



2022 Report

Telefónica's Sustainable Hybrid

Issue date: november 2021

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1. Introduction

Telefónica offers digital solutions that connect people through the deployment of telecommunications networks that are environmentally and sustainably efficient.

Telefónica is a telecommunications company with over 1.2 million shareholders and is listed on the world's leading stock exchanges. The Company currently operates in **13 countries** and employs over 103,000 people, serving more than **369 million customers**. At the end of 2021, revenues amounted to €39,277 billion.

In 2018, the Company published its first SDG framework, [which was subsequently updated in January 2021](#), and endorsed on both occasions [by Sustainalytics](#). The framework is **linked to the United Nations Sustainable Development Goals** and is aligned with the International Capital Markets Association (ICMA) Green Bond and Social Bond Principles as well as its Sustainability Bond Guidelines.

Telefónica is a **pioneer in sustainable financing** and stands out for the volume and diversification of its financial instruments. In 2019, it was the **first company in the telco sector to issue a green bond for an amount of €1bn**. Also, in 2020 the company issued the first **green hybrid amounted to €500 million** and in 2021 it launched the sector's **first sustainable hybrid, amounting to €1 billion**.

As part of the 2022-2024 Strategic Plan, the Company has gone a step further and has set a **target of 25% of total financing to meet sustainability criteria by 2024¹**.



13 countries



103,000+
employees



€39,277 million
Revenues 2021



First telco to issue
a green bond



First telco to issue
a sustainable hybrid

¹ Financing includes balance-sheet debt, hybrids and undrawn committed credit lines

Telefónica: Pioneers in sustainable financing



This allocation and impact report relates to the €750 million sustainable hybrid issued in November 2021.

The funds are allocated to finance and/or refinance green and social projects. With regard to the green projects the objective is to **increase the Company's energy efficiency** by transforming the telecommunications network, replacing the copper network with fibre optics. From a social standpoint, Telefónica also undertakes projects to **improve mobile broadband coverage in rural areas and support entrepreneurship**.



