



2021 Report

Telefónica Sustainable Hybrid Bond

Issue date: February 2021

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1. Introduction

Telefónica is a company that is aware of the new challenges posed by today's society.

We offer the means to facilitate communication between people, providing the most secure and cutting-edge technology, so that they can live better and achieve their goals.

With an innovative and attentive spirit and with an immense technological potential that multiplies the choice of its more than **369 million customers**, Telefónica **operates in 13 countries** and has over **103,000 employees**. Revenues for the period January-December 2021 were **€39.277 billion**.

Telefónica is a completely private company with more than **1.2 million shareholders**, listed on several of the world's leading stock markets.

In November 2018, the company published its first sustainable financing framework, updated in January 2021 (with an independent second-party opinion from Sustainalytics) linked to the United Nations Sustainable Development Goals and aligned with the ICMA¹ (International Capital Markets Association) Green Bond Principles, Social Bond Principles and Sustainability Bond Guidelines.

In this context, **Telefónica has already issued several green bonds**, pioneering issuances in the telco sector. It issued the first green bond in January **2019 (€1 billion)** and the first hybrid green bond in January **2020 (€500 million)** and has continued to issue sustainable debt with the issuing of the sector's first sustainable hybrid bond in February **2021 (€1 billion)**, the subject of this report. The funds obtained will serve to finance or refinance green projects (aimed at increasing the company's energy efficiency thanks to the process to transform the network from copper to optical fibre) and social projects (improving mobile broadband coverage in rural areas and support for entrepreneurship).

With this issuance, **Telefónica is taking a further step towards integrating sustainability into its business strategy** by allocating part of the financing to sustainability projects and goals, thereby also demonstrating its commitment to the investment community and to society as a whole, contributing to social welfare while generating value for its shareholders.



13 countries



103,000+
employees



€39,277 million
Revenues January-December
2021

Data at the end of 2021



First telco to issue a
green bond



First telco to issue a
sustainable hybrid bond

¹ <https://www.icmagroup.org/green-social-and-sustainability-bonds/sustainability-bond-guidelines-sbg/>.



2. Telefónica's ESG strategy

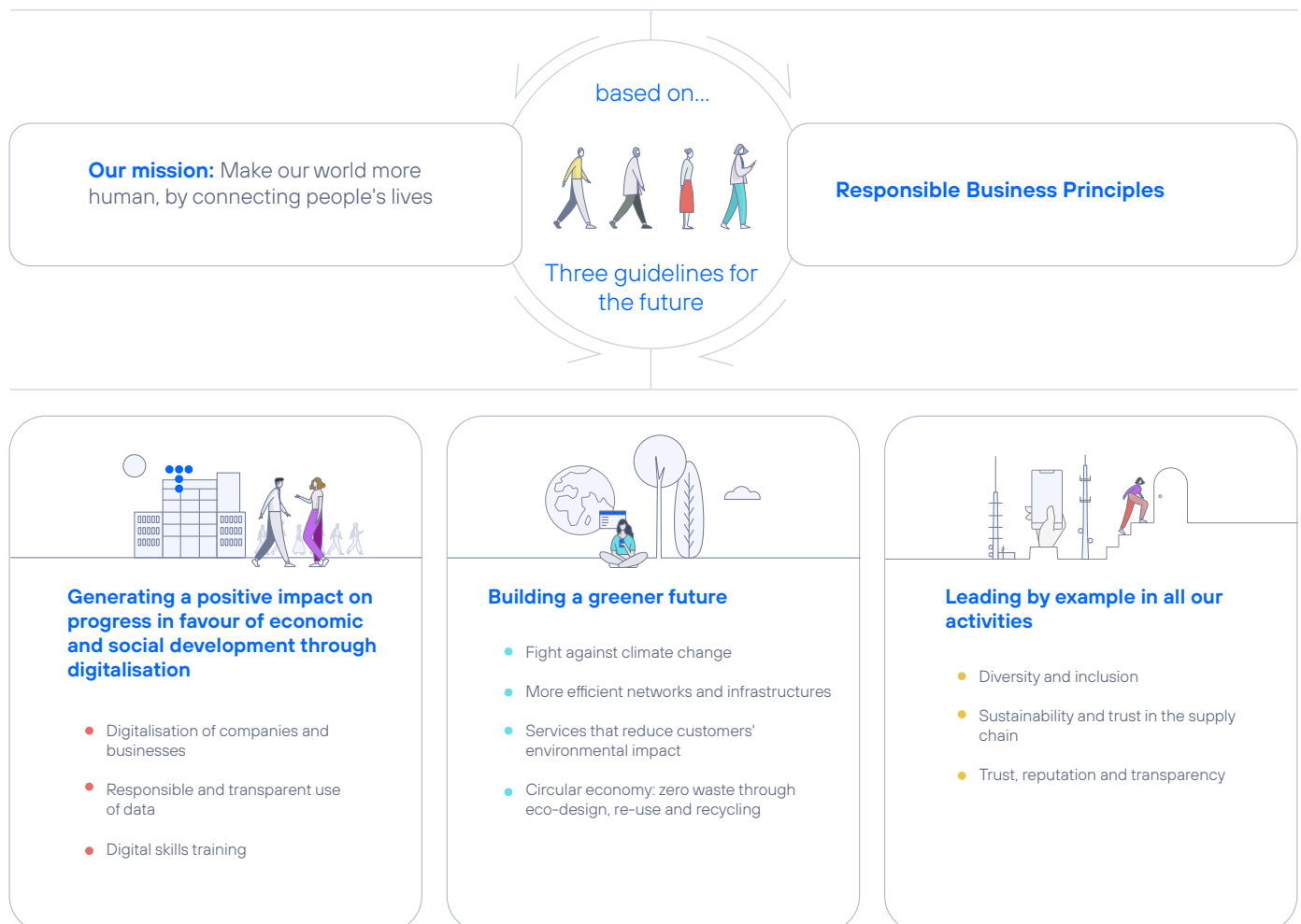
Transition to a more digital, sustainable and committed economy.

