the 2021 income tax settlement refund, 207 million euros in collections on account of 2022 income tax partially offset by the 31 million euros collection for the 2020 income tax settlement and 30 million euros collection for the Tax inspection 2014-2017 carried out by the Tax Authorities.

In 2021 there was an income 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.

- Telefónica Latinoamérica Holding, S.L.: collection of 15 million euros, corresponding to: A payment of account for the 2022 income tax by 52 million euros partially offset by proceeds of 23 million euros raised by the Decision 117/2022 of Audiencia Nacional regarding 2008 to 2018 fiscal years and 14 million euros of proceeds from the 2021 income tax.

In 2021 there was an income 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.

- Telefónica Hispanoamérica, S.A.: There has been a total net collection of 354 million euros corresponding to: 392 million euros due to the Inspection process carried out by the Tax Authorities for the fiscal years 2014-2017 partially offset by the payments for 2021 income tax by 31 million euros and the payments of account of 2022 income tax amounting to 7 million euros.

Cash flows from/(used in) investing activities

"Payments on investments" under "Cash flows from/(used in) investing activities" included a total payment of 6,290 million euros (12,410 million euros in 2021). The main transactions to which these payments refer are as follows:

- Capital increases: the main disbursements correspond to Telefónica Hispanoamérica, S.A. amounting to 1,192 million euros, Telefónica Infra, S.L. amounting to 555 million euros and Telefónica Cybersecurity & Cloud Tech, S.L. amounting to 342 million euros. These capital increases, as well as other minor disbursements of this same concept are disclosed fully in notes 8.1.a.
- New credits granted: The main proceeds have been paid to Bluevía Fibra, S.L. amounting to 526 million euros and Telefónica Cybersecurity & Cloud Tech, S.L.

amounting to 140 million pounds sterling equivalent to 166 million euros. The disclosure of all the new credits granted are described in note 8.5.

- Payments of financial investments related to the reinvestment of treasury overage amounting to 300 million euros.
- Payments of collaterals related to financial derivative instruments amounting to 2,199 million euros.

Proceeds from disposals totaling 3,521 million euros in 2022 (13,275 million euros in 2021) includes:

- Proceeds from reserves distributed by Telefónica Centroamérica Inversiones, S.L. amounting to 66 million euros (see note 8).
- Proceeds totaling 86 million euros as a result of the liquidation of the treasury of Sao Paulo Telecomunicações, Ltda. (see note 8).
- The cancellation according to the maturity schedule of credits granted to Telxius Telecom, S.A. amounting to 100 million euros.
- Proceeds from financial investments related to the reinvestment of treasury overage amounting 300 million euros.
- Proceeds from collaterals related to financial derivative instruments amounting to 2.925 million euros.

Cash flows from/(used in) financing activities

This caption mainly includes the following items:

- Proceeds from financial liabilities:
 - Debt issues: The main collections comprising this heading are as follows:

Millions of euros	2022	2021
Telefónica Emisiones, S.A.U. (Note 15)	1,100	—
Bank loans	150	1,000
Telfisa Global, B.V. (Note 15)	2,710	—
Telefónica de Argentina, S.A. (Note 15)	—	314
Telefónica Europe B.V. (Note 15)	750	1,750
Bilateral loans (Note 14)	—	300
Other collections	33	154
Total	4,743	3,518

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

Millions of euros	2022	2021
Bilateral loans with several entities	1,279	850
Telfisa Global, B.V. (Note 15)	—	2,731
Telefónica Europe, B.V. (Note 15)	750	1,750
Telefónica Europe, B.V. promissory notes (Note 15)	504	248
Promissory notes redemption (Note 13)	30	239
Telefónica Emisiones, S.A.U. (Note 15)	2,787	4,471
Structured Financing	—	320
Telefónica Participaciones, S.A.U. (Note 15)	—	565
Telefónica de Argentina, S.A. (Note 15)	173	335
Credit (Note 14.4)	100	116
Other payments	54	6
Total	5,677	11,631

Debt redemption of loans mainly refers to a bank loan signed in December 2021, amounting to 1,000 million euros which is included as new debt in the debt issues chart for 2021. The maturity date of the loan was March 2022 and it has been redeemed accordingly.

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.

- ii. Acquisition of treasury shares, as indicated in note 11.a.
- iii. Payments of dividends amount to 959 million euros (617 million euros in 2021). 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 2023 and also the withholding taxes referred to the dividend distribution made in December 2021 which have been paid to the Tax Authorities in January 2022.

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, 2023, the first annual extension of the sustainability-linked syndicated loan facility for 5,500 million euros of Telefónica, S.A. was exercised. The new expiration date is January 13, 2028.
- On January 23, 2023, Telefónica Emisiones, S.A.U. redeemed 1,277 million euros of its notes issued on January 22, 2013. These notes were guaranteed by Telefónica, S.A.
- In January 2023, Telefónica Europe, B.V. carried out the following transactions related to its capital structure:
 - a new issue amounting to 1,000 million euros, guaranteed by Telefónica, S.A. An amount equal to the net proceeds of the issue of the securities will be subject to specific eligibility criteria to be applied to finance new or refinance existing projects, as detailed in Telefónica's SDG Framework. The settlement took place on February 2, 2023; and
 - a tender offer for the following hybrid instruments: (i) any outstanding 1,250 million euros Undated 5.7 Year Non-Call Deeply Subordinated Guaranteed Fixed Rate Reset Securities (the "September 2023 Notes") and (ii) any outstanding 1,000 million euros Undated 10 Year Non-Call Deeply Subordinated Guaranteed Fixed Rate Reset Securities (the "March 2024 Notes"), irrevocably guaranteed by Telefónica, S.A. Telefónica Europe, B.V. accepted the purchase in cash of the tendered securities for an aggregate principal amount, with respect to the September 2023 Notes, of 388 million euros, and an aggregate principal amount, with respect to the March 2024 Notes, of 612 million euros. The tender offer settled on February 3, 2023.
- On February 3, 2023 Bluevía Fibra, S.L. has reimbursed, prior to its maturity, the credit facility by Telefónica, S.A. (See note 8), as well as the uncollected interests as of the payment date. The total amount repaid amounts to 528 million euros.
- On February 14, 2023, Telefónica, S.A. signed a bilateral loan of 150 million euros and maturing in 2033.

Investments

- On January 13, 2023 the Company sold the investment in Telefónica Ingeniería de Seguridad, S.A.U. to Telefónica Filiales España, S.A.U. by 6 million euros.
- On January 18, 2023, Telefónica informed that, once the corresponding regulatory and competition approvals were obtained, Pontel Participaciones, S.L., Telefónica's subsidiary held 83.35% by Telefónica and 16.65% by Pontegadea Inversiones, S.L., acquired 40% of the share capital of Telxius Telecom, S.A. from Taurus Bidco S.à r.l. (a company managed by KKR). As a result of the transaction, Pontel Participaciones, S.L., which held the remaining 60% of Telxius Telecom, S.A.'s share capital, has become the sole shareholder of Telxius Telecom, S.A. Within the framework of the transaction, and on the same date, Pontel Participaciones, S.L. has carried out a capital increase fully subscribed and paid by its shareholders' in the proportion agreed between them so that Telefónica, S.A. has paid 111 million euros reducing its ownership interest to 70%. On January 17 and February 2, 2023, Telefónica granted two loans amounting to 0.6 and 175 million euros both with 1 year maturity date. On February 7, 2023, the shareholders of Pontel Participaciones, S.L. approved a dividend distribution out of share premium and shareholder contributions, of which a total amount of 552 million euros corresponds to Telefónica, and will be paid no later than 31 May 2023. Finally, on February 8, 2023, the merger by absorption of Pontel Participaciones, S.L. by Telxius Telecom, S.A. was agreed.
- On January 26, 2023, the deed of the capital increase carried out by Telefónica Digital España, S.A.U. by 45 million euros has been filed. This share capital increase has been fully subscribed and paid by Telefónica.

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 22, 2023. In the event of a discrepancy, the Spanish language version prevails.

Appendix I: Details of subsidiaries and associates at December 31, 2022

Millions of euros	% Ownership					Income (loss)		Net carrying amount
	Direct	Indirect	Capital	Rest of equity	Dividends	From operations	For the year	
Telefónica Latinoamérica Holding, S.L.U. (SPAIN) Holding Company Distrito Telefónica, Ronda de la Comunicación s/n 28050 Madrid	100%	—	291	9,431	—	1,452	2,004	11,371
Telefónica Móviles España, S.A.U. (SPAIN) Wireless communications services provider Distrito Telefónica, Ronda de la Comunicación s/n 28050 Madrid	100%	—	209	306	—	929	678	5,561
Telfin Ireland Limited (IRELAND) Intragroup financing 28/29 Sir John Rogerson's Quay, Dublin 2	100%	—	—	2	—	—	—	2
Telefónica O2 Holdings Limited (UNITED KINGDOM) Holding Company Highdown House, Yeoman Way, Worthing, West Sussex, BN99 3HH	99.99%	0.01%	13	6,904	909	3,559	4,500	11,473
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%	—	601	(559)	—	—	3	45
Telefónica de España, S.A.U. (SPAIN) Telecommunications service provider in Spain Gran Vía, 28 - 28013 Madrid	100%	—	1,024	1,586	—	3,171	2,553	2,455
O2 (Europe) Ltd. (UNITED KINGDOM) Holding Company Highdown House, Yeoman Way, Worthing, West Sussex, BN99 3HH	100%	—	6,895	1,597	—	—	1	8,421
Telefónica Filiales España, S.A.U. (ESPAÑA) Organization and operation of multimedia service- related activities and businesses Distrito Telefónica, Ronda de la Comunicación s/n, Madrid 28050	100%	—	226	982	—	(28)	(27)	1,181
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%	—	—	712	14	(2)	8	712
O2 Oak Limited (UNITED KINGDOM) Holding Company Highdown House, Yeoman Way, Worthing, West Sussex, BN99 3HH	100%	—	—	—	—	—	—	—
Telefónica Hispanoamérica, S.A. (SPAIN) Holding Company Ronda de la Comunicación, s/n - 28050 Madrid	100%	—	78	48	—	(341)	(402)	1,486
TIS Hispanoamérica, S.L. (SPAIN) Holding Company Ronda de la Comunicación, s/n Distrito Telefónica Edificio Central - 28050 Madrid	100%	—	—	7	—	(1)	(1)	6

Millions of euros	% Ownership					Income (loss)		Net carrying amount
	Direct	Indirect	Capital	Rest of equity	Dividends	From operations	For the year	
Telefónica Soluciones de Criptografía, S.A. (SPAIN) Engineering, development, production, sale and maintenance of telecommunication and electronic equipment Gran Vía 28, 28013 Madrid	100%	—	—	1	—	—	—	2
Telefónica Tech, S.L. (SPAIN) Promotion of business initiatives and holding for securities Gran Vía 28-28013 Madrid	100%	—	65	850	—	(5)	(4)	905
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	202	—	—	7	110
Telefónica Digital España, S.L.U. (SPAIN) Holding Company Ronda de la Comunicación, s/n Distrito Telefónica Edificio Central - 28050 Madrid	100%	—	26	385	—	(41)	(130)	281
TLH Holdco, S.L. (SPAIN) Holding Company Ronda de la Comunicación, s/n Distrito Telefónica Edificio Central - 28050 Madrid	100%	—	85	1,561	—	(17)	(15)	1,646
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	39	—	(5)	(4)	53
Telefónica Ingeniería de Seguridad, S.A.U. (SPAIN) Security services and systems Ramón Gómez de la Serna, 109-113 Posterior 28035 Madrid	100%	—	8	5	—	(5)	(2)	6
Telefónica Infra, S.L. (SPAIN) Portfolio Company (Holding) Ronda de la Comunicación S/N - 28050 Madrid	100%	—	12	736	—	(14)	(9)	738
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	(76)	182	(3)	100	13
Telefónica Global Solutions, S.L.U. (SPAIN) International services provider Ronda de la Comunicación, s/n - 28050 Madrid	100%	—	1	77	—	(20)	(31)	47
Telefónica Investigación y Desarrollo, S.A.U. (SPAIN) Telecommunications research activities and projects Ronda de la Comunicación, s/n - 28050 Madrid	100%	—	7	6	—	(2)	1	13
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 Participaciones, S.A.U. (SPAIN) Issues of preferred shares and/or other debt financial instruments Gran Vía, 28 - 28013 Madrid	100%	—	—	1	—	—	—	—

Millions of euros	% Ownership					Income (loss)		Net carrying amount
	Direct	Indirect	Capital	Rest of equity	Dividends	From operations	For the year	
Name and corporate purpose								
Telefónica Emisiones, S.A.U. (SPAIN) Issues of preferred shares and/or other debt financial instruments Gran Vía, 28 - 28013 Madrid	100%	—	—	14	—	(2)	1	—
Telefónica Europe, B.V. (NETHERLANDS) Fund raising in capital markets Strawinskylaan 1259; tower D; 12th floor 1077 XX - Amsterdam	100%	—	—	3	2	(1)	2	—
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%	—	—	794	—	—	—	785
Telefónica Centroamérica Inversiones, S.L (SPAIN) Holding Company Ronda de la Comunicación, s/n. - 28050 Madrid	60%	—	1	8	—	(8)	(12)	(2)
Telefónica Global Solutions Argentina, S.A. (ARGENTINA) Telecommunications services Av. Corrientes 707, Planta Baja, Ciudad de Buenos Aires, Argentina	5%	95%	3	—	—	1	—	—
Telefónica Consumer Finance E.F.C., S.A. (SPAIN) Lending and consumer loans c/Caleruega, 102 -28033 Madrid	50%	—	5	29	2	6	4	15
Aliança Atlântica Holding B.V. (NETHERLANDS) Portfolio Company Strawinskylaan 1725 - 1077 XX - Amsterdam	50%	37%	150	(106)	—	—	—	22
Telefónica Renting, S.A. (SPAIN) Purchase, sale and leasing of all kinds of movable property and provision of services ancillary to the	50%	—	—	2	—	—	—	1
Telefónica Brasil, S.A. (BRAZIL) (1) (*) (**) Wireline phone operator Avenida Engenheiro Luiz Carlos Berrini, 1.376, Bairro Cidade Monções, Sao Paulo - Brazil	38.14%	36.65%	23,164	(10,672)	309	1,254	785	7,907
Wayra Argentina, S.A. (ARGENTINA) Telecommunications activities Av. Corrientes 707, Planta Baja, Ciudad de Buenos Aires, Argentina	5%	95%	20	(13)	—	1	(3)	—
Telefónica Correduría de Seguros y Reaseguros Compañía de Mediación, S.A. (previously named Pleyade Peninsular) (SPAIN) Insurance contracts, operating as a broker Distrito Telefónica, Ronda de la Comunicación, s/n Edificio Oeste 1 - 28050 Madrid	16.67%	83.33%	—	—	1	2	4	—
Telefónica Telecomunicaciones México, S.A. de C.V. (MÉXICO) Factoring Prolongación Paseo de la Reforma 1200 Col. Cruz Manca, México D.F. CP.05349	49%	—	—	—	—	—	—	—
Telefónica Factoring España, S.A. (SPAIN) Factoring Zurbano, 76, 8 Plta. - 28010 Madrid	50%	—	5	2	4	10	10	3
Telefónica Factoring México, S.A. de C.V. SOFOM ENR (MEXICO) Factoring Prolongación Paseo de la Reforma 1200 Col. Cruz Manca, México D.F. CP.05349	40.50%	9.50%	2	1	—	—	—	1

Millions of euros	% Ownership					Income (loss)		Net carrying amount
	Direct	Indirect	Capital	Rest of equity	Dividends	From operations	For the year	
Name and corporate purpose								
Telefónica Factoring Perú, S.A.C. (PERÚ) Factoring Avenida República de Panamá Nro 3030 piso 6to. San Isidro Lima, Perú	40.50%	9.50%	1	2	1	(1)	1	–
Telefónica Factoring Colombia, S.A. (COLOMBIA) Factoring CALLE 72 N 10 34 LOCAL 136 Bogotá D.C	40.50%	9.50%	1	–	1	3	2	–
Telefónica Deutschland Holding, A.G. (*) (GERMANY) Telecommunications business holding company Georg-Brauchle-Ring 23-25 MUENCHEN, Germany 80992	1.36%	69.22%	2,975	3,182	4	(2)	(20)	98
Telefónica Factoring Do Brasil, Ltd. (BRAZIL) Factoring Avda. Paulista, 1106 – Sao Paulo	40%	10%	2	(2)	3	(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
Other Companies						18		
Total group companies and associates					1,450			55,445

(1) Consolidated data.