Telefónica's strategy is based on recognising the growing importance of the transition to an economy that is more digital, sustainable and committed to all our stakeholders, and takes into account the impacts and long-term goals it aims to achieve both internally and externally.

The main lines of our future strategy are based on three pillars:

- Generating a positive impact on progress in favour of economic and social development through digitalisation
- Building a greener future
- Leading by example in all our activities

Telefónica's Strategy



To ensure that this strategy translates into concrete targets and actions, we have an governance model at the highest level. The **Board's Sustainability and Quality Committee** oversees the implementation of this strategy at its monthly meetings. In addition, the **Responsible Business Office** holds four meetings a year with the heads of Compliance and DPO, Audit, the General Secretariat, Human Resources, Sustainability, Communication, Security, Procurement, Technology and Operations, Global Consumer and Telefónica Tech, and monitors this strategy. This office reports to the Sustainability and Quality Committee through the Chief Sustainability Officer.

2.1. Telefónica's commitment to addressing climate change

Strategy

Telefónica has an Energy and Climate Change strategy, aligned with the business, which has been approved by the Board of Directors. Through this strategy, it is committed to reducing its carbon footprint and delivering solutions to reduce its customers' emissions.

The company implements the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) to meet the demands of its main stakeholders and the transparency required in this area.

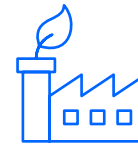
Energy and Climate Change Targets

After achieving our targets for 2025 four years ahead of schedule, we increased our ambitions and set ourselves the goal of going beyond the Paris Agreement by reducing our emissions faster than required by the 1.5°C scenario (targets validated by the Science Based Targets initiative) and achieving net-zero emissions by 2040, including the value chain. In addition, a percentage of the variable remuneration of employees, including the Management Committee, is linked to achieving the annual CO₂ emission reduction targets. These targets help us to leverage decarbonisation opportunities, to be more competitive and to offer our customers services based on a clean, efficient network.

- **Achieve an absolute reduction in emissions (scope 1 & 2) of 80% by 2030 and reaching net-zero emissions by 2040² at the latest, including the value chain.**
- **Achieve 100% renewable electricity consumption by 2030.**
- **Improve energy efficiency (consumption vs. data traffic) by 90% by 2025.**

In addition, Telefónica is already working with its suppliers to reduce CO₂ emissions in its value chain by 39% by 2025 in comparison with 2016, as they are the key allies in reducing carbon footprint and boosting the circular economy. In five years, Telefónica has reduced emissions in its value chain by 27%.

Our commitment to the environment goes beyond our own emissions; it extends to the entire economy. The company is therefore increasing its range of digital solutions, based on IoT, Cloud, Security, Big Data and Artificial Intelligence to help its customers, and society in general, to improve waste management, reduce air pollution, save water, prevent fires, etc.



Net-zero
emissions in 2040

We increase the
ambition of our
goals



SCIENCE
BASED
TARGETS

DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

SBTi validation

1.5°C



**OUR ONLY
FUTURE**

² Net-zero emissions in our main markets and for scope 1 and 2 by 2025

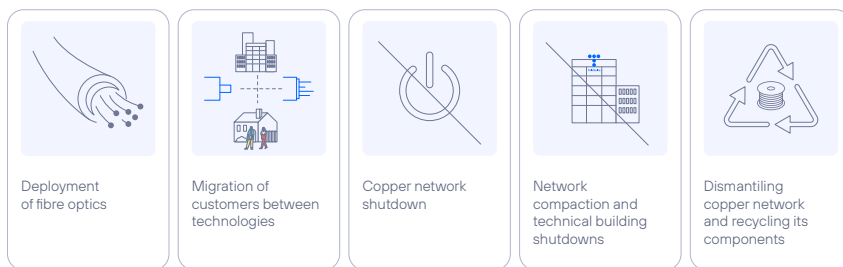
In 2021, Telefónica succeeded in avoiding 8.7 million tonnes of CO₂ from its costumers thanks to the efficiencies generated by our products and services. This is equivalent to planting a forest of 143 million trees. Telefónica's global goal is to avoid 12 million tCO₂ of emissions from its customers each year as of 2025.

Outstanding projects: Transforming the network from copper to fibre

A significant part of the funds from this sustainable bond is allocated to the transformation of Telefónica's fixed-line communications network in Spain and Brazil (the Sao Paulo region) from copper to fibre (Fibre to the Home, FTTH).

This project enables the creation of the network of the future: a more efficient and cleaner network which will also be the enabler of many digital services with a positive effect on society.

Network transformation process:



The project is divided into three phases:

Fibre deployment: Construction of the fibre optic network in FTTH (Fibre to the Home) mode between Telefónica's technical building and the CTO (point of deployment closest to the customer's home, whether a residential or a business customer).

Transportation: Construction of the transport network necessary to manage the data of customers with a fibre connection. This issue has been dealt with in a very restrictive way when allocating funds, as transport is a common element of several technologies. For this bond, only the part of transport associated with agreements with different public or private entities in which it is specified that the access technology must be fibre optics has been selected.

Customer migration: Changing existing customers with copper technology access to fibre optic technology access. It includes the operations between the CTO and the customer's home.

Thanks to fibre optics, Telefónica has a network that is better prepared for the future and that can cope with the demands of 5G, virtualisation and services such as Cloud, Edge Computing, Big Data and Analytics.

In line with our global objectives, this transformation project seeks to achieve maximum business and environmental efficiency in the deployment and maintenance of our network.



8.7 million tonnes
of CO₂ avoided
by our customers



Transformation
of our network
from copper to
fibre, 85% more
efficient



Fibre is much more efficient than copper and it plays a key role in sustainable connectivity, as it involves:

a) Greater simplification and environmental efficiency in the operation of our business:

- **Energy efficiency:** Access by fibre consumes between 7 and 20 times less energy per user (> 85% efficiency).
- **Closure of technical buildings:** Fibre optic connections have 4 times more range than copper connections, which allows us to shut down technical buildings.
- **Circular economy:** The closure of the copper network enables the recycling of equipment and cables to obtain raw materials: metals, rare earths, etc.
- **Space savings:** Fibre takes up 10 times less space and has 100 times more capacity.
- **Network quality and reduced maintenance and support resources:** With fibre there are half as many breakdowns as with copper, thus reducing the number of call-outs, the need for spare parts and logistics.


b) A new relationship model between customers and services based on self-installation/self-provision, flexibility and immediacy.

c) A social and economic impact on people, companies and territories. Facilitating digital education, entrepreneurship, new business and relationship models, improved ability to achieve work-life balance, better access to health services and population retention in rural areas.

d) Environmental benefits for our customers in the form of CO₂ emissions avoided thanks to digital services that need the capacity and data transmission speed offered by fibre optics.




Benefits of the network transformation process:



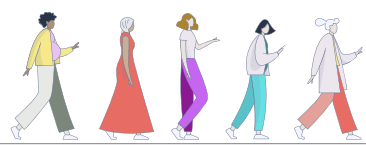
ENVIRONMENT

- Electricity savings (with the associated reduction in CO₂ emissions) thanks to shutdown of equipment and buildings, and compacting the network.