(*) Companies listed on international stock exchanges at December 31, 2022.

(**) % of ownership calculated over share capital offset by treasury shares.

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	–	–	4,198,897	–	6,085	6,128,082
Mr. Isidro Fainé Casas	–	200,000	–	–	80,000	–	280,000
Mr. José María Abril Pérez	–	200,000	9,000	–	91,200	–	300,200
Mr. José Javier Echenique Landiribar	–	200,000	24,000	–	113,600	–	337,600
Mr. Ángel Vilá Boix	1,600,000	–	–	2,911,200	–	24,514	4,535,714
Mr. Juan Ignacio Cirac Sasturain	–	120,000	30,000	–	33,600	–	183,600
Mr. Peter Erskine	–	120,000	19,000	–	113,600	–	252,600
Ms. Carmen García de Andrés	–	120,000	32,000	–	33,600	–	185,600
Ms. María Luisa García Blanco	–	120,000	32,000	–	44,800	–	196,800
Mr. Peter Löscher	–	120,000	23,000	–	113,600	–	256,600
Ms. Verónica Pascual Boé	–	120,000	7,000	–	11,200	–	138,200
Mr. Francisco Javier de Paz Mancho	–	120,000	33,000	–	124,800	–	277,800
Mr. Francisco José Riberas Mera	–	120,000	–	–	–	–	120,000
Ms. María Rotondo Urcola	–	120,000	20,000	–	22,400	–	162,400
Ms. Claudia Sender Ramírez	–	120,000	18,000	–	22,400	–	160,400

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

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

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

⁴Short-term variable 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 2022 and to be paid in the year 2023. In reference to the bonus corresponding to 2021, which was paid in 2022, Executive Board Member Mr José María Álvarez-Pallete López received 3,807,738 euros and Executive Board Member Mr Ángel Vilá Boix received 2,640,000 euros.

⁵Remuneration 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.

⁶Other 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.

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	–	90,000	–	–	–	87,500	177,500
Mr. Ángel Vilá Boix	–	–	–	–	–	–	–
Mr. Juan Ignacio Cirac Sasturain	–	–	–	–	–	90,457	90,457
Mr. Peter Erskine	–	80,000	–	–	–	–	80,000
Ms Carmen García de Andrés	–	–	–	–	–	–	–
Ms. María Luisa García Blanco	–	–	–	–	–	87,500	87,500
Mr. Peter Löscher	–	119,000	–	–	–	–	119,000
Ms. Verónica Pascual Boé	–	–	–	–	–	60,457	60,457
Mr. Francisco Javier de Paz Mancho	–	170,727	–	–	–	155,000	325,727
Mr. Francisco José Riberas Mera	–	–	–	–	–	–	–
Ms. María Rotondo Urcola	–	–	–	–	–	–	–
Ms. Claudia Sender Ramírez	–	–	–	–	–	127,957	127,957

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 2022 and to be paid in the year 2023 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. Also included are the amounts received for membership of the Advisory Boards of Telefónica España, Telefónica Hispanoamérica, Telefónica Tech and Telefónica Ingeniería de Seguridad.

Additionally, as mentioned in the Remuneration Policy section, the Executive Board Members have a series of Assistance Services. Below, the contributions made during 2022 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 2022
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	7,574	540,968	124,543
Mr. Ángel Vilá Boix	6,721	487,840	65,439

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.

LIFE INSURANCE PREMIUMS

The 2022 amounts for life insurance premiums were as follows:

(Amounts in euros)

Directors	Life insurance premiums
Mr. José María Álvarez-Pallete López	74,699
Mr. Ángel Vilá Boix	58,820

REMUNERATION PLANS BASED ON SHARES

As regards to remuneration plans based on shares (involving Executive Directors), the following long-term variable remuneration plans were in existence during the year 2022:

The so-called **Performance Share Plan ("PSP")**, made up of 3 cycles (2018-2021; 2019-2022; 2020-2023), approved by the General Shareholders' Meeting held on June 8, 2018.

The maximum number of Telefónica shares to be delivered depends (i) 50% of the compliance with the targets set out for Total Shareholder Return ("TSR") on Telefónica, S.A. shares with respect to the TSRs of a comparison group of companies in the telecommunications sector weighted according to their relevance to Telefónica, and (ii) 50%, of the Free Cash Flow (the "FCF") of the Telefónica Group.

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 for the Second Cycle started on January 1, 2019 and ended on December 31, 2021, resulting in a weighted payout ratio of 50%. The evaluation of the degree of compliance was carried out on the basis of the evolution of the share price, as well as the audited results of the Company. Thus, at the end of the Plan's Second Cycle, Executive Directors received 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 target measurement period of the Third and last Cycle started on January 1, 2020 and ended on December 31, 2022.

This Cycle had a maximum of 465,000 shares allocated on January 1, 2020, to the executive Directors, with a unit fair value of 3.2136 euros per share for FCF ("Free Cash Flow") and 1.6444 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 2020, 2021 and 2022, 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 Third and last Cycle, Executive Directors are entitled to receive 133,500 gross shares in the case of the Executive Chairman, Mr. José María Álvarez-Pallete López, and 99,000 gross shares in the case of the Chief Operating Officer (C.O.O.) Mr Ángel Vilá Boix.

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 2022.

There were two Cycles of the Plan in force during the 2022 financial year. The First Cycle, which started on January 1, 2021 and will end on December 31, 2023. If targets are met, the shares will be delivered in 2024. And the Second Cycle, which started on January 1, 2022 and will end on December 31, 2024. If targets are met, the shares will be delivered in 2025.

In both Cycles, the number of Telefónica, S.A. shares that, within the established maximum, could be delivered, as the case may be, to the Participants, is conditioned and is determined based on the compliance of the established targets: 50% of the compliance of the Total Shareholder Return objective (the TSR) of the Telefónica, S.A. share, 40% of the generation of Free Cash Flow of the Telefónica Group (the FCF), and 10% of the Neutralization of CO2 Emissions.

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 of the two cycles in force during the fiscal year 2022, the Board of Directors, at the proposal of the Appointments, Remunerations and Corporate Governance Committee, determined 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 Neutralization target and calculate the specific number of shares to be delivered for this item, the level of CO2 emissions neutralization 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.

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 both cycles, the Board of Directors, at the proposal of the Appointments, Remunerations and Corporate Governance Committee, determined 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 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.

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 Neutralization targets set for the First and Second 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 TSR, FCF and Neutralization of CO2 Emissions 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.

PSP - Second Cycle / 2022-2025

Directors	Maximum number of shares (*)
Mr. José María Álvarez-Pallete López	995,000
Mr. Ángel Vilá Boix	745,000

(*) Maximum possible number of shares to be received in case of maximum completion of TSR, FCF and Neutralization of CO2 Emissions target.

In any case, it is noted that no shares have been delivered to Executive Directors under the second 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.

On the other hand, Telefónica, S.A. General Meeting of Shareholders held on April 8, 2022, approved a new Global Telefónica, S.A. Incentive Share Purchase Plan for Telefónica Group Employees, in which the Executive Directors participate as a token of their commitment to the Company and in order to encourage other employees to participate in the Global Plan. The Plan will end in March 2024, and the maximum amount that each employee can allocate to it is 1,800 euros.

In addition, it should be noted that the external directors of the company do not perceive nor have perceived remuneration during the year 2022 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 2022, 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 2022, excluding those who form an integral part of the Board of Directors, have accrued a total amount of 9,381,900 euros during the 2022 fiscal year.

In addition, and in terms of long-term savings systems, the contributions made by the Telefónica Group during the year 2022 to the Social Security Plan described in the "Income and expenditure" note with regard to these directors increased to 943,754 euros; the contributions corresponding to the Pension Plan increased to 214,600 euros; the contributions to the Seguro Unit link-Excess Pension Fund increased to 112,712 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 185,657 euros.

On the other hand, regarding share-based remuneration plans, during the year 2022, 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 target measurement period of the First Cycle started on January 1, 2018 and ended 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 gross shares.

The target measurement period of the Second Cycle started on January 1, 2019 and ended on December 31, 2021, resulting in a weighted payment coefficient of 50%. Consequently, the number of shares corresponding to the Second Cycle (2019-2022) of the Performance Share Plan that were delivered in the 2022 financial year to the

Company's Senior Executives amounted to 256,246 gross shares.

The target measurement period of the Third and last Cycle started on January 1, 2020 and ended on December 31, 2022. This cycle had a maximum of 316,762 shares allocated on January 1, 2020 to the group of directors forming part of the Company's Senior Management, with a unit fair value of 3.2136 euros per share for FCF and 1.6444 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 2020, 2021 and 2022, 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 Third Cycle (2020-2023) of the Performance Share Plan, the Company's Senior Executives are entitled to receive 158,381 gross shares.

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 2022.

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 Neutralization targets set for the First Cycle (2021-2024) for all the Company's Senior Executives was 1,333,081.

The target measurement period of the Second Cycle started on January 1, 2022 and will end on December 31, 2024. The maximum number of shares allocated to be delivered in 2025 in the event of maximum compliance with the TSR (Total Shareholder Return), FCF (Free Cash Flow) and CO2 Emission Neutralization targets set for the Second Cycle (2022-2025) for all the Company's Senior Executives was 1,241,015.

On the other hand, Telefónica, S.A. General Meeting of Shareholders held on April 8, 2022, approved a new Global Telefónica, S.A. Incentive Share Purchase Plan for Telefónica Group Employees, in which the Senior Management participate as a token of their commitment to the Company and in order to encourage other employees to participate in the Plan. The Plan will end in March 2024, and the maximum amount that each employee can allocate to it is 1,800 euros.

(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 2022

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 obliged 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 (whose parent Company is Telefónica, S.A.) which will be filed as well as the consolidated financial statements in the Companies' Register of Madrid.

Business Model

Traditionally, the telecommunications business has been based on the investment and operation of a series of assets, mainly network assets, on which operators build services targeted at all their customer segments.

Nowadays, networks are moving towards models more akin to software platforms. This enables **the creation of new business models**, based on making the main capabilities of our networks available to different players (not only end customers) through connectors or Application programming interface (APIs).

The **traditional value chain** of telecommunications operators includes the following elements:

- **Assets:** a set of tangible and intangible elements, developed through investment, which is typically capital-intensive. These are mainly fixed and mobile networks, their subsequent developments, business and service platforms and other intangible elements (licences, spectrum, brands, etc.).
- **Services:** companies in the sector typically develop their own services based on the assets deployed (or may offer third-party services). The core business includes the main fixed and mobile communications businesses, although operators have been shifting towards businesses adjacent to connectivity.
- **Customers:** integrated telecommunications companies, such as Telefónica, usually have a very diverse portfolio of customers in each of their markets (residential, corporate, public administrations, etc.). The commercial offering is adapted to each of these segments to meet their needs.

In recent years, **networks** have been incorporating new technologies that allow innovative services to be developed and new business models to be built around them.

The combination of cloud computing with the softwarisation of network elements and functions enables **Network as a Service (NaaS)** business models. NaaS facilitates the development of more flexible models for customers, with lower upfront investments and a higher degree of control over their communications.

With the advent of 5G and the modernisation of platforms, new network capabilities have been developed. **Edge computing** technologies allow services to be moved closer to the end customer, improving the customer experience. This capability is essential for reducing latency and developing many use cases.

The new networks also include the possibility of developing **network slicing**, which allows the creation of multiple virtual networks (slices) on the same physical network. These slices can be tailored to provide different operating parameters (bandwidth, latency, availability, etc.), adapted to customer needs.

Meanwhile, telecommunication companies have been upgrading their information systems (IT) and the software platforms that operate the networks. These allow operators to provide certain functions securely through **standardised interfaces (APIs)**. Other companies can develop services based on these APIs.

The combination of all these technologies will have a direct impact on traditional telco business models. **There is an opportunity to refocus connectivity based on different network quality tiers.** The transformation will be dictated by the possibility of monetising two elements simultaneously:

- On the developers' side, to improve the user experience of their services. These companies would be willing to pay for access to premium network capabilities.
- On the end-customer side, the commoditisation of data is reversed, allowing end users (telco customers) **to pay for particular service capacities** depending on how they will use the connection.

To seize the opportunity for these new businesses, operators will need to become **orchestrators of all of the above elements** (networks, platforms, developers, end customers).

The transition to tiered connectivity, based on quality (speed, latency, security or other characteristics) requires

a change in the current **regulatory model**. The current focus on price competition leads to the commoditisation of telcos' services. A forward-looking regulatory model must encourage innovation and fairly reward investment in the networks that underpin the economy of the future.

Telefónica's organization

Telefónica Group's organisational structure reflects the needs of each of its businesses in order to best serve both our residential and business customers with traditional connectivity services and an increasing number of advanced digital services that the Group is developing. We outline our principle organisations below:

Domestic telecommunications operators

Telecommunications businesses operate relatively autonomously, deploying infrastructure and serving their customers within their given territories:

- **Telefónica Spain** (100% owned by Telefónica, not individually listed): Spanish convergent operator, domestic network leader and leader in all customer segments (individuals, households, corporate and wholesale), with over 40 million connections.
- **Telefónica Brazil** (74.8% owned by Telefónica, a company listed on the Brazilian Stock Exchange): leading convergent operator in Brazil, where it operates a network with over 110 million customer accesses. Regional leader in fibre-to-the-home (FTTH) deployment, with over 22 million homes reached.
- **Telefónica Deutschland** (70.58% owned by Telefónica, a company listed on the Frankfurt Stock Exchange): one of the leading mobile operators in Germany, where it operates mainly under the O2 brand and has over 50 million accesses.
- **Virgin Media - O2 UK (VMED O2)** (50% joint venture with Virgin Media, not listed): leading domestic convergent operator after the largest provider. Created from the merger of Liberty Media's fixed assets and O2 UK's mobile assets. It currently manages over 50 million total accesses (fixed, mobile and TV) and operates a cable network of more than 16 million homes reached (in the process of transformation to fibre).
- **Telefónica Hispam**: groups together Telefónica's businesses in eight Latin American countries (Argentina, Chile, Peru, Colombia, Mexico, Ecuador, Venezuela and Uruguay), with over 110 million customer accesses.

Global businesses

In November 2019, Telefónica changed its business strategy, making five key decisions for the Company's future development. These included the creation of two independent global businesses, with the aim of **accelerating growth and maximising the value of our infrastructure**.

- **Telefónica Tech**: unit dedicated to the development of cloud services, cybersecurity, IoT and big data, with a focus on the B2B segment. Since its creation, Telefónica Tech has become the Group (with double-digit growth, outperforming the market year after year). This growth has been achieved organically and by acquiring businesses that complement our capabilities. Telefónica Tech operates both in the markets where the Group is present and outside them, thanks to a diversified team of approximately **6,000 professionals representing over 60 different nationalities**, all of whom are highly qualified.

Telefónica Tech has developed a portfolio of over 100 products and services, 58% of which have been certified as sustainable under the Eco Smart label, encompassing cybersecurity, the cloud, Internet of Things (IoT), big data, artificial intelligence (AI) and blockchain.

Telefónica AI of Things Tech is at the forefront of **IoT** solutions, complementing them with advanced platforms and Artificial Intelligence (AI). We help customers to optimise the use of production resources in various sectors.

Telefónica Cyber and Cloud Tech combines the potential of cybersecurity and cloud technologies and solutions. As a result, we are a global leader in cloud communications and managed security solutions, with end-to-end consulting and managed services.

Within **Cloud** services, Telefónica Tech is developing a **hybrid multi-cloud** model, which includes solutions in the private and public cloud. Telefónica Tech builds partnerships with the major providers and industry leaders to integrate and migrate the main business applications (PaaS, or Platform as a Service) to the cloud.

Cybersecurity is of paramount importance to Telefónica: we have made security an integral part of all our solutions and increased capabilities to protect the continuity of our business and our customers.

We have over 3,500 certifications, a Digital Operational Centre (DOC), and 12 Security Operational Centres (SOCs) across Europe and America, from where we monitor potential threats and take preventive and corrective measures.

- **Telefónica Infra:** a global unit dedicated to the management of various Group infrastructure assets. In recent years, Telefónica Infra has managed to unlock the value of Telefónica's assets (for example with the sale of Telxius' mobile towers) and has helped the operating businesses to grow by developing innovative investment models. It currently manages Telxius' submarine cable and is focused on fibre deployment in the main countries where Telefónica operates. To date, Telefónica Infra has announced fibre deployments under a FibreCo model (with external investors) which are operated on a wholesale basis in Germany, Brazil, Spain and in the UK.

Telefónica Group's corporate entities

Following the adoption of the five strategic decisions in 2019, the activities of the corporate units have been realigned towards a more flexible operating model, focusing solely on the activities that add the most value to our businesses.

- **Global Business Units (GBUs):** these include certain activities (marketing, support for major customers, network design, globally managed platforms, etc.) that add value due to their centralised management.
- **Chief Data Officer (CDO):** management of the residential value proposition, the development of digital products and services, customer experience, innovation and partnerships. The area also centralises the development of the data management platforms (Kernel) and the main APIs that allow third parties to integrate our capabilities.
- **Chief Technology and Information Officer (CTIO):** design and development of networks and systems, assisting the operational businesses in the selection and implementation of technologies, management of main suppliers, technology observatory and positioning of the Group in terms of the main forums and standards.
- **Chief Business Solutions Officer (CBSO):** value proposition for customers in the business segment, product marketing, business support and design of technical solutions for multinationals, management of global services (roaming and private networks), etc.
- **Corporate Centre:** development of common activities to take advantage of the Group's size, for example, the centralised management of purchasing or advertising and branding costs, and to generate savings for Telefónica. The Corporate Centre also includes legal and regulatory compliance units, which together with the ESG team guarantee the exemplary management of the Company. Lastly, other generic staff units required by any large corporation (accounting, finance, tax, etc.) are represented here.

Economic results of Telefónica, S.A.

Telefónica, S.A. obtained negative net results of 880 million euros in 2022. Highlights of the 2022 income statement include:

- Revenue from operations, amounting to 1,949 million euros, lower than 2021 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 1,590 million euros in 2022 (a write down of 4,574 million euros in 2021).
- Net financial expense totaled 1,401 million euros in 2022 (1,166 million euros of financial expense in 2021). This figure is mainly due to finance costs with Group companies and associates, principally from Telefónica Europe, B.V. amounting to 417 million euros (458 million euros in 2021) and Telefónica Emisiones, S.A.U. totaling 902 million euros (986 million euros in 2021). Net exchange rate losses amount to (181) million euros (5 million of exchange rate gains in 2021).
- Income tax caption amounts to positive 661 million euros, including the impact of the liquidation of Sao Paulo Telecomunicações, Ltda. by 363 million euros (See note 8) and partially offset by the disposal of deferred tax assets by 203 million euros (See note 17).

Investment activity

The investment activity of the Company regarding additions, sales, valuation criteria and impact of this valuation in 2022 is described in note 8 of these financial statements.

Share price performance

In 2022, European and US equity and bond markets suffered historic declines amid high levels of uncertainty and volatility. Among the main European markets (EURO STOXX 50 -11.7%), the DAX performed the worst (-12.3%), followed by the CAC 40 (-9.5%), while the IBEX 35 recorded a better relative performance (-5.6%) and the FTSE 100 closed with slight gains (+0.9%). While most European indices had their worst annual performance since 2018, in the US they suffered their biggest falls since 2008 (Nasdaq -33.1%, S&P -19.4% and Dow Jones -8.8%). The MSCI World index fell by 19.5%. As for the Western bond market, there were the largest price cuts in decades, with an unprecedented rally in yields (e.g. the 10-year US Treasury bond closed 2022 at 3.9% vs. 1.5% in 2021).

The determining factors for the performance of the markets in 2022 were high inflation and monetary policy by central banks, alongside a monetary stimulus withdrawal process and interest rate hikes to control inflation, the unfolding war in Ukraine, the situation and reopening of the economy in China and the global macroeconomic scenario. These factors led to a strong sector rotation and high levels of uncertainty and volatility in the markets, and their behaviour remains key to market performance in 2023.

The performance of the telecommunications sector was divided into two clear parts in 2022. In the first half, it outperformed in relative terms (STOXX Telecommunications stable vs. STOXX 600 -16.5%) favoured by the rotation towards defensive and value stocks, hopes of consolidation in certain markets (as in Spain with the proposed merger between Orange and MásMóvil) and low valuations, coupled with industrial interest in the sector. Telefónica, which also benefited from the appreciation of Latin American currencies and speculation about its return to the EURO STOXX 50, was the best performing operator (+26.2%). In the second half of the year, despite solid results, STOXX Telecommunications had suffered a reversal in its fortunes (-17.7% vs. STOXX 600 +4.3%), as it was perceived as a less defensive sector than initially expected, due to increased concerns about companies' growth prospects due to energy costs and inflation, leverage and the effects of interest rate hikes. This was in addition to disappointment in relation to expectations of consolidation and better regulation in the markets, a preference for "quality" defensive stocks and profit-taking after the rallies in the first half of the year.

Telefónica continues to implement its strategy and, in 2022, a difficult year from a macroeconomic and geopolitical point of view, met its growth targets, which it revised upwards following the results of the first six months of the year. Telefónica delivered profitable and sustainable revenues and OIBDA growth and continued to allocate capital efficiently, prioritising growth investments. Telefónica ended the 2022 financial year with a market capitalisation of €19.5 billion, price per share of €3.39, -12.1% in the year, and total shareholder return of -5.3%.

Regarding the dividend payment, €0.30 per share was paid in 2022 (€0.15 per share in June under the voluntary flexible dividend and €0.15 per share in December in cash). The 2022 shareholder remuneration policy provides for a dividend of €0.30 per share in cash (€0.15 per share paid in December 2022 and €0.15 per share to be paid in June 2023). The 2022 dividend yield stood at 8.9%. In addition, in April 2022, 139.3 million treasury shares were redeemed.

Contribution and innovation

Telefónica has been recognised from the outset as being an innovative company. We understand innovation as the ability to anticipate the future, to understand the needs and challenges of society and our customers, and to be able to build an organisation that fosters a culture that drives transformation and entrepreneurship.

Innovation is a strategic building block that allows us to both develop solutions and products that tackle social and environmental challenges and transform ourselves to become a company that has a greater positive impact.

To achieve these targets we have adopted two working models. One is based on incremental innovation, with continuous improvements of existing technologies to adapt them to new societal demands, such as making them more efficient and greener. The second model focuses on disruptive innovation with the development of new products or business models that transform or alter the market and contribute to having a positive social or environmental impact.

These models are reflected on the activity developed transversally into the organization by the Core Innovation unit, commercial business units or the network and IT areas, and at the same time in fostering the external entrepreneurship and start-ups ecosystem to benefit from the innovation developed outside the Company.

Strategic disruptive innovation

2.13.4.1. Core disruptive innovation

Our priority is to develop new digital services that improve people's lives. To do so, we leverage the Company's main assets, such as networks, digital platforms, data, etc.

The current global business units, such as Internet of Things (IoT), big data and video, have their roots in projects developed years ago by the Core Innovation teams.

The main lines of activity are related to innovation in new network capacities, innovation in new technologies and services and applied research.

Innovation in new technologies and services

At Telefónica we are analysing new opportunities in the **metaverse**. We are working on developing communications networks to meet all the needs that will arise due to the development of the metaverse and virtual reality. During 2022, we had a virtual space at AltspaceVR as part of the Innovation and Talent Hub and joined the Metaverse Standards Forum.

Another line of work focuses on **Web3**, which provides a financial layer on top of the web that facilitates frictionless financial transactions online, creating opportunities for innovative business models. We have launched our own NFT marketplace, a platform for the creation and sale of digital art where we have collaborated with Fundación Telefónica and other social organisations.

In **entertainment and video**, in 2022, we enhanced the Living Apps element of Movistar Plus+ in Spain and Vivo Play TV in Brazil to host experiences in areas such as retail (offering shopping through the TV), education (LinkedIn Learning) and sport (Estadio Infinito). We also improved the integration of social media with the TV platform, creating cross-platform interaction experiences between the two worlds with the new Living Apps for Twitter and TikTok Extra.

In addition, we analysed **cognitive digital marketing** opportunities, applying artificial intelligence (AI) algorithms to data. The aim is to achieve better marketing results while ensuring **consumer privacy, our ethical commitments** in the development of algorithms and AI and to meet the needs of our customers. We are currently working with other operators to create an advertising identification solution through which customers retain control over when, how and with whom they share their data.

Lastly, we would like to highlight how we are harnessing AI to improve sport. As our testing ground, we are working with the elite sportsmen and women sponsored by Telefónica in cycling (Movistar Team), badminton (Carolina Marín) and tennis (Rafael Nadal).

Applied research

In order to be a pioneer in the technological world, we dedicate part of our innovation efforts to improving the state of the art of certain technologies. We collaborate with public and private organisations and universities both nationally and internationally.

Highlights in this regard include work on improving AI as applied to the Spanish language (in collaboration with the Royal Spanish Academy), projects aimed at preserving privacy and new systems for collaboration between humans and machines through cross-modal communication.

Open innovation

Our open innovation strategy seeks to attract talent, technology and new businesses. We promote the innovation that comes from startups and scaleups, under a venture capital model, with a triple aim:

- Generate additional revenue by incorporating the technology/products developed by these startups into our range of digital services and transform internal Company processes.

- Seize growth opportunities beyond the telecoms sector by investing in game changers, companies that are developing disruptive technologies and products that could revolutionise the market.
- Obtain a financial return by increasing the value of the startups we have invested in.

Thanks to these targets, out of the more than 1,000 enterprises in which we have invested, 300 have ended up working with Telefónica, generating €500 million for the Company. Most importantly, they enable us to take their innovative solutions to our customers to help them in their digital transformation and use them internally to generate efficiencies.

There are also other initiatives to support the progress of startups at earlier stages of development or those related to the academic world.

- **Open Future:** launched in 2014, this is a strategic regional entrepreneurship programme developed in collaboration with public and private partners. Open Future supports local startups in their early stages to foster the creation of an entrepreneurial ecosystem outside the big cities. Since its launch, it has accelerated 1,296 projects, creating around 4,900 jobs. Open Future currently has 30 hubs in Spain and Argentina.

In 2022, two new entrepreneurship spaces were opened in Andalusia (Spain), in Port of Huelva and Zona Franca de Cádiz, as well as one in Valencia, called Opentop.

- **Open Innovation Campus:** through this initiative we design and develop models of collaboration with the academic world to connect with young people and incorporate new talent into the Company.
- In relation to education, Wayra invested in online learning platforms such as Crehana, aimed at creatives and digital professionals; Poliglota, for learning languages; Stackfuel, AI and data analytics training for professionals; and Alicerce, which focuses on early childhood education in Brazil.
- In addition, in the health sector, we invested in Behavidence, a mobile application for mental health and Idovent, software powered by AI algorithms aimed at detecting and preventing heart disease. Meanwhile, Telefónica Ventures invested in Durcal, a telecare start-up for the elderly.

Investment funds and partners

In 2022, we set up two new funds together with other Group business units.

In May, Vivo Ventures was created, a €60 million fund to invest directly in growth stage start-ups with solutions in the fields of healthcare, education, financial services, smart home, and entertainment and technology marketplaces, among others.

ÍOPE Ventures, launched with Telefónica Seguros in September to invest in 15 Insurtech & Fintech start-ups with tickets of up to 200,000 euros.