BUSINESS

- Telefónica has one of the largest fibre-to-the-home (FTTH) networks in the world.



SOCIETY

- Various studies relate economic development to broadband. According to an analysis we conducted, the deployment of fibre, principally in rural areas, can reduce the unemployment rate by 0.8%, increase average income by 3.9% and boost business creation, provided that it is accompanied by new digital services³.

2.2. Telefónica's commitment to society

Strategy

The opportunities arising from digitalisation are enormous and we need to harness all the capabilities that technology offers to improve people's quality of life and well-being, generate economic development and deliver innovative digital solutions that contribute to achieving the Sustainable Development Goals defined by the United Nations.

As part of our strategy, Telefónica has the goal of **taking the best connectivity and the latest technology to everyone**, so that as large a section as possible of the population has access to technology and the opportunities provided by the digital world. We advocate people-centred digitalisation and the implementation of a strategy to tackle inequality of opportunity.

In this context, Telefónica is developing an efficient telecommunications infrastructure based on new, faster, higher-capacity networks that are essential for long-term progress, increasing its coverage in even the most remote areas and, at the same time, developing products and services in line with the needs of each customer segment to ensure zero exclusion. Telefónica is also committed to helping SMEs in their transformation process, extending its range of communication services with specific IT solutions adapted to their needs.

Targets

We **promote more inclusive connectivity** in which we bring digitalisation to all people and boost the social and economic development of the communities in which we are present.

Digital solutions have shown that they can go where the social fault lines are and contribute to positively transforming communities and productive and economic models. The deployment of broadband networks, together with measures to boost digitalisation, have a direct impact on the socio-economic development of entire regions and on the lives of many people who gain access to services and opportunities that were previously unavailable to them.

These are the targets for rural deployment by 2024 in our main markets:

- **Spain: 97% of the rural population with 4G and 59% of the rural population with 5G**
- **Brazil: 90% of the rural population with 4G/5G**
- **Germany: 95% of the rural population with at least 100 Mbit/s**



Connectivity is one of the drivers of social and economic development



Target: 90-97% mobile broadband coverage in rural areas of our main markets by 2024



Outstanding projects: deployment of rural mobile broadband and fostering entrepreneurship and job creation

1. Mobile broadband deployment in rural areas

Broadband and digital services are connecting society, which means that anyone with access to Internet has greater access to information, to educational content, to job opportunities, to business development opportunities and even to financial and medical services. Digital inclusion and the opportunity to prosper through the digital world means having access to quality connectivity and having the necessary skills to take advantage of digital tools. Furthermore, in a business environment, SMEs need to access the fibre optic infrastructure, cloud connectivity and other digital services in order to survive and compete in the digital world, and many employees need to learn new skills so they are not left behind in the digital transformation.

Telefónica thus actively takes care of the needs of those who have been left out of the digital world, by rolling out, improving and/or optimising its networks in unconnected and/or poorly connected areas, principally in rural areas. Rural areas are deemed to be those areas classified as such according to the regulations and/or official institutions of each country.

Benefits of rural deployment



SOCIETY

Social and economic development in rural areas depends, among other things, on access to mobile broadband and the digital services based on that technology. Connectivity is an essential part of the transition process towards a digital society to achieve true social inclusion in all regions and at all levels.

Broadband networks have significant positive effects on various social and economic factors, such as fostering the creation of new businesses and increasing household income. A number of studies have demonstrated that these networks have a positive impact on GDP. Specifically, the International Telecommunication Union (ITU) determined that a 1% increase in mobile broadband penetration rates generates an increase of 0.15% in GDP (that is to say, an increase of 10% in the mobile broadband penetration rate results in an average increase of 1.5% in GDP⁴).



1,000+

startups receiving
investment through
Telefónica Open
Innovation

More than
€190 million
invested in startups

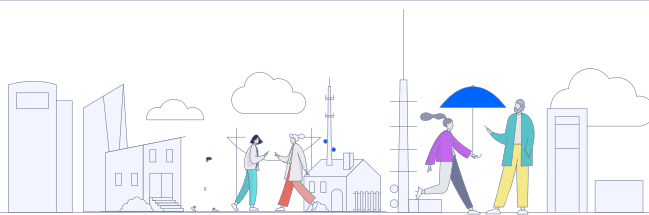
W wayra
Telefónica Innovation

2. Fostering entrepreneurship and job creation

The socio-economic development arising out of the creation of new businesses through entrepreneurship programmes results in a positive impact through the increase in productivity, improved employment and the development of technology and innovation in the communities where these new business are set up.