Moreover, during the year, we participated in **over 30 open innovation projects with strategic partners**, including:

- Alaian, an alliance of six of the world's leading telecommunications companies with the goal of discovering disruptive start-ups and giving them access to its network of 700 million customers.
- Edison Accelerator, a healthcare provider acceleration and collaboration programme designed by GE Healthcare in partnership with Wayra UK.
- CIV-LAC (Corporate Impact Venturing in Latin America and the Caribbean), sponsored by the Inter-American Development Bank (IDB) and designed and implemented by Wayra, which connects large corporations in Latin America and the Caribbean with technology impact start-ups in various sectors.
- BNDES Garagem, an initiative of BNDES (Brazilian Development Bank), Wayra and other partners, whose mission is to develop and foster entrepreneurship in Brazil by supporting entrepreneurs and startups.
- Opentop, a project with the Port of Valencia (Spain) to find and support ideas related to technology.

Innovation in products and services

Examples of solutions developed to make a positive contribution include the following:

Financial inclusion

We facilitate access to loans and insurance through mobile financial products (Movistar Money), thereby reducing barriers to accessing finance and financial resources.

Health solutions

We support telemedicine projects for remote care such as Movistar Salud in Spain or Vida V in Brazil. In this regard, for example, Vida V is an affordable alternative between private health plans and the public health network in Brazil. It offers multidisciplinary medical care with guidance by telephone, online consultations by video call and face-to-face consultations, as well as access to clinics and laboratories for imaging and laboratory tests and even discounts on medicines.

We also provide services in this sector that enable remote surgical interventions and solutions that help patients with degenerative diseases.

Digitalisation and connectivity of the rural environment

Our services include programmes such as Smart Agro which informs farmers about factors such as soil moisture and soil water consumption, and allows them to optimise irrigation thereby improving crop yields. This solution has been designed to promote a more sustainable agriculture model able to cope with the challenges caused by climate change and encourage rural development.

Data and AI solutions

These are services that look to solve social or environmental problems (Big Data for Social Good/ Artificial Intelligence for Social Good) with applications for monitoring infectious diseases or analysing air quality in large urban environments.

Security services

The products in this category help guarantee the security and integrity of people and businesses, such as the range of commercial services offered through Movistar Prosegur Alarmas.

Responsibility by Design

Responsibility by Design is an internal assessment framework that allows us to ensure we incorporate **ethical and sustainability principles** right from the initial development of a new product or service (P&S) and through to its delivery to the customer, and to be certain they comply with our Responsible Business Principles. These principles make up our code of ethics and guide us in making decisions based on integrity, commitment and transparency.

It is important to note that organisational culture, awareness raising and training are key to successful implementation.

Environment

Vision

Companies play a key role in protecting the environment, both in terms of the impacts they can cause and the environmental risks and opportunities which affect and influence the value of companies.

Customers, investors and employees are significantly more environmentally conscious, which is reflected in their need to carry out their activities in a more sustainable way and to seek partnerships with companies that have incorporated these values into their strategy.

At Telefónica, we are striving to ensure our environmental impact is minimal and are committed to decoupling the growth of our business from our environmental footprint. Furthermore, we believe it is vital **to enhance the synergies between the digital, green and energy transition** in order to achieve a competitive, resilient and sustainable economy. This is why **digitalisation becomes a crucial tool in facing environmental**

challenges: climate change, circular economy, water management and biodiversity.

This commitment is part of the Company's general strategy, for which the Board of Directors is ultimately responsible. Our performance in this area is regularly supervised by the Board's Sustainability and Quality Committee as well as by the Responsible Business Office, made up of the global areas that execute said strategy alongside the business units.

We have **global environmental and energy management policies** and take action 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 emissions 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-related risks are controlled and coordinated under the Telefónica Group's global risk management model, based on the **precautionary principle**.

The main risk of our environmental aspects is related with the wide geographical spread of our infrastructure, which is controlled through environmental management based on standardised procedures, certified according to the ISO 14001 standard.

In 2022, the Telefónica Group contracted, both locally and globally, several insurance programmes in order to mitigate the possible occurrence of any incident arising from the risks of environmental liability and/or natural disasters, so as 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 policies consist of limits, sub-limits and hedges appropriate to the risks and exposures of Telefónica and its Group of companies.

However, **the opportunities arising from sound environmental management outweigh the risks**. By being proactive, establishing preventive measures and integrating environmental criteria in decision-making, we manage to increase the Company's sustainable financing, reduce our dependence on fossil fuels and reduce our CO₂ emissions in absolute terms, despite the increase in network traffic. We also manage to increase reuse and recycling rates, promote eco-design and purchasing based on circular criteria, and help to minimise the environmental footprint of our customers with our Eco Smart products and services.

Action plans and compromises

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 that is committed to our environment, to ensure compliance with environmental legislation, to manage our risks and opportunities, to implement management systems, to set stringent environmental targets and to carry out proactive advocacy work on environmental issues.
- The **second level** concerns the Company's **decarbonisation and circularity**, thanks to the use of renewable energies, the implementation of energy efficiency projects, extending the lifespan of electronic equipment, reducing the consumption of resources and reintroducing our waste as raw materials in the value chain through recycling.

Lastly, 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 connectivity technologies such as IoT, cloud and big data.

In addition, 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:

- Achieve net zero emissions by 2040, including our value chain. To this end, we set interim targets for 2030, such as reducing 80% of our Scope 1 and 2 CO₂ emissions compared to 2015 and reducing 56% our Scope 3 CO₂ emissions compared to 2016.
- Continue to use 100% renewable electricity in our main markets and also reach 100% globally by 2030.
- Be a zero-waste company by 2030, through eco-design, procurement with circular criteria, reuse and recycling.

Management policies and systems

The Environmental Management System (EMS) in accordance with **ISO 14001** is the model we have chosen to monitor the environmental impact of our activities. **All our operators have an externally-certified EMS.**

We have a series of global standards (in addition to our environmental, energy management and supply chain sustainability policies) that guide the Company in improving its environmental performance and that incorporate a life-cycle perspective. This allows us to integrate the environmental aspects of our value chain and involve our employees in environmental management.

Having in place certified EMSs allows us to ensure that we successfully control and comply with the environmental legislation applicable in each of our markets, with this **preventive model of compliance** being associated with the Company's overall compliance process. We were not subject to any significant environmental penalties in 2022.

We manage all our main environmental aspects, such as energy and waste, but also others such as noise, biodiversity and water, in order to reduce progressively our environmental impact.

We maintain the Energy Management Systems certification (**ISO 50001**) for our operations in Spain and Germany, and in 2022 we extended it to other operations, such as Chile and Brazil (the last one with two certified operating centres, including the Eco Berrini headquarters).

Responsible network and biodiversity

We work to make our network the most eco-efficient and environmentally responsible, promoting the circular economy in all our assets. We have managed to keep electricity consumption stable, despite increased digitalisation, thanks to our energy efficiency and renewable energy plans. In addition, our circular economy strategy has enabled us to reuse 229,907 units of network equipment and to recycle 98% of our waste in 2022.

In order to minimise the impact of network deployment, we implement best practices, such as noise insulation measures when necessary and co-location of our facilities with other operators. This enables us to optimise land occupation and reduce visual impact, energy consumption and waste generation

RESPONSIBLE NETWORK LIFE CYCLE

PLANNING AND CONSTRUCTION

Environmental licences and permits	1,199
Visual impact reduction measures	104
Base stations with renewable energy	485

OPERATION AND MAINTENANCE

Energy efficiency and managements projects	128
Renewable energy in own facilities (%)	82
GHG emissions (Scopes 1+2) (tCO ₂ eq)	353,346
Energy consumption by traffic (MWh/PB)	49

DISMANTLING

Network equipment reused	229,907
Hazardous waste (t)	2,566
Total waste recycled (%)	98

Regarding **biodiversity**, the impact of our facilities is very limited. Nevertheless, we conduct environmental impact assessments and implement corrective measures when necessary, for instance in protected areas.

To analyse the impact of the Group's infrastructure on biodiversity in greater detail, a Geographic Information System 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 allows us to determine the quality of habitats where any of the Company's infrastructure is located and to assess the potential impact on biodiversity. The main finding is that 98% of Telefónica's facilities are located in habitats with low or very low biodiversity value, such as urban areas, and we have no facilities located in habitats of major importance, which means that the organisation has a relatively insignificant direct impact on biodiversity.

Furthermore, aware of the importance of enhancing the urban biodiversity of our sites, the facilities of Telefónica District (headquarters in Spain) have participated in the European LIFE BooGI-BOP project, which aims to provide companies with solutions aimed at improving biodiversity in their business facilities. The analysis found the design and management of the site's green areas to be excellent and recommended some additional measures related to habitat enhancement or information for employees regarding the biodiversity improvement measures implemented.

In addition, in 2022, we joined the **World Economic Forum's 1t.org initiative**, which seeks to accelerate nature-based solutions and mobilise companies to conserve, restore and grow one trillion trees by 2030. Aligned with our target of achieving net zero emissions by 2040, as well as neutralising unabated Scope 1 and 2 emissions from our main operations by 2025, we have

committed, under the 1t.org project, to grow and conserve 1.5 million trees between 2020 and 2030. This commitment will not only avoid and absorb 700,000 tonnes of CO₂ from the atmosphere in 10 years, but will also help to conserve forest ecosystems, reducing biodiversity loss.

Human Capital

People stand at the heart of our strategy, and our corporate mission is to “make our world more human by connecting lives”.

Human capital remains key in our increasingly digital work environment. We understand this factor as the value stemming from the sum of all the skills, knowledge and experience that our employees bring to the table. However, social capital is also especially important because this is what consolidates the connections that are made between people and teams within the organisation. These two factors combined represent our people capital, in other words, the value of people as an intangible asset for the Company.

This helps us to boost our growth mindset and enables teams to meet company targets:

- Attain a target of 33% of executive positions held by women in 2024. Reaching this target is linked to the variable remuneration of our employees and attraction of sustainable financing.
- Achieve an adjusted gender pay gap of +/-1% in 2024. This is the basis for progression towards total elimination of the gross pay gap.
- Achieve gender parity in the Company's highest governance bodies in 2030. Parity is defined as no more than 60% and no less than 40% representation of each gender.
- Be included in the Bloomberg Gender-Equality Index.
- Maintain perception in our team about work-life balance above 70% in the motivation survey.
- Double the number of employees with disability in 2024, in line with the commitments made to The Valuable 500.
- Attain participation of over 50% of the workforce in skill development programmes each year.
- Have 100% of eligible workers (those whose activity can be carried out remotely) in hybrid work in 2024.
- Reach an Employee Net Promoter Score (eNPS) of at least 60%.

The strategic lines of action for global talent management and the applicable targets are defined by the Global

Human Resources Committee. Meeting on a monthly basis, this committee is made up of all the heads of the various People areas at Telefónica's main operators and regions.

Global Executive Committee: this committee analyses and monitors key aspects of global employee management, from skills and critical talent for the future to Telefónica's remuneration and organizational strategy.

People-related issues are also regularly reported to three committees of our Board:

- Quality and Sustainability Committee: once a year, the targets and corporate and local progress on issues of talent management and diversity are presented in line with the Group's ESG strategy.
- Governance Committee: among other roles, this committee verifies and supervises appointments and remuneration of the Chairman of the Board of Directors, the executive directors and senior executives.
- Audit and Control Committee: this committee oversees control of the Company's and the Group's financial and non-financial risks (including operating, technological, legal, social, environmental, political and reputational risk as well as those related to corruption).

We also have specific bodies and roles for managing our diversity strategy.

The main challenges we face in human capital management no longer simply stem from the rapid digital transformation in which we are engaged and is clearly being reflected in the labour market. We must also learn to tackle even greater uncertainty and the confusing times in which we live.

The context of high inflation in which we find ourselves, the strong competition for highly qualified talent and the development of new internal skills will be our major challenges.

We therefore have a huge opportunity to prepare ourselves now and start building the skills that the company will need to implement its strategy.

The pandemic has given us a window to rethink our culture and how we work and to innovate to boost productivity in the new digital age. At Telefónica, we believe that the key lies in developing hybrid environments capable of harnessing the best of both worlds for promoting co-creation, communication and team spirit.

We could not lead the digital revolution without having the best talent, ensuring that all our people - without exception - thrive in a diverse and inclusive work environment. This also allows us to empathise better with

our customers, to innovate and to reflect their diversity in our commercial value proposition.

The swift pace of exponential change that we are experiencing due to the digital transformation, economic uncertainty and political tensions must help our employees overcome these changes and reduce any impact on their work and well-being. Similarly, we work to strengthen consistency between the company's vision and the personal goals of each employee in order to further cement their ties to the company.

These challenges are included in the Telefónica Risk Management Model as emerging risks in the People area. Telefónica's people strategy aims to transform and adapt our teams to the context of permanent change in which we find ourselves.

In this respect, our main lines of action (further explained in the following chapters) are focused on:

- Attraction, retention and skill development: we are shifting towards a model that can guarantee business sustainability and let our people thrive and grow. To that end, we foster lifelong learning with large-scale re-skilling and up-skilling programmes, and talent management that is based on skills, including leadership skills.
- Diversity, equality and inclusion with an inclusive work culture and leadership style to guarantee a working environment in which all our people can give their best and develop personally on a level playing field.
- Flexible ways of working and agile high-performance ecosystems capable of improving team effectiveness and efficacy; boosting motivation, talent attraction and a sense of belonging; and fostering innovation and corporate transformation.
- Occupational health, safety and well-being from a comprehensive vision of the individual that considers mental, emotional and physical factors as the pillars of well-being while encouraging autonomy and responsibility.

Attracting, developing and retaining talent is fundamental to the success of our Company. We want our teams to have whatever they need to overcome present and future challenges. We know that professional careers have shifted from being vertical and stable to more cross-cutting and flexible, meaning that our development is no longer conditioned by our current job, but rather by what we want to become in the future.

We engage in strategic, skill-related preparation via our Skills Workforce Planning process, which seeks to ensure alignment between the skills we possess in the organisation and the skills that we need to grow our businesses. This enables us to make the right decisions to close the skills gap. We are therefore firmly committed to

developing any new skills that we need internally, in combination with incorporating external talent.

For internal skill development, we promote large-scale re-skilling and up-skilling programmes that can develop critical skills for our business while improving the employability of our professionals. With that in mind, we are evolving the learning model to personalise and adapt the range of training we offer to the preferences of each professional based on artificial intelligence engines (learning on demand).

Besides the traditional talent recruitment tools, we also use new channels to ensure we attract suitable profiles in a more global, digital and efficient way, establish a long-term relationship with candidates and simplify our selection processes. More specifically, we maintain a very active presence at digital job fairs and in forums, employability round tables, social media, and universities with technology specialities.

Furthermore, we strengthen our pool of young talent with Talentum, a scholarship programme forming part of the Telefónica Innovation and Talent Hub. This initiative strengthens university/company cooperation by combining academic learning with technical business knowledge and cross-cutting skills such as emotional intelligence, teamwork, innovation and creativity

The situation arising from the COVID-19 pandemic has presented us with an opportunity to accelerate the digitalization of learning.

On the one hand, we are evolving the profiles and skills of our professionals to meet specific business-related challenges and the challenges faced by each area. We offer profile specialization so our people can remain on the cutting edge (robotization, cloud, IT sales, data, web developer, 5G, etc.).

On the other hand, we provide an open choice of training options so that each employee can play a leading role in their own development. The formats (videos, podcasts, video games, interviews, role play sessions, articles, etc.) are tailored to the needs of each person in hybrid and collaborative environments.

SkillsBank is a key element of our skills development model, a software tool developed internally and recognized externally. Built on big data and artificial intelligence, it gives us real-time information about the skills that are present within our organisation. We use SkillsBank to create a unique and personalized value proposition for each professional, with recommendations on vacancies and development paths.

In order for new skills to be developed, we also encourage geographic and job mobility as a key factor in talent retention. We therefore foster an open and innovative environment that makes it easier to match our employees' interests and backgrounds with real

opportunities that can maximize learning and movement into the roles of the future.

All these initiatives are aimed at promoting the development and promotion of our employees within the Company. This has meant that 25% of the vacancies published have been filled by internal applicants. Of those employees who received a promotion, 40% are women

Universitas Telefónica is the exclusive platform on which all our professionals can find a carefully curated range of training experience options designed to accelerate the transformation and achievement of strategic targets for the company, to encourage uptake of the new and necessary working and leadership methods, and to encourage and foster a unique culture that defines us and makes us stronger by aligning priorities and empowering employees.

Having undertaken an enormous technological transformation, Telefónica has boosted the Innovation and Talent Hub by opening a new Universitas campus. Its physical location is at our central offices in Madrid (Spain) and it is equipped with advanced in-person, virtual and hybrid executive education resources.

The commitment of our professionals has always been high on Telefónica's agenda and it forms part of our active listening strategy. 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=Definitely would not recommend, 10=Definitely would recommend).

This procedure lets us align ourselves with the customer satisfaction measurement by using the same logic as the Net Promoter Score, which measures the percentage of promoters (those who give scores of between 9 and 10) against the percentage of detractors (those who give scores from 1 to 6).

We achieved a result of 69% in 2022, which is an improvement of 2 percentage points on the 2021 result. This clearly highlights our commitment and sense of pride in belonging.

A result above 40% is considered excellent and we are part of the select group of companies that are above 60%. Our challenge now is to keep increasing our professionals' sense of pride in belonging to our Company, under the conviction that their motivation is the multiplying factor that drives these results.

In addition to this annual measurement, we conduct various internal listening exercises in each of our operations (such as opinion surveys) and regular engagement pulse surveys to gauge the level of commitment. This is all complemented by professional

performance appraisals, exit interviews, incident tracking and the availability of a Responsible Business Channel that employees can always use to report conflictive situations.

Culture of Recognition: Valuable people

This programme aims to promote a culture of meritocracy through personal recognition by leaders towards employees and among employees themselves, giving visibility to those individuals and teams that excel through both their outstanding contribution and their 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.

Telefónica's remuneration strategy is characterized by our competitive and demanding nature, and our main focus is to attract, retain and motivate the Company's professionals so that we can meet our strategic objectives within the globalized framework in which we operate, fostering the generation of long-term value in a sustainable manner for our shareholders.

In this regard, we encourage the growth of our team through variable remuneration, increasing operating income and return on investment for shareholders, as well as efficiency through improving our OIBDA margin and generating free cash flow. Similarly, Telefónica is a company that is fully committed to sustainability. Such factors as customer trust, the trust of society at large, diversity, and contributing to the fight against climate change, have therefore been given weight in the variable remuneration of our entire team since 2019.

Telefónica is a company that fosters meritocracy and equal opportunities. We therefore offer a competitive and fair remuneration package that can comprise fixed amounts and both short and long-term variable amounts (tied to the achievement of financial, business, value creation and sustainability targets, which should be specific, quantifiable and aligned with the Company's strategic plan), as well as remuneration in kind and other social benefits adapted to local practices in the markets where we operate, allowing for customization and tax efficiency through flexible compensation plans.

Telefónica's professionals are consistently remunerated according to their level of responsibility, leadership and performance within the organisation. To maintain this premise, we ensure that we do not discriminate on the basis of gender, age, origin, sexual orientation and identity, religion, disability or race when applying remuneration practices and policies.

Similarly, Telefónica is committed to ensuring that the salaries paid to all its employees are decent and always exceed what is considered to be the 'minimum living wage'. This not only allows basic needs to be met, but also guarantees good quality of life in each of the countries where the Group operates.

By way of example only, the social benefits offered by the Company include health insurance, life insurance, a pension fund, share purchase programme, discount programmes, childcare assistance (including nursery services) and food assistance, among other things. All these benefits increase job quality. Our social benefits are especially focused on improved well-being for our employees. They help to maintain physical and mental health while supporting their families and adapting healthcare coverage to new circumstances and needs.

To foster the retention and motivation of key professionals and to attract the best talent, emotional salary is another relevant factor. This is expressed through new ways of working, work-life balance, psychological well-being, a firm commitment to learning and professional development, and a culture of commitment and recognition of our employees.

Furthermore, Telefónica launched an incentivized global share purchase plan in 2022 - "Plan 100" - aimed at all employees of the Group, without exception. For every share bought under this plan, until it ends in 2024, Telefónica rewards the buyer with another share. As part of our Company's centenary celebrations, each employee who takes part in the plan will receive 100 additional shares for free.

With respect to our Board of Directors, Telefónica, S.A. boasts a Policy of Executive Remuneration assessing the best practices regarding Corporate Governance.

Telefónica has a worldwide performance review process for all employees of the Group. The same timetable, guidelines and tools are shared everywhere. Although the process is coordinated globally, it is managed locally so as to better adapt to the needs of our business.

At Telefónica, diversity, in addition to fulfilling the principles of social justice, helps us to achieve better business results. We therefore design initiatives aimed at promoting diversity in our teams and fostering an organizational culture of equity, diversity and inclusion.

Diversity management helps us to attract and retain high-potential professionals, get the best out of our employees, empathise with our customers and innovate.

We have internal bodies and roles that monitor our progress on equality, diversity and inclusion. These bodies also monitor compliance with performance indicators and alignment with strategic targets and ensure the involvement of senior management:

- **Global Diversity Council:** made up of top-level executives. It aims to implement and monitor the company's diversity strategy.
- **Transparency Committee:** made up of the Chairman and four executives, it ensures the presence of both genders in the shortlists for internal and external selection processes for management positions.

- **Chief Diversity Officer:** this role supports the Diversity Council and the People department. This officer is a member of the Executive Committee of Telefónica, S.A.
- **Diversity Champions:** team leaders who act as internal change agents in all areas of the Company.
- **Monitoring Committees for local Equality Plans.**

They govern the Company's commitment to diversity and inclusion:

- **The Group's Diversity and Inclusion Policy:** the policy guarantees equal opportunities and non-discriminatory, fair and impartial treatment of people in all areas of our Company, without prejudice associated with nationality, ethnic origin, skin color, marital status, family responsibility, religion, age, disability, social status, political opinion, HIV or health status, gender, sex, sexual orientation, or gender identity or expression.
- **The Diversity Policy in relation to the Board of Directors and the Selection of Directors:** this ensures that proposals to appoint or re-elect Directors are based on a prior analysis of the competencies required by the Board of Directors, favoring diversity in terms of knowledge, experience, age and gender.
- **Global Equality Policy:** approved by the Board of Directors in 2022, it establishes the Company's commitment to the implementation and dissemination of a set of basic measures with regard to gender equality in all countries where the Group operates.
- **Protocol for Action in Situations of Workplace or Moral Harassment, Sexual Harassment and Discrimination:** this policy establishes a framework for action in cases of harassment or discrimination

Telefónica's strategic lines for diversity and inclusion are established globally by the Global Diversity Council. This strategy is adapted and developed locally, taking into account the business priorities and the sociocultural context of each country.

Our starting point is to ensure that our workforce is representative of the diversity existing in the societies in which we operate and that it is managed with an inclusive culture and leadership style. In this way, our employees feel comfortable to be themselves and can give their best.

In order to move forward, we have made a number of commitments in the short, medium and long term. In the short term, we have set a target of attaining 33% of women in management positions and an adjusted gender pay gap of +/- 1% by 2024. We have anticipated the fulfillment of this objective in 2022. In addition, we want to double the number of employees with disabilities by the same year.

In the medium term, we aim to achieve gender parity in the Company's highest governing bodies by 2030, while in the long term our north star is to eliminate the gross gender pay gap.

The Global Diversity and Inclusion Policy ensures equal treatment and equal opportunities. It promotes working conditions that prevent workplace and sexual harassment, in both a face-to-face and a digital environment, and establishes specific procedures for its prevention.

In addition, our Responsible Business Principles course, which is mandatory for all employees, includes a training module on workplace and sexual harassment. At a local level, equality plans establish protocols for action in cases of workplace and sexual harassment.

Besides, the whistleblowing channel allows all employees and stakeholders to report, anonymously or personally, if they experience any form of discrimination.

At Telefónica, we apply the principle of equal pay for equal work or for work of equal value. That is to say, we compensate equally for equal work regardless of the employee's gender.

We carry out detailed analyses of gender pay data within the Group in order to identify possible inequalities and establish measures to rectify 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.

Gender pay inequalities or gender pay gaps are based on a comparison between the average total pay of men versus the average total pay of women in the workforce.

When making this comparison, it is important to understand the way the comparison is made, what items are included and how the difference between the average total pay of men and women is measured.

When calculating it, in addition to gender, if the country, the legal entity, the professional category, the functional area in which each employee works, seniority and the work schedule (full or part-time) are taken into account, we would be talking about the adjusted wage gap (0.74% in 2022). This concept allows us to approach pay equity: equal pay for positions of equal value.

If we only compare the average total remuneration, without taking into account other factors except gender, we would be talking about the gross wage gap (16.80% in 2022). Eliminating this gap implies structural, social and cultural changes that require a long-term commitment. For this reason, at Telefónica, we are working on five lines to address this ambition. The basis for moving forward is to ensure equal pay under the same circumstances, which is why we have anticipated two years to meet the objective of reducing the adjusted gender pay gap to +-1% in 2024.

- Ensuring equal pay. As a starting point, we must ensure that men and women earn the same pay for the same job.
- Increasing the proportion of women in leadership (33 % by 2022) and income generation positions (40 %).
- Promoting gender parity in the Company's highest governing bodies.
- Strengthening the commitment to work-life balance and co-responsibility. Seven out of ten employees with reduced working hours are women. Awareness-raising and new models of flexible working are key elements to reverse this situation.
- Increasing the weight and prominence of women in digital and STEM environments. Currently, 21 % of the Company's STEM positions are held by women. We promote initiatives to attract and give visibility to our female digital talent, since we believe it to be critical for the social and economic progress.

According to international estimations, the gender wage parity will not be reached until the year 2175. In Telefónica, we aspire to reach it on the 2050 horizon.

In Telefónica, we encourage the recruitment of female talent, young talent and/or talented people with disabilities through "Talentum" scholarships and other initiatives.

Aware of the low participation of women in digital professions, we encourage women to pursue digital and STEM careers through a number of initiatives, including our internship programmes. In addition, we develop career acceleration and visibility enhancement programmes for female employees, which aim to train them in leadership skills and enrich their network of contacts.

Furthermore, we implement measures to facilitate a work-life balance and promote a cultural change with the aim of encouraging co-responsibility for care among our male and female employees, after identifying that a lack of co-responsibility hinders women's professional development.

With regard to people with disabilities, in line with the 2024 target, we support their integration through agreements with external entities specialized in the search for professionals with disabilities. In addition, we offer resources to facilitate teamwork, such as the guide "Disability at Work: Everyone's Responsibility". At the same time, we work to ensure the accessibility of our facilities, communication channels, products and services.

In terms of disability, Telefónica counts on ATAM, a private social protection system for the families of employees with situations of disability and dependency.

The association offers specialized comprehensive advice and direct financial aid.

Furthermore, in relation to our supply chain, we include diversity criteria in the assessment of our high-risk suppliers through an external tool. In addition, we are increasing the range of social suppliers, particularly Special Employment Centers, in which most of the employees have a recognized disability on our procurement platform.

The value of differences, awareness of unconscious bias and prejudice, and the importance of inclusive leadership are some of the issues we address during our workshops, manuals, and online courses. In addition, we offer training resources for areas and roles with special responsibilities to support the performance and integration of all employees. In addition, we have conducted mandatory diversity workshops for members of the Board of Directors.

Telefónica collaborates to close gender gaps in society. Along these lines, we encourage women to take up digital and STEM careers and entrepreneurship. Through Scale Up Women, women entrepreneurs improve their network of contacts and seek new business opportunities.

The pandemic has unquestionably produced a new reality in the labour market worldwide. Nonetheless, physical presence at the office and personal contact between team members also brings added value. With that in mind, Telefónica is committed to a hybrid working model (on-site and remote) across the Group that combines the best of both working models. In general, we establish a minimum percentage of face-to-face time and a maximum percentage of remote time, which differs in the countries in which we operate and can change depending on the nature of the position whenever possible.

Our model is based on universality (it applies to all employees unless their role cannot be performed while working from home) and safeguards the health and safety of our workforce. It fully complies with local legislation and has been agreed with the main trade union organizations in the countries where we operate. There is a growing social demand for work-life balance. At Telefónica, we work hard for that to be the reality. These efforts are clearly reflected in the results from our annual motivation survey, according to which 78% of our employees feel they have a good work-life balance. Thanks to our digital disconnection awareness initiatives, this percentage has risen by 10 points since 2019. Telefónica is improving the compatibility of various lifestyles with professional demands, thereby fostering inclusion. We harness the potential of all employees in this way, regardless of their personal characteristics or circumstances.

The redefinition of our workspaces to be more digital, flexible and collaborative, in addition to a commitment to

digital disconnection (Telefónica was a pioneer in this regard following an agreement in 2019 with all trade union organisations), and the physical and emotional well-being of our people, also form part of this new work model.

Leadership and our culture play a fundamental role in this transformation.

A key target for this new way of working is to boost employee commitment and loyalty, as well as to evolve towards a simpler and more flexible organisation. We therefore promote skills based on a culture of flexibility, trust and commitment, as well as the necessary skills required for a collaborative and dynamic work environment based on project management, autonomy and teamwork.