Because of this, Telefónica has been encouraging the development of entrepreneurship and technological-digital talent in the countries where we are present to help local ecosystems prosper and to incorporate innovation into our organisation. The Open Future, Wayra and Telefónica Venture programmes have been our key pillars for funding innovation and fostering entrepreneurship. As a result, hundreds of new startups have flourished, contributing new economic and employment opportunities and preventing the relocation of entrepreneurship and the migration of young entrepreneurs to other, more prosperous regions.

Benefits of supporting entrepreneurship



SOCIETY

Support for entrepreneurship and startups creates jobs, fosters talent and contributes to economic and social development in the regions. In addition, due to the geographically widespread nature of Telefónica's Open Innovation entrepreneurial network, the associated development of innovation and talent can occur in the regions of origin themselves. This is of great importance for boosting economic growth at a local level and encouraging the sustainability of every region. This is especially the case in those with high unemployment, where entrepreneurship may be a viable option and one with a future.



3. Telefónica's sustainable financing framework

In 2021, Telefónica published its new sustainable financing framework, which enables it to issue green, social and sustainable bonds.

This framework makes it possible to use the funds to finance or refinance, in whole or in part, existing and future projects that promote energy efficiency and the reduction of greenhouse gas (GHG) emissions within its own operations and those of its customers, as well as network deployment in rural or remote areas and boosting job creation and entrepreneurship. It has received the independent second-party opinion of Sustainalytics which considered our SDG Framework to be credible and impactful, and aligned with the four core components of the Green Bond Principles, Social Bond Principles and Sustainability Bond Guidelines.

This framework defines eligibility criteria for the following areas:

- **Energy efficiency of Telefónica's network infrastructure.**
- **Renewable energy.**
- **Energy efficiency: Digital solutions with a positive impact for the environment.**
- **Mobile and fixed broadband: boosting network deployment in unconnected or poorly connected areas.**
- **Job creation and economic growth.**

Each and every one of the aforementioned issues helps to contribute to achieving the Sustainable Development Goals, in particular SDG 9 (industry, innovation and infrastructure), SDG 8 (decent work and economic growth), SDG 7 (affordable and clean energy) and SDG 13 (climate action).

Telefónica has also established a project selection and evaluation process, which is overseen by a committee made up of senior management from the Finance Department, Management Control Department and the Sustainability Department, among others.

As established by the sustainable financing framework, Telefónica hereby reports on its annual performance, in terms of both the allocation of funds and the positive impact achieved, which is measured through specific indicators such as energy saved (in GWh), tonnes of CO₂ emissions avoided, number of municipalities benefiting from the network deployment and the number of jobs created.





4. Basic data on Telefónica's sustainable hybrid bond

Issuer	Telefonica Europe B.V.
Guarantor	Telefonica SA
Guarantor rating	Baa3/BBB-/BBB (Moody's/ S&P/Fitch)
Type of debt	Direct, unsecured and subordinated obligations, senior only to share capital, pari passu with outstanding hybrids
Nominal amount (EUR)	1,000,000,000
Disbursement date	12 February 2021
Maturity date	Perpetual (redeemable from 12 May 2029)
Coupon	2.376%
Use of the funds	Eligible investments related to energy efficiency, connectivity, economic growth and job creation
Second opinion	Sustainalytics
Admission to securities trading	Irish Stock Exchange regulated continuous market
ISIN code	XS2293060658



5. Fund allocation and impacts

The total funds allocated amounted to €1.066 billion

This bond finances three projects: transformation of the network (replacing the copper fixed network with FTTH), mobile broadband deployment in rural areas, and fostering entrepreneurship and job creation.