Our flexible work models should be a valuable tool for attracting and retaining talent, as well as for giving us access to new professionals located all over the world.

The new agile ways of working are much more than a methodology for Telefónica; they are a means of boosting a cultural transformation underpinned by the various local Agile offices. These offices combine Business, Transformation and People teams to align work frameworks to the specific characteristics of each business and the strategic priorities of each unit. We continue to work on the implementation of more liquid and flexible organizational models that can help to empower teams and support business activity, within a context of process simplification based on an e2e and project-based work approach.

This new hybrid and flexible context has led to far-reaching changes in our leadership and our culture, changes that are highly necessary for achieving the best results. We are therefore undertaking an unprecedented cultural transformation to help us obtain an effective and sustainable employment experience that can evolve the relationship model between managers and their teams. We are fully aware that we need new ways of leading to help us adapt to these new paradigms. As a result, in the various countries where we operate, we are working to reorganize the skills of our leaders so they can be a source of inspiration and transformation within this new hybrid context. We also want them to promote a culture of confidence, conversations and productivity.

With a hybrid work model, the office becomes less of a place to perform a task and more of a space for inspiration, co-creation and networking between colleagues.

Telefónica's workspaces are therefore open and shared, and are technologically equipped for the hybrid model. We also have space management tools that are either up and running already or undergoing a trial period, depending on the location.

The new Universitas campus, located at Telefónica District (Madrid) within the Innovation and Talent Hub, boasts 2,000 square metres of the latest technology for in-person and remote training, including live-streaming services, multi-purpose spaces and recording studios.

Furthermore, we strive to enrich the vending areas and relaxation spaces at our offices to provide a cozy atmosphere that lets us network within our work environment while enjoying a nice break.

Collaborative technology, such as Microsoft Teams and the Workplace corporate social network, encourages interaction between employees and helps them to stay on top of the latest news and to share inspiring ideas and content.

Depending on the geographical area where we operate, we provide our professionals with ergonomic chairs, mobile telephones with unlimited data tariffs, and the option to buy office furniture under good terms and conditions. Additionally, we create spaces to promote emotional well-being with virtual cafés where we encourage networking.

In Spain, we also provide our employees with various tools so that they can record the start and end of their working day from any location, as required by current local labour legislation.

We develop the hybrid model by focusing on the employee and his or her family and by taking care of their digital health.

Reinforcing the digital disconnection agreement that the Company signed in 2019, we deliver courses including new routines and tips on how to maintain a healthy balance between work and free time, and organize teamwork in the best possible way.

We encourage co-responsibility of care between our male and female employees through awareness initiatives, because it has been demonstrated that a culture in which the weight of family and domestic responsibilities falls mainly on women is detrimental to their development and prevents the gender pay gap from being closed.

We foster measures that guarantee digital disconnection based on a commitment to "disconnect to reconnect". A combination of company, team and individual agreements is essential to achieving this goal. Such agreements regulate times at which communications should not be sent and at which replies are not expected (except under exceptional circumstances), as well as guidelines on the planning and organisation of meetings.

We complement all this with training resources on disconnecting and relaxing, reasonable use of technology, and awareness about respecting personal relaxation time.

We have various measures aimed at achieving work-life balance and avoiding physical and mental exhaustion in employees: flexible working hours, part-time work, reduced working hours, subsidized flexible working week, paid and unpaid leave, extended leave for personal reasons and hybrid working.

At the Telefónica Group, we are fully aware of the context of high uncertainty and volatility that has been accentuated by various overlapping crises (health, social, energy, political and economic). These situations have led to a very strong economic impact that has caused inflation and interest rates to rise. We are therefore adopting several economic measures in the various territories where we do business (internally and always based on collective bargaining) to help our employees withstand the effect that this exceptional situation is having on them and their families.

At Telefónica, we are committed to the core standards of the International Labour Organization (ILO) in every country where we operate, particularly regarding freedom of association and the right to collective bargaining.

We ensure that worker representatives receive fair treatment that is free of discrimination and that they have all the tools they need to be able to perform their duties of representation. We have mechanisms and procedures to promote the involvement of workers in the management of the company, in terms of information, consultation and participation.

In terms of any significant organizational changes, Telefónica respects the period of prior notice set by the legislation of the countries where we operate, as well as those prior notice periods defined by collective bargaining agreements or policies.

As a company, we reaffirm the important role played by trade unions in defending the interests of workers and we recognize UNI (Global Union) and the European Works Council as key partners in worldwide labour management.

At a local level, we also understand that works council management is steered through policies and rules established by the legal entity and, therefore, the procedures on reporting, consultation and negotiation have different meanings but are always in line with Telefónica's guiding principles.

Maintaining a neutral position on trade union activity is essential to ensuring a free and open environment that enables exercise of the right to free association. If workers wish to become members of a trade union, Telefónica will recognize trade unions that meet the terms and conditions set by ILO Convention 87, and always in accordance with local legislation.

At Telefónica we understand occupational health and safety as a concept that encompasses 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.

At Telefónica, we continue to make progress on positioning ourselves as a global benchmark for business well-being and renew our commitment to employee good health and well-being year after year.

We are aware that we still live in a situation of uncertainty and that the recent health, social, political and economic crises increase the risk of health-related tensions, especially of a psychological nature.

Furthermore, we are encountering new ways of organising work, which are characterised by flexible models encompassing on-site working, remote working and working from home. Preventive management therefore requires this to be adapted to the new environments and risks that emerge in those new models.

As a result, we continue to build a solid culture of health and safety focused on people at all levels: work environment, mental well-being, the promotion of health, physical activity and healthy eating, and personal environment.

Our goal is to be capable of generating confidence and optimism in the future, and this requires management and improvement of individual psycho-social health by offering psycho-social risk response and prevention programmes that can guarantee a preventive response to any health issues. We have therefore begun conducting psycho-social risk assessments that will provide us with a psycho-social diagnosis aimed at being able to define improvement actions that are appropriate to the risks identified and the environment in which these actions should be undertaken.

We also want to be a Company with zero accidents. Hence the importance we attach to reducing the accident rate and not exposing workers to unnecessary risks.

The Quality and Sustainability Committee is responsible for promoting the development of the Global Responsible Business Plan, which was approved by the Board of Directors and places emphasis on safeguarding and promoting the Health, Safety and Well-being (HSW) of our employees in the workplace.

The processes for identifying hazards, assessing risks and preventing accidents and occupational diseases are set out in the Global Health and Safety Policy and displayed locally adapted to the reality of each country..

We establish procedures to identify hazards and assess risks in order to prevent work-related accidents and

occupational diseases, ensuring compliance with the legal requirements in force in each country. Safety and health care guides are available for the engineers and office staff.

We have health services with essentially preventive and health promotion functions with the Joint Occupational Risk Prevention Service.

We have an Emergency Plan in place under which teams of people who have received first aid training. All employees have online courses available to them on occupational health, safety and well-being. Ongoing and specific training is also undertaken with the local teams in the various countries on the implementation of health, safety and well-being management systems, as well as numerous health and awareness-raising campaigns.

We promote information, consultation and participation for workers and other stakeholders to ensure safe and healthy workplaces. Worker representation on joint health and safety committees is the established model in the countries where we operate and 90% of our employees are represented on these committees.

In line with our target to be a benchmark for corporate well-being with a positive impact on our employees, partners, the environment and the organisation, we implement initiatives that promote a culture of well-being at all levels of the organisation. Furthermore, we offer digital disconnection measures and seek to guarantee work-life balance for our employees. We know that employees value the right to a safe and healthy work environment. We therefore base our action on communication and open dialogue while seeking to make employees feel comfortable in sharing their incidents and concerns. This is reflected in the annual climate survey, in which 78% feel that Telefónica supports employee well-being.

We believe that we are responsible for preventing and responding to the present and future psycho-social risks that may jeopardize the health of our employees. We have therefore begun to assess psycho-social risks throughout the Company. The goal is to use these assessments as a tool for identifying and monitoring those working conditions that might affect physical and mental health.

At the same time, we continue to promote emotional well-being and the psycho-social environment in the workplace in order to reduce emotional and mental stress. This has become a priority for our Company following recent global events (war in Ukraine, energy crisis, inflation, COVID-19).

We offer a portfolio of social benefits tailored to local practices in the markets where we operate, including universal health insurance for all employees and a support service for people with disabilities aimed at employees and their families. Our social benefits include

the care of mental health as a cornerstone for the well-being of our employees.

We facilitate workers' access to these wellness services and programmes through comprehensive communication campaigns. We also run training courses on emotional health, stress management, time management, leadership style and suicide prevention, among others.

We have platforms that help us promote physical activity in most countries, such as Gympass. In addition, we are transforming our relaxation spaces and catering areas to provide our employees with healthy products and other healthy ideas. We are also engaged in various nutrition programmes with nutritionists who draw up a dietary plan tailored to each person who takes part.

To complement these activities, we help to build environments that promote a higher quality of life and greater comfort by creating breastfeeding rooms, bicycle parking and changing rooms on our premises. We strive to foster accessibility to our spaces and thereby guarantee barrier-free environments for our employees with disabilities.

Our management, in response to the coronavirus, was focused on maintaining the safety of our employees, customers and partners. The formula that has allowed us to deal with this pandemic is a balanced mix of data analysis, active participation in international forums (WHO and United Nations) and daily interpretation of qualitative information (press, trends, news agencies, specialised studies).

With minor adaptations to existing tools, we have harnessed the full potential of the data and made safe progress on both health protection objectives and business challenges.

Liquidity and capital resources

Financing

The main financing transactions carried out in the bond market in 2022 are as follows:

Description	Issue date	Maturity date	Amount in millions (nominal)	Currency of issue	Amount in millions (nominal)	Coupon
Telefónica Emisiones, S.A.U.						
EMTN Bond	04/05/2022	07/13/2040	100	100	EUR	1.864 %
EMTN Bond (1)	05/25/2022	05/25/2031	1,000	1,000	EUR	2.592 %

(1) Sustainable bond

These transactions are guaranteed by Telefónica, S.A. On the same dates Telefónica, S.A. perceived loans from Telefónica Emisiones, S.A.U. of similar amount, terms and conditions.

The main transaction arranged in 2022 in the bank market is as follows:

- On January 13, 2022, there was a maturity extension of the syndicated credit facility of Telefónica, S.A. for 5,500 million euros. The loan has two annual extension options at Telefónica, S.A. request with a maturity maximum up to 2029.
- On September 26, 2022, Telefónica, S.A. signed a 150 million euros bilateral loan and maturing in 2032. At December 31, 2022 the loan was fully draw down.

- On December 23, 2022, Telefónica, S.A. signed a 125 million euros of a bilateral loan and maturing in 2032. There was no outstanding balance at December 31, 2022.

Available funds

At December 31, 2022 Telefónica, S.A.'s available funds from undrawn lines of credit in different financial institutions totaled 9,994 million euros (of which 9,859 million euros maturing in more than 12 months). Additionally, cash and cash equivalents as of December 31, 2022 amount to 4,989 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, 2022, 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 2022, measures taken to protect the credit rating included an active portfolio management through the closing of the sale of the entire share capital of Telefónica Móviles El Salvador.

Telefónica also closed various strategic deals to reinforce its business profile, such as the agreement reached between Telefónica Colombia and a Colombian company controlled by KKR, for the sale of fiber assets and for the provision of connectivity services and deployment of fiber network. And in December, the agreement with Vauban Infrastructure Partners and Crédit Agricole Assurances for the deployment and commercialization of a fiber FTTH network mainly in rural areas in Spain.

Additionally, Telefónica maintains a solid liquidity position and conservative approach to debt refinancing, as the Group took advantage of the historical low refinancing rates to extend average debt life and smooth its maturity profile in coming years.

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 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.

In February 2022, Telefónica announced the dividend policy for the year 2022, which consists of an amount of 0.30 euros per share in cash, payable in December 2022 (0.15 euros per share) and in June 2023 (0.15 euros per share).

The Annual General Shareholders Meeting held on April 8, 2022 approved the Proposals of the scrip dividend executed in June 2021, and the cash dividend paid in December, 2022.

For the payment in June 2023, the adoption of the corresponding corporate resolutions will be proposed to the Annual General Meeting to be held in 2023.

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 2022 and 2021, as well as the explanation about the evolution of the figure and the transactions involving treasury shares in 2022, 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 the 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 Telefónica. 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 Telefónica Group's assessment of their probability of occurrence and the potential magnitude of their impact. The assessment of the potential impact of any risk is both quantitative and qualitative considering, among other things, potential economic, compliance, reputational and environmental, social and governance ("ESG") impacts.

The Telefónica Group, taking into account the global risks identified by the World Economic Forum, as well as the increase in legal information requirements and the expectations of stakeholders in this area, monitors risks directly related to sustainability, as well as other risks with potential impact on ESG, highlighting those most relevant in the context of Telefónica's operation, including the adaptation to ESG expectations and information requirements and climate change.

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 Annual Report. Telefónica may change its vision about their relative importance at any time, especially if new internal or external events arise.

Risks Related to Telefónica's 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 (either new players or providers of OTT Services), or the merger of operators in certain markets (for example, market consolidation in the United Kingdom following a potential merger of mobile operators Vodafone UK and Three UK), 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, Mexico 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 of such obligations, it may suffer consequences such as economic fines or other measures that would affect the continuity of its business. In addition, 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 some 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, 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 National Frequency Allocation Table, raising the possibility of making available 450 MHz of the 26 GHz spectrum band, 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.

In the UK, in May 2022, the Office of Communications ("Ofcom") launched a public consultation on opening access to the 26 GHz and 40 GHz bands for mobile use. This is the first of a series of detailed consultations on the award, with a process possible towards the end of 2024 at the earliest. The consultation outlines the proposal to offer a range of local and city-wide licenses, differentiating between low- and high-density areas.

In Latin America, several auction processes are expected in the near term: (i) in Colombia, in December 2022, the Ministry of Information Technologies and Communications ("MinTIC") asked the industry to express their interest in participating in a possible auction for the spectrum that remains available in the 700 MHz, 1900

MHz and 2500 MHz bands as well as for 5G spectrum (3.5 GHz and 26 GHz bands). In such expression of interest, which is non-binding, Telefónica expressed its interest in obtaining spectrum in all the proposed bands except 26GHz. In its expression of interest Telefónica also highlighted the need to delay all spectrum auctions until the review on the spectrum pricing methodology currently underway is completed, and there is an alignment between spectrum cost and its value generation capacity, and until measures to avoid an excessive control of this resource by the dominant operator are defined. To date, no specific dates have been proposed for an eventual spectrum auction; (ii) in Peru, the authorities have indicated their interest in resuming the auction on the 1750 – 1780 MHz, 2150 – 2180 MHz and 2300 – 2330 MHz bands, but no specific date or conditions have been set for it. With regards to 5G and the spectrum auction for the 3.5 GHz and 26 GHz band, the government has not yet taken a decision; and (iii) in Argentina, the government has made public its intention to auction 5G spectrum in 2023, but no specific date for the process has been published. Pursuant to Resolution 2385/2022 published on December 28, 2022, the Ente Nacional de Comunicaciones (Enacom) approved the General Rules for Intelligent and Reliable Telecommunications Services that preliminarily sets the conditions for the implementation of 5G in Argentina; iv) in Uruguay on December 28, 2022 the Executive Power signed the decree authorizing an auction process for the 3.5 GHz band to occur in the first quarter of 2023.

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.

In Spain, and in accordance with the new Telecommunications Act (second transitory provision), Telefónica requested the Administration to extend the duration of its spectrum licenses up to a maximum of 40 years.

In Germany, in the allocation procedure for the frequencies at 800 MHz, 1800 MHz and 2.6 GHz, which will partially expire at the end of 2025, the Bundesnetzagentur has submitted a position paper for consultation as a follow-up to the consultation of orientation points which were connected with an initial survey of demand. In the position paper, it considers a spectrum scarcity to be obvious and is considering an auction as the award format. In order to reflect the importance of the 800 MHz band for mobile coverage, the Bundesnetzagentur proposes a swap in the term of the frequencies to be awarded at 800 MHz with an equal amount of 900 MHz frequencies. The frequencies at 900 MHz, 1800 MHz and 2.6 GHz would then be auctioned off. The frequencies at 800 MHz would have a term until the

end of 2033. Next steps in the spectrum allocation procedure in the form of cornerstones and a formal demand survey are expected in the first half of 2023.

In the UK, mobile spectrum licenses are generally indefinite in term, subject to an annual fee after a fixed period (usually 20 years) from the initial auction. There are no fee decisions now pending until 2033, when the fixed term for VMO2's 800 MHz licenses will expire.

With respect to Latin America:

In Brazil, the Agência 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 has presented an estimated value for calculating the migration balancing from the concession to the authorization regime, which will be validated by the Federal Court of Accounts. 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, the STFC concession held by Telefónica will remain in force until December 31, 2025. In addition, Resolution 744/2021 of April 8, 2021 (the "Continuity Regulation") 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 relation to the process that is being carried out before the Federal Court of Accounts, the technical area of the Court proposed the revision of the Continuity Regulation's terms so that it provides for the reversion, to the concessionaires, of the assets used in the provision of STFC. This proposal is still subject to deliberation by the Plenary of the Federal Court of Accounts.

In addition, on December 8, 2022, ANATEL revoked Telefónica's 450 MHz spectrum authorization (451-458 MHz and 461-468 MHz) covering the states of Alagoas, Ceará, Minas Gerais, Paraíba, Pernambuco Piauí, Rio Grande do Norte, Sergipe and part of São Paulo. The decision was motivated by the fact that Telefónica could not provide evidence of service activation in the 450 MHz band as a result of the unavailability of a 450 MHz devices ecosystem. The revocation of the spectrum license does not impact the services currently provided by Telefónica.

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, ANATEL referred the case to the federal court of accounts of Brazil ("TCU"), and in September 2022, TCU decided that the possibility of successive extensions brought by Law 13.879/19 should be considered as an exception, applicable only when certain requirements are met (art. 167 of Law 13.879/19 and article 12 of decree 10.402/20). Telefónica appealed that decision, defending the successive extension of licenses as a rule and not as an exception, in accordance with Law 13.879/19. Additionally, in August 2022, when deciding on an extension request made by the provider TIM for the 850 MHz, 900 MHz and 1.8 GHz bands, ANATEL issued a decision for the possibility of extending the 900 MHz and 1.8 GHz bands only until 2032, when the Agency intends to carry out a refarming action of these bands. This decision may impact Telefónica's extension requests for the aforementioned bands.

In Peru, an arbitration process was started by Telefónica, 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, which ended with a favorable award for Telefónica. The award recognizes that the methodology applied to assess compliance with the concession obligations in the concession renewal process was not in accordance with the provisions of the concession contract. The MTC, following this award, must issue a new regulation for renewals in a period of time yet to be determined. 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 1900 MHz band in all of Peru, except for Lima and Callao, which expired in 2018, and of other licenses to offer 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 2023, Telefonica will have to renew 30 MHz of spectrum in the AWS band. The spectrum renewal process has not been initiated.

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, in relation to 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. These 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 compliance with

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 Telefónica Argentina 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 for six months or until the final decision is adopted. On June 10, 2022, the Federal Contentious Administrative Court extended the precautionary suspension of the effects of DNU 690/2020 for an additional six months in Telefónica's favor. On December 27, 2022, the Federal Contentious Administrative Court extended the precautionary suspension of the effects of DNU 690/2020 for another six months in Telefónica's favor. During this period, Telefónica Argentina will not be subject to the provisions contained in the DNU 690/2020 in relation to price and public service regulations.

In Ecuador, Telefónica will seek to renew in 2023 the concession contract that authorizes the provision of telecommunication services and includes the spectrum licenses (25 MHz in the 850 MHz band and 60 MHz in the 1900 MHz band).

During 2022, the Group's consolidated investment in spectrum acquisitions and renewals amounted to 173 million euros, mainly due to the acquisition of spectrum in Colombia (compared to 1,704 million euros in 2021, mainly due to the acquisition of spectrum in Brazil and the United Kingdom, and 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 Appendix VI of the Consolidated Financial Statements.

Telefónica could be affected by disruptions in the supply chain or international trade restrictions, or by the dependency on its suppliers.

The existence of critical suppliers in Telefónica's 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. In the event that a participant in the supply chain engages in practices that do not meet acceptable standards or does not meet Telefónica's performance expectations (including delays in the completion of projects or deliveries, poor-quality execution, cost deviations or reduced output due to the suppliers own stock shortfalls), this may harm Telefónica's reputation, or otherwise adversely affect its business, financial condition, results of operations and/or cash flows. Further, in certain countries, Telefónica may be

exposed to labor contingencies in connection with the employees of such suppliers.

As of December 31, 2022, the Group depended on three handset suppliers (none of them located in China) and seven network infrastructure suppliers (two of them located in China), which, together, accounted for 81% and 80%, respectively, of the aggregate value of contracts awarded in the year ended December 31, 2022 to handset suppliers and network infrastructure suppliers, respectively. One of the handset suppliers represented 40% of the aggregate value of contracts awarded in the year ended December 31, 2022 to handset suppliers.

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, as well as those derived from geopolitical tensions such as the current war in Ukraine, could disrupt global supply chains or 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, 2021 and 2022 a 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, the armed conflict in Ukraine as well as the potential discontinuation of use of some suppliers as a result of tensions between the United States and China.

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.

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 businesses 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 fiber, requires high levels of investment. As of December 31, 2022, in Spain, fiber coverage reached 28.0 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. Any such investment may reduce the Group's profit and margins and may not lead to the development or commercialization of successful new products or services. To contextualize the Group's total research and development effort, the total expenditure in 2022 was 656 million euros (835 million euros in 2021, with the year-on-year change being impacted by deconsolidation of the entities that comprised our former Telefónica United Kingdom segment in June 2021, and 959 million euros in 2020) representing 1.6% of the Group's revenues (2.1% and 2.2% 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, involves 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 (related to approximately 383.1 million accesses associated with telecommunications services, digital products and services and Pay TV as of December 31, 2022 and an average number of employees of 102,563 in 2022), 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 result in potential increased compliance privacy risks and, where applicable, costs.

Telefónica is subject to 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 the common standard 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, with the consequent increase in the risks and costs that this could entail for Telefónica.

Moreover, considering that the Telefónica Group operates its business on a global scale, it frequently carries out international data transfers concerning its customers, users, suppliers, employees and other data subjects to countries outside the 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 the necessary controls in place to ensure that such international data transfers are carried out in accordance with the GDPR, in an environment marked by uncertainty on this issue as to the adequate and effective measures to mitigate such risks.

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 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 for 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, according to the Court of Justice of the European Union (CJEU), 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 for transfers, obliges companies to replace the old SCC, as the old SCC ceased to be legally valid at the end of 2022 in accordance with the aforementioned Implementing Decision. The implementation of the new SCC and their module structure and dispositive parts, which need to be negotiated between data exporters and importers, the obligation to assess and analyze each international transfer, the changing nature of the local regulations of the countries of destination, as well as 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.

With regard to the international data transfer to the United States of America, on October 7, 2022, the U.S. President signed an executive order directing the steps that the United States will take to implement the U.S. commitments to improve the European Union–U.S. Data Privacy Framework in light of the judgment of the CJEU C-311/18. In connection with this U.S. initiative, the European Commission published in December 2022 a draft adequacy decision that would facilitate the transfer of data to the United States of America, which, like its predecessors, the International Safe Harbor Privacy Principles and the EU-U.S. Privacy Shield, is based on a self-regulatory approach, whereby U.S. companies that undertake to comply with the principles set out in the Privacy Framework will be able to self-certify as “adequate undertakings”. They will thus be able to import data from the EU to the U.S. if they commit to providing an adequate level of protection to the data transferred.

While this represents an improvement in the regulatory landscape for international data transfers and the risks associated with them, the approval of this new adequacy decision for the United States is subject to the non-binding review by the European Data Protection Committee and the Civil Liberties Committee of the European Parliament, as well as the mandatory and binding approval by the Member States in the Council, which is not expected to occur until mid-2023.

In addition, the United Kingdom's 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 for international transfers. The Adequacy Decision establishes an initial period of validity of four years, which may be extended only if the United Kingdom demonstrates that it continues to ensure an adequate level of data protection. In this regard, since European Union regulations no longer apply in the United Kingdom, the UK government has published a draft reform of its local privacy and data protection regulations in June 2022, which, if it finally passes through parliamentary procedures and is approved, aims to update these regulations to address new technological challenges and business opportunities in the use of data. The result and approval 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.

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 9.1 million euros based on the exchange rate as of December 31, 2022) per infraction which may increase compliance risks and costs. In addition, in 2022 the Brazilian data protection authority, Autoridade Nacional de Proteção de Dados (ANPD), became an independent agency not linked to the presidency of the Republic, thus providing it with additional autonomy to develop its control and supervision functions.

Furthermore, in Ecuador, the Organic Law on Data Protection has entered into force, aligned with the principles of the European GDPR, although the effectiveness of the sanctioning regime is postponed for a two-year adaptation period which ends in 2023. In addition, Argentina has ratified Convention 108+, which is an international treaty of the Council of Europe which is open to accession by any state outside Europe, and which regulates the protection of the rights of individuals with regard to the automated processing of their data, in a very similar way to the protection granted by virtue of the GDPR. Likewise, in Chile and other territories in the region where Telefónica operates, 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 or 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 offering 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", "Connected Car", "Smart Cities", "Smart Agriculture" and "Smart Metering" 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: firstly, 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 are intrinsically dependent on information technology systems and platforms that are susceptible to cyberattacks. Successful cyberattacks could prevent the effective provision, operation and commercialization of products and services in addition to affecting their use by 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, react and recover from 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 providers and other third parties), as well as to ensure the security of the services in the cloud.

Telecommunications companies worldwide face continuously increasing cybersecurity threats as businesses become increasingly digital and dependent on telecommunications, computer networks and cloud computing technologies. As a result of the circumstances brought by the COVID pandemic, remote access and teleworking of employees and collaborators has spread and is now a common practice, increasing the use of cloud services; thus, the risks associated with their use, and forcing companies to review the security controls beyond the perimeter of the corporate network. Further, the Telefónica Group is aware of the possible cybersecurity risks arising from the conflict in Ukraine, monitoring cyberattacks that may affect our infrastructure, and maintaining contact with national and international organizations to obtain cyberintelligence information, without having so far detected a significant increase in attacks in our perimeter compared to other previous periods, though this may change in the future. 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 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; (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. None of these incidents had material consequences for the Telefónica Group, but this may change in the future.

Although Telefónica seeks to manage these risks by adopting technical and organizational measures as defined in its digital security strategy, such as the use of early vulnerabilities detection, access control, log review of critical systems and network segregation, as well as the deployment of firewalls, intrusion-prevention systems, virus scanners and backup systems, it can provide no assurance 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.

Climate change, natural disasters and other factors beyond the Group's control may result in physical damage to our technical infrastructure that may cause unanticipated network or service interruptions or quality loss or otherwise affect the Group's business.

Climate change, natural disasters and other factors beyond the Group's control, such as system failures, lack of electric supply, network failures, hardware or software failures, theft of network elements or cyber-attacks can damage our infrastructure and affect the quality of, or cause interruption to, the provision of the services of the Telefónica Group.

Further, 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. 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, Telefónica, and may have a negative impact on the Group's operations results. Telefónica analyses these risks in accordance with the recommendations of the Task Force on Climate-Related Financial Disclosures ("TCFD").

Network or service interruptions or quality loss or climate-related risks 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 inflationary pressures, rapid normalization of monetary policy, exchange rate or sovereign-risk fluctuations, as well as growing geopolitical tensions, may adversely affect Telefónica's business, financial position, debt management, cash flows and results of operations and/or the performance of some or all of the Group's financial indicators.

Russia's invasion of Ukraine opened a period that has been characterized by extraordinary uncertainty and the simultaneous concurrence of multiple negative shocks. Inflationary pressures, arising from bottlenecks associated with the rapid recovery from the pandemic, have been exacerbated by two phenomena that are closely related to the Russian invasion; i) the largest energy crisis since 1970s (17.7% of GDP spent on energy in 2022 vs. 10.2% in 2019 in OECD countries) and ii) the highest increase in world food prices in recent history, resulting in inflation rates not seen in the last 40 years. The persistence of shocks led inflationary pressures to become more broad-based, with higher costs increasingly being passed through to the final prices of other goods and services, leading to strong response from central banks (interest rate hikes and liquidity withdrawal) and a significant loss of consumer purchasing power. Further, it is likely that the transmission of past increases in energy prices and other

imported goods to final prices has not yet been completed, which will continue to put some upward pressure in the short term. These inflationary pressures have also been contributed to by the increasing wage demands that have been observed at the international level, reflecting both the strength of labor markets, especially those of the main developed economies, and the prevalence (although to a lesser extent than in the past) of wage indexation mechanisms. Moreover, there is a risk that global liquidity reduction and high interest rates could generate greater financial volatility leading to episodes of stress, such as those observed in the United Kingdom, especially if inflation turns out to be more persistent than previously expected. Also, premature monetary easing by central banks could lead to inflationary rebound that could generate a new period of stagflation as in the 1970s. Going forward, elements that could worsen the effects of the current situation include the escalation of the armed conflict and potential disruptions to energy supply and possible further increases in commodity prices, with a potential de-anchoring of inflation expectations and higher-than-expected wage demands, prolonging and amplifying the inflation-recession scenario. As a result of the above, economic growth is expected to decelerate further in the near term, with a significant risk of recession in many parts of the world.