Project	SDG	Impact			Funds allocated (million €)
			2019	2020	
Transformation of network from copper to fibre (Spain and Brazil)		Fixed network electricity consumption/traffic (kWh/PB) (compared to previous year)	N/A	-29%	570
		Electricity savings due to shutdowns and network transformation (kWh)	4,367,544	20,916,117	
Rural mobile broadband (Spain, Brazil and Germany)		Population benefiting from investment in deployment or improvement of mobile broadband connectivity in rural areas	35,449,408	47,519,287	488
		Users benefiting from investment in deployment or improvement of mobile broadband connectivity in rural areas	9,511,216	13,934,080	
		Number of rural areas benefiting from investment in deployment or improvement of mobile broadband connectivity in rural areas	2,882	4,508	
Fostering entrepreneurship and job creation (Spain and Brazil)		Number of companies receiving investment through Telefónica Open Innovation	34	23	8
		Number of jobs created through investment from Telefónica Open Innovation	340	230	

TOTAL 1,066



6. Impact indicators and calculation methodology

Impact of the project to transform the network from copper to fibre

Project	SDG	Indicator	OB	2019	2020	Evolution
Energy Efficiency of Telefonica's Network Infrastructure: Transformation of the network from copper to FTTH	 	Fixed network electricity consumption/traffic (kWh/PB)	Spain	82,761.42 ⁵	58,079.73	-30%
			Brazil	47,880.19	34,174.11	-29%
		Electricity savings due to shutdowns and network transformation (kWh)	Spain ⁶	N/A	12,079,066	N/A
			Brazil	4,367,544	8,837,051	N/A

With the goal of measuring the positive impact of the project to transform the network from copper to FTTH, several monitoring indicators were established in line with that provided in the sustainable financing framework.

Description of impact KPIs:

● Fixed network electricity consumption (kWh)

This is the sum of all the electricity consumed by the Telefónica buildings needed to provide fixed-line network communications services (excluding those considered to be "unique" because they provide other types of services, such as offices or data processing units, as well as consumption by other operators in our buildings to provide their own services). It includes both buildings that are already 100% fibre and those that still have copper network equipment. In the case of Brazil, it is centred in the Sao Paulo region, with the largest number of customers in the country and the region in which the network transformation process is being developed with greater intensity.

● Fixed network electricity consumption between data traffic managed by said network (kWh/PB)

This energy intensity indicator is calculated by using the electricity consumption of the fixed-line network and the data traffic managed by that network, expressed in Petabytes (PB).

● Electricity savings (kWh)

This is the amount of electricity saved by disconnecting elements from the copper network and subsequent total shutdown of technical buildings.


The copper network is made up of a multitude of legacy technologies, resulting from the network developing over time, and therefore specific shutdown sub-projects have been defined for each technology. This has made it possible to define consumption by the elements of each technology in a more homogeneous manner, either through the element's technical specifications or through direct measurement of its consumption. A small fraction is added to this consumption, corresponding to the savings in air conditioning thanks to the lower heat dissipation of the communication equipment.

The number of elements that are shut down and their typology are reported monthly. This, together with the consumption data for each type of element, allows the amount of energy saved each month by these projects to be calculated. Since the exact day on which each element is shut down is not known, it is assumed that, for the current month, only the savings corresponding to 15 days are allocated. From the following month onwards, the amount of electricity saved over 30 days is considered.

⁵ Data from the 2020 Green Hybrid Bond Report <https://www.telefonica.com/en/wp-content/uploads/sites/5/2021/08/Green-Bond-Reports-20210122.pdf>

⁶ It includes the impacts from September to December 2020, period for allocation of funds included in this sustainable bond.

Impact of the project to deploy mobile broadband in rural areas

Project	SDG	Indicator	OB	2019	2020
Mobile broadband in rural areas		Population benefiting from investment in deployment or improvement of mobile broadband connectivity in rural areas	Spain	5,150,881	5,973,272
			Brazil	4,303,108	15,550,596
			Germany	25,995,419	25,995,419
		Number of users benefiting from investment in deployment or improvement of mobile broadband connectivity in rural areas	Spain	1,158,050	1,150,531
			Brazil	1,611,661	6,086,272
			Germany	6,741,505	6,697,277
		Number of rural areas benefiting from investment in deployment or improvement of mobile broadband connectivity in rural areas	Spain	2,427	3,114
			Brazil	262	1,201
			Germany	193	193

Description of impact KPIs:

● Population benefiting from investment in deployment or improvement of mobile broadband connectivity in rural areas

This takes into account those people located in rural areas who have benefited from the deployment, extension and/or optimisation of the mobile broadband services (HSPA+, 4G, LTE, 5G) and which, as a consequence of this investment, have become better connected. This population reside in locations that can be considered connected areas⁷.