So far, the main European countries where the Group operates have been affected through the price channel (higher commodity prices, intermediate inputs and salary costs, among others), as their trade and financial exposure is limited. However, in Europe there is concern about the energy situation for both this and next winter if climate conditions worsen in the face of a possible gas shortage. Latin America could be affected by lower external demand associated with slower global growth, deteriorating terms of trade and tighter financial conditions.

As of December 31, 2022, the contribution of each segment to Telefónica Group's total assets was as follows: Telefónica Spain 25.5% (22.9% as of December 31, 2021), VMO2 9.8% (11.1% as of December 31, 2021), Telefónica Germany 17.5% (18.3% as of December 31, 2021), Telefónica Brazil 22.7% (19.7% as of December 31, 2021) and Telefónica Hispam 14.5% (14.3% as of December 31, 2021). Part of the Group's assets are located in countries that do not have an investment grade credit rating (in order of importance, Brazil, Argentina, Ecuador and Venezuela). Likewise, Venezuela and Argentina are considered countries with hyperinflationary economies in 2022 and 2021.

The main risks are detailed by geography below:

In Europe, there are several risks of an economic and political nature. First, the development of the armed conflict between Russia and Ukraine constitutes the main risk factor on growth and inflation prospects. Any worsening of the supply of gas, oil or food (such as the

total shutdown of flows from Russia) would have a negative impact on their prices with a consequent impact on disposable income. In the medium term, this could lead to a stronger pass-through to final consumer prices, which could result in higher-than-expected wage increases, a persistent rise in inflation expectations and an even tighter monetary policy. All of the above would be added to the economic risks existing prior to the conflict, such as the consequences of an increase in the cost of financing conditions, both for the private and public sectors (more accelerated than expected a few months ago) which could trigger episodes of financial stress. Finally, there is a risk of financial fragmentation in the transmission of monetary policy in the Eurozone, which means that interest rates may react differently in different countries across the Eurozone, leading to differences in the yields of bonds issued by peripheral countries (such as Spain) and those issued by central countries, which would make access to credit more difficult for the former.

- *Spain*: there are several local sources of risks. One of them stems from the risk that supply disruptions will have a more persistent negative economic impact than expected, and high commodity prices and/or the emergence of second round effects, prolonging the inflationary episode with a deeper impact on household income. Secondly, and although the disbursement of European funds (NGEU) appears to be gaining traction, further delays or even designing flaws could limit their final impact on GDP growth and employment. In addition, 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, the rise of protectionism and trade restrictions could have significant implications. Lastly, the impact of rising interest rates could be a source of financial stress due to high public indebtedness and lead to a possible correction in the real estate market.
- *Germany*: in the short term, the main sources of risk relate to the country's energy supply (as 35% of energy came from Russia before the conflict) and the prolongation of bottlenecks in the supply of raw materials and intermediate goods in the manufacturing sector, which could continue to limit the expansion of economic activity. Among the risks associated with energy supply, there is a risk of unusually low temperatures that could lead to higher gas consumption requirements and may affect the ability to secure necessary gas supplies. On the other hand, there is concern that higher-than-expected wage growth could lead to a stronger inflationary cycle. As for the medium to long term, there is a risk that a potential escalation of geopolitical tensions could reduce international trade, with a consequent impact on the country's potential growth, which is dependent on exports. In addition, long-term challenges remain, such as the aging of the population.
- *United Kingdom*: an intensification of inflationary pressures could weigh on consumption and further depress economic growth. In particular, there is a concern that wage growth could lead to a further increase in the prices of goods and services, preventing inflation rates from normalizing as quickly as anticipated. On the other hand, although the UK economy has few direct trade links with Russia and Ukraine, it is vulnerable to developments in the global energy market as it is the second European economy with the largest share of gas in the energy mix. In addition, Britain imports gas and electricity from the European continent during the coldest months, so a confluence of an abnormally cold winter and a cut-off of Russian gas to Europe could lead to energy shortages. On the political front, recent social polarization could detract political capital from the incoming executive, becoming another source of uncertainty in the short to medium term. Finally, the formal exit of the United Kingdom from the European Union on December 31, 2020 (Brexit) has created new barriers to trade in goods and services, mobility and cross-border exchanges, which will entail an economic adjustment in the medium term. Northern Ireland's post-Brexit status and the difficulties associated with the implementation of the Northern Ireland Protocol will continue to be a source of tension.
- In Latin America, the exchange risk is moderate but may increase in the future. The end of electoral events and rapid central bank actions to contain inflation may, at least partially, limit the impact of external risks (global trade tensions, abrupt movements in commodity prices, concerns about global growth, tightening U.S. monetary policy and financial imbalances in China) and internal risks (managing the monetary normalization and the possible underlying fiscal deterioration).
- *Brazil*: fiscal sustainability remains the main domestic risk, especially considering the recent approval of extraordinary spending of ~2% of GDP by 2023. The new administration's initial signals are towards greater economic interventionism, the repeal of the spending cap and the review of the privatization agenda. Political negotiations could be affected by social polarization. Uncertainty now centers on the unknown economic guidelines for the coming years of the new government, including the definition of a new fiscal rule, expenditure increase and the economic reform agenda. Given this context, domestic asset prices, including the exchange rate, continue to show high volatility. In addition, higher fiscal risks have also affected inflation expectations, which have increased since December 2022, remaining above the targets for the monetary policy's relevant horizon (2023 and 2024). In this regard, there is a risk that interest rates will be above the levels expected a few months ago, which would imply a downward bias for GDP growth in 2023.

- Argentina: macroeconomic and exchange rate risks remain high. The main domestic challenges are achieving political consensus to reduce the public deficit and rebuilding international reserves in a context of high inflation, in order to allow the country to meet the targets agreed with the International Monetary Fund. On the external front, a global slowdown resulting in lower demand for exported products and their prices would imply lower hard currency inflows, which would increase vulnerability to volatility in international financial markets. Finally, the application of unorthodox price control measures and increasing foreign exchange restrictions could affect Telefónica's profitability.
- *Chile, Colombia and Peru*: these countries 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. In this regard, measures that result in excessive growth in public spending that jeopardize fiscal balance could have a negative impact on sovereign credit ratings, further deteriorating local financing conditions. High inflation threatens to be more persistent than expected, which would limit central banks' ability to respond to an abrupt drop in activity levels and would also increase the risk on financial stability. In political terms, uncertainty prevails both in Chile, due to the new constituent process underway, and in Colombia, due to the impact that the tax and pension reforms promoted by the President may have on private investment. In Peru, political instability could continue despite the installation of the new government due to the lack of support both in chambers and at the grassroots level.

As discussed above, the countries where the Group operates are generally facing significant economic uncertainties and, in some cases, political uncertainties. The worsening of the economic and political environment in any of the countries where Telefónica operates may materially adversely affect the Group's business, financial condition, results of operations and/or cash flows.

The Group has and, in the future, could experience impairment of goodwill, investments accounted for by the equity method, 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, 2022, represented 16.8% of the Group's total assets), investments accounted for by the equity method (which represented 10.6% of the Group's total assets as of December 31, 2022), deferred tax assets (which as of December 31, 2022, represented 4.5% of the

Group's total assets), or other assets, such as intangible assets (which represented 11.0% of the Group's total assets as of December 31, 2022), and property, plant and equipment (which represented 21.6% of the Group's total assets as of December 31, 2022). 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, and such calculation requires significant assumptions and judgment. In 2022 impairment losses in other assets of Telefónica Argentina were recognized for a total of 77 million euros. In 2021 impairment losses in the goodwill of Telefónica del Perú were recognized for a total of 393 million euros and 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 (101 million euros in 2020).

Further impairments of goodwill, deferred tax assets 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, 2022, the Group's gross financial debt amounted to 39,079 million euros (42,295 million euros as of December 31, 2021), and the Group's net financial debt amounted to 26,687 million euros (26,086 million euros as of December 31, 2021). As of December 31, 2022, the average maturity of the debt was 13.1 years (13.6 years as of December 31, 2021), 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 to obtain 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, 2022, the Group's gross financial debt scheduled to mature in 2023 amounted to 4,020 million euros, and gross financial debt scheduled to mature in 2024 amounted to 2,010 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, 2022. As of December 31, 2022, the Telefónica Group had undrawn committed credit facilities arranged with banks for an amount of 11,737 million euros (11,434 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, 2022, 2.6% of the aggregate undrawn amount under credit lines was scheduled to expire prior to December 31, 2023.

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 interest rates or foreign currency exchange 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); (ii) the value of long-term liabilities at fixed interest rates; and (iii) financial expenses and principal payments of inflation-linked financial instruments, considering interest rate risk as the impact of changes in inflation rates.

In nominal terms, as of December 31, 2022, 88% of the Group's net financial debt had its interest rate set at fixed interest rates for periods of more than one year. The effective cost of interest payments for the last 12 months was 3.86% as of December 31, 2022 compared to 3.77% as of December, 2021. To illustrate the sensitivity of financial expenses to variations in short-term interest rates as of December 31, 2022: (i) a 100 basis point 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 34 million euros, whereas (ii) a 100 basis point decrease in interest rates in all currencies (even if negative rates are reached), would have led to a reduction in financial expenses of 34 million euros. For the preparation of these calculations, a constant position equivalent to the position at that date is assumed of net financial debt.

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 11 million euros as of December 31, 2022 and a 10% appreciation of Latin American currencies against the U.S. dollar and a 10% appreciation of the rest of the currencies to which the Group is most exposed, would result in exchange losses of 11 million euros as of December 31, 2022. These calculations have been made assuming a constant currency position with an impact on profit or loss for 2022 taking into account derivative instruments in place.

In 2022, the evolution of exchange rates positively impacted the Group's results, increasing the year-on-year growth of the Group's consolidated revenues and OIBDA by an estimated 4.5 percentage points and 3.0 percentage points, respectively, mainly due to the evolution of the Brazilian real (negative impact of 2.3 percentage points and 2.7 percentage points, respectively, in 2021). Furthermore, translation differences as of December 31, 2022 had a positive impact on the Group's equity of 1,169 million euros (4,088 million euros as of December 31, 2021).

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 tax and regulatory proceedings in Brazil, primarily relating to the ICMS (a Brazilian tax on telecommunication services) and the corporate tax.

Telefónica Brazil maintained provisions for tax contingencies amounting to 446 million euros and provisions for regulatory contingencies amounting to 336 million euros as of December 31, 2022. In addition, Telefónica Brazil faces possible tax contingencies for which no provisions are made (see Note 25-Tax Litigation in Telefónica Brazil, to the Consolidated Financial Statements). Further, the Group makes estimates for its tax liabilities that the Group considers reasonable, but if a tax authority disagrees, the Group could face additional tax liability, including interest and penalties. There can be no guarantee that any payments related to such contingencies or in excess of our estimates will not have a significant adverse effect on the Group's business, results of operations, financial condition and/or cash flows. In addition to the most significant litigation indicated above, further details on these matters are provided in Notes 25 and 29 to the Consolidated Financial Statements. The details of the provisions for litigation, tax sanctions and claims can be found in Note 24 of the Consolidated Financial Statements.

Telefónica Group is also party to certain litigation in Peru concerning certain previous years' income taxes in respect of which Telefónica has been notified that the judicial resolutions which resolve the contentious administrative processes are unfavorable to the Group and will require it to pay taxes related to prior years. At the end of the relevant proceedings, the Tax Administration, through an administrative act, will determine the amount of the payment obligation. The estimated impact of the aforementioned judicial resolutions is already provisioned in Telefónica's financial statements, with the total provision as of December 31,

2022 amounting to 3,849 million Peruvian soles (approximately 945 million euros at the exchange rate at such date).

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.

Increased scrutiny and changing expectations from stakeholders, evolving reporting and other legal obligations and compliance with the Company's own goals regarding ESG matters, may expose the Company to various risks.

The Telefónica Group may be unable to adapt to or comply with increasingly demanding expectations from analysts, investors, customers and other stakeholders and new regulatory reporting or other legal requirements related to ESG issues. Further, expectations and requirements may differ from region to region, may be based on diverging calculation or other criteria and may experience material changes as they still are at their emerging phase.

Further, the Group's disclosure of information on its ESG objectives and initiatives in its public reports and other communications (including its emission-related goals) subjects it to the risk that it will fail to achieve these objectives and initiatives.

Although Telefónica is working to comply with new ESG reporting requirements, to achieve its objectives, and to meet the expectations of its stakeholders in these matters, if the Company is unable to meet these expectations, fails to adequately address ESG matters or fails to achieve the reported objectives (including its emission-related goals), the Telefónica Group's reputation, its business, financial position, results of operations and/or cash flows could be materially and adversely affected.

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 U.S. 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, the United States, including by the U.S. Treasury Department's Office of Foreign Assets Control and the United Kingdom. The sanctions regulations restrict the Group's business dealings with certain sanctioned countries, territories, individuals and entities and may impose certain trade restrictions, among others, export and/or import trade restrictions to certain goods and services. 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, territories, lists of entities and persons sanctioned or certain trade restrictions). 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 and the revocation of licenses and authorizations, 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 2022 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 2022 Consolidated Management Report of Telefónica, S.A.

This document is also available in the public registers of the National Securities Market Commission (CNMV).

PABLO DE CARVAJAL GONZÁLEZ, SECRETARY OF THE BOARD OF DIRECTORS OF TELEFÓNICA, S.A.

I HEREBY CERTIFY

That the Annual Accounts (Balance Sheet, Income Statement, Statement of changes in equity, Statements of cash flow, and Notes) and the Management Report of Telefónica, S.A., corresponding to Fiscal Year 2022, have been approved by resolution of the Board of Directors of the Company validly adopted today.

That, in accordance with the provisions of article 253.2 of the Consolidated Text of the Spanish Corporate Enterprises Act, in accordance with article 37.1.3º of the Commercial Code, the Directors who are members of the Board of Directors of Telefónica, S.A. have signed the said documents on this sheet, the last of the said documents.

February 22, 2023

Secretary of the Board of Directors

Mr. José María Álvarez-Pallete López

Mr. Isidro Fainé Casas

Mr. José María Abril Pérez

Mr. José Javier Echenique Landiribar

Mr. Ángel Vilá Boix

Mr. Juan Ignacio Cirac Sasturain

Mr. Peter Erskine

Ms. Carmen García de Andrés...

Ms. María Luisa García Blanco

Mr. Peter Löscher

Ms. Verónica Pascual Boé

Mr. Francisco Javier de Paz Mancho

Mr. Francisco José Riberas Mera

Ms. María Rotondo Urcola

Ms. Claudia Sender Ramírez