It is calculated taking into account the population census of all the municipalities in which there has been an investment made by Telefónica for the task stated in the previous paragraph.

● Number of users benefiting from investment in deployment or improvement of mobile broadband connectivity in rural areas

This takes into account all end users (private individuals/B2C and companies /B2B) that benefited from the deployment, extension and/or optimisation of the mobile broadband services (HSPA+, 4G, LTE, 5G).

It is calculated taking into account the number of lines of private individuals or companies in the municipalities in which investment has been made.

● Number of rural areas benefiting from investment in deployment or improvement of mobile broadband connectivity in rural areas

This takes into account rural areas, the locations where investment has been made for the deployment, extension and/or optimisation of the mobile broadband services (HSPA+, 4G, LTE, 5G). This is to say, this is the number of localities in which Telefónica has invested and which have benefited from it.


Those geographical areas which fulfil the official and national definition of "rural area" have been deemed rural areas. For the case of Spain, the official data is obtained from the Instituto Nacional de Estadística and meet the criteria set in article 3 of Law 45/2007 (Rural Sustainable Development Act). For the case of Brazil, the information comes from the Instituto Brasileiro de Geografia e Estatística, which is a federal agency linked to the Ministry of Economy. And for the case of Germany, the definition has been provided by the Bundesinstitut für Bau-, Stadt, und Raumforschung, which is a public agency of the Federal Government.

⁷ These are those areas which are not:

· Unconnected areas: with no service (fixed or mobile) from any operator.

· Poorly connected areas: communities with at least one mobile service from an operator without broadband capacity. The backhaul or access capacity of the given site do not allow a quality Internet experience. To avoid any doubt, in accordance with the new definition (2018) of the FCC (Federal Communications Commission), the definition of broadband Internet is a minimum of 25 Mbps download speeds and 3 Mbps upload speeds. This would include, among others, HSPA+, 4G and 5G mobile broadband technologies. In general (but not necessarily), it involves scattered populations and rural municipalities.

Impact of the project to foster entrepreneurship and job creation

Project	SDG	Indicator	OB	2019	2020
Fostering entrepreneurship and job creation		Number of companies receiving investment through Telefónica Open Innovation	Spain + Brazil	34	23
		Number of jobs created through investment from Telefónica Open Innovation		340	230

Description of impact KPIs:

- Number of companies receiving investment through Telefónica Open Innovation**

Number of companies which have received investment through one of the three investment vehicles of Telefónica Open Innovation (Wayra, Telefónica Venture and Innovation Funds).

- Number of jobs created through investment from Telefónica Open Innovation**

Number of people directly employed by the company which has received investment through one of the three investment vehicles of Telefónica Open Innovation, taking an average of 10 employees per company⁸.

This takes into account countries where the impact on employment is significant and therefore it has taken into account those countries in which we are present and which have an unemployment rate that is higher than the average rate of the OECD (in the period for allocation of funds of this bond): Spain and Brazil.

⁸ The median and average of currently active companies is > 10 employees



7. Independent Review Report



Telefónica, S.A.

Independent Limited Assurance Report

Projects: "Transformation of network from copper to fibre (Spain and Brazil)", "Rural mobile broadband (Spain, Brazil and Germany)" and "Fostering entrepreneurship and job creation (Spain and Brazil)" (re)financed by the sustainable Hybrid Bond (ISIN XS2293060658).



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 Limited Assurance Report

To the Management of Telefónica, S.A.:

We have carried out our work to provide a limited assurance on the information related to the projects “Transformation of network from copper to fibre (Spain and Brazil)”, “Rural mobile broadband (Spain, Brazil and Germany)” and “Fostering entrepreneurship and job creation (Spain and Brazil) (re)financed by the sustainable hybrid Bond (ISIN XS2293060658), issued by Telefónica Europe B.V. (hereinafter, “the Bond”), contained in the report “Telefónica Sustainable Hybrid Bond” of Telefónica S.A. (hereinafter, “Telefónica”) for the year ended 31 December 2021, and prepared in accordance with the sustainable financing framework “Telefónica SDG Framework, January 2021”, (hereinafter, “the Framework”), available in the web page: <https://www.telefonica.com/en/shareholders-investors/rating/sdg-framework/>

The aspects of the information subject of our review are the following:

- The application of the eligibility criteria in the projects (re)financed by the Bond described in the Framework, as well as the (re)financed projects itself.
- The allocation of the funds obtained through the Bond to the projects (re)financed by it and that the capital invested in the projects (re)financed is attributable to the Bond.
- The verification that the impact indicators (Fixed network electricity consumption/traffic (kWh/PB), electricity savings due to shutdowns and network transformation (kWh), population benefiting from investment in deployment or improvement of mobile broadband connectivity in rural areas, number of users benefiting from investment in deployment or improvement of mobile broadband connectivity in rural areas, number of rural areas benefiting from investment in deployment or improvement of mobile broadband connectivity in rural areas and number of companies, as well as number of jobs created through investment from Telefónica Open Innovation) are prepared in accordance with their calculation methodology, defined in the mentioned report “Telefónica Sustainable Hybrid Bond”.

Responsibility of Management

Management of Telefónica is responsible for the preparation, content and presentation of the report “Telefónica Sustainable Hybrid Bond”, in accordance with the requirements included in the Framework in which the eligibility criteria of the projects, the allocation of funds, the impact indicators. In particular, this responsibility includes establishing, implementing and maintaining the internal control required to ensure that the information included in the report “Telefónica Sustainable Hybrid Bond” is free from any material misstatement due to fraud or error.



Management of Telefónica is also responsible for defining, implementing, adapting and maintaining the management systems from which the information required to prepare the mentioned report, is obtained.

Our independence and quality control

We have fulfilled our work in accordance with the independence requirements and other ethical requirements of the Code of Ethics for Professional Accountants (including the International Independence Standards) issued by the International Ethics Standard Board for Accountants (IESBA), which are based on basic principles of integrity, objectivity, professional competence and diligence, confidentiality and professional conduct.

Our firm applies the International Standard on Quality Control 1 (ISQC 1) and thus employs a global quality control system which includes documented policies and procedures on the compliance of ethical requirements, professional standards, statutory laws and applicable regulations.

Our responsibility

Our responsibility is to issue a limited assurance report based on the procedures that we have carried out and the evidence obtained. Our limited assurance engagement was done in accordance with the International Standard on Assurance Engagements 3000 (Reviewed) "Assurance Engagements other than Audits or Reviews of Historical Financial Information", issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC).

The scope of a limited assurance engagement is substantially less extensive than the scope of a reasonable assurance engagement and thus, less security is provided.

The procedures that we have carried out are based on our professional judgment and have included consultations, observation of processes, document inspection, analytical procedures and sampling test. The general procedures employed are described below:

- Meetings with Telefonica's personnel from various departments who have been involved in the preparation of the report "Telefónica Sustainable Hybrid Bond" in order to know the characteristics of the projects (re)financed by the Bond, the internal management procedures and systems in place, the data collection process and the environment control.
- Verification of the application of the eligibility criteria, described in the Framework, for the selection of projects (re)financed by the Bond.
- Analysis of the procedures used for gathering and validating the information and data presented in the impact indicators included in the report "Telefónica Sustainable Hybrid Bond".
- Verification of the traceability of the funds obtained through the Bond to (re)finance the projects and verification that the investments undertaken by Telefonica in the projects refinanced have been made in accordance with the Framework criteria.
- Verification through sampling tests revisions and substantive tests of the information related to impact indicators. We have also verified whether they have been appropriately compiled from the data provided by Telefónica's sources of information.
- Obtainment of a management representation letter from the Directors of Telefónica.



Conclusion

As a result of the procedures carried out and the evidence obtained, no matters have come to our attention which may lead us to believe that:

- The projects (re)financed by the Bond included in the report “Telefónica Sustainable Hybrid Bond” does not comply, in all its significant aspects, with the eligibility criteria described in the Framework.
- The funds obtained through the Bond have not been assigned to the projects (re)financed by it and that the capital invested in the (re)financed projects is not attributable to the Bond.
- The impact indicators contain significant errors or have not been prepared, in all their significant aspects, in accordance with what is indicated in the Framework and as indicated in the report “Telefónica Sustainable Hybrid Bond” in relation to its calculation.

Use and distribution

Our report is only issued to the Management of Telefónica in accordance with the terms and conditions of our engagement letter. We do not assume any liability to third parties other than Telefónica’s Management.

PricewaterhouseCoopers Auditores, S.L.

Original in Spanish signed by
Pablo Bascones

30 March 2022