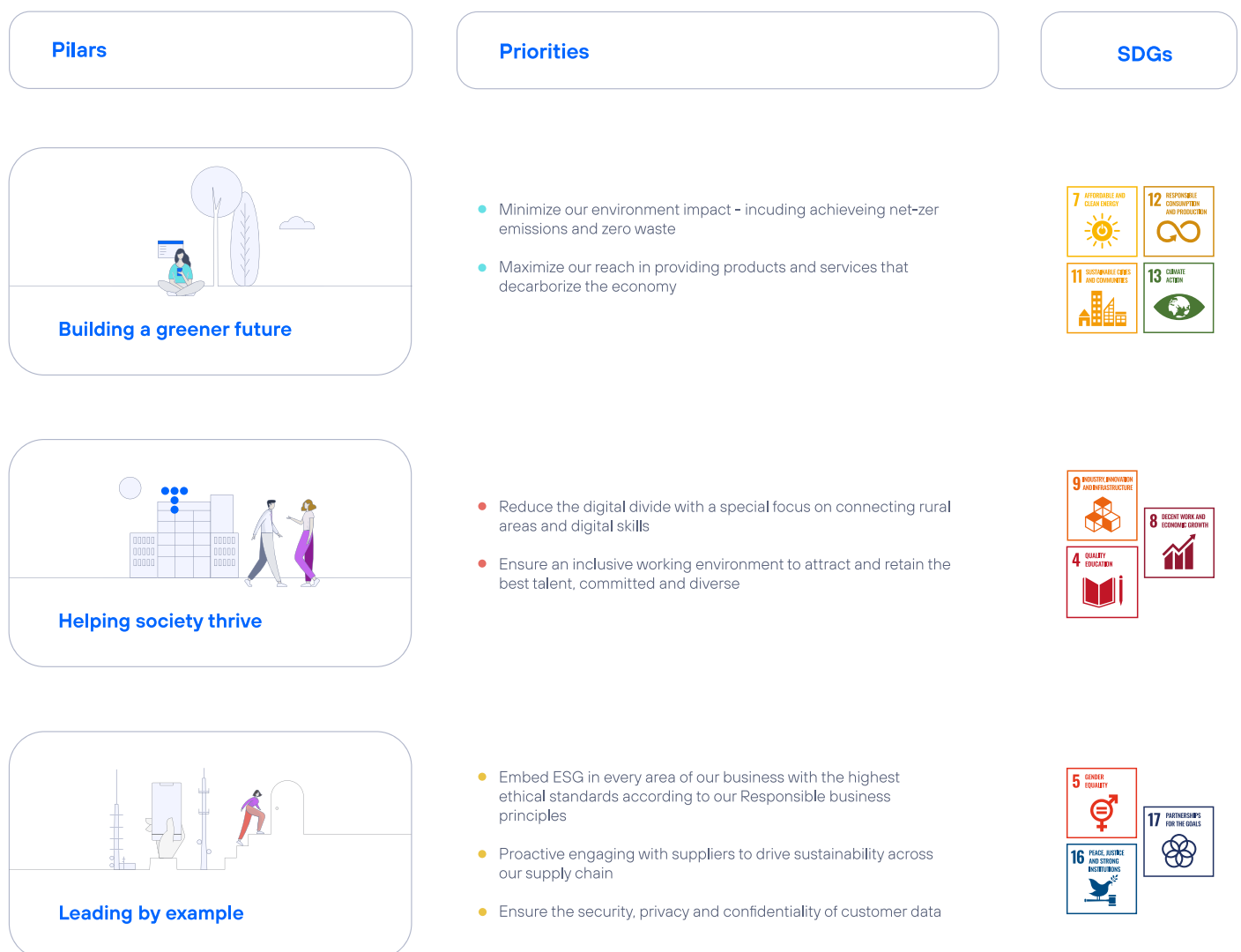
2. Telefónica's ESG strategy

Telefónica's strategy has its mission as its starting point and the [Responsible Business Principles](#) as a fundamental pillar to encourage the transition to a more digital, environmentally friendly and sustainable economy that is committed to all stakeholders.

The Company takes into account the impacts of its activities, as well as long-term targets and aspirations, both internally and externally.

The Responsible Business Principles are integrated into Telefónica's Strategic Plan and are supported by policies and standards that govern the way the Company acts: with integrity, commitment and transparency. The targets are linked to the variable remuneration of all Telefónica employees, including members of the Executive Committee.

The main lines of our ESG strategy are organised into three pillars:



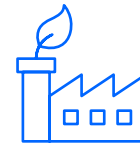
2.1. Telefónica's commitment to addressing climate change

Strategy

Telefónica's Energy and Climate Change Strategy focuses on climate risk management to mitigate the impact and adapt to the adverse effects of global warming.

The strategy is in line with the business and is based on two main commitments with the goal of achieving net-zero emissions by 2040: to reduce its carbon footprint and to shape an offer of solutions that contributes to reducing greenhouse gas emissions by its customers.

Telefónica adopts the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) for the analysis of the risks and opportunities associated with climate change, promoting transparency, and meeting the demands of its main stakeholders.



Net-zero
emissions in 2040

We make
our targets
more ambitious



SCIENCE
BASED
TARGETS

DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

SBTi validation

1.5°C



**OUR ONLY
FUTURE**



Energy and Climate Change Targets

On the road to Net Zero by 2040, Telefónica's decarbonisation plan includes short, medium and long-term targets that have been validated by the SBTi (Science Based Targets Initiative).

	 Energy efficiency	 Renewable energy	 Scope 1 and 2 emissions	 Value chain emissions (Scope 3)	 Customers' emissions avoided through digitalisation	 Neutralisation
Short-term 2025	Improve energy consumption per unit of traffic by 90% , compared to 2015	Continue to consume electricity with 100% renewable origin in the main markets	- 90% in main markets compared to 2015	- 39% globally, compared to 2016	Help customers to reduce 50 million tonnes of CO ₂ through Eco Smart services	Neutralise unabated Scope 1 and Scope 2 emissions in main markets annually (10%)
Medium-term 2030		100% of electricity from renewable sources globally	- 80% globally compared to 2015	- 56% globally, compared to 2016		
Long-term 2040			Reduce total emissions by 90%			Neutralise residual emissions annually (10%)
Net zero emissions (including value chain)						

These targets help the Company to leverage decarbonisation opportunities, to be more competitive and to offer its customers services based on a clean, efficient network. Achieving these targets has formed part of the variable remuneration of all Telefónica's employees since 2018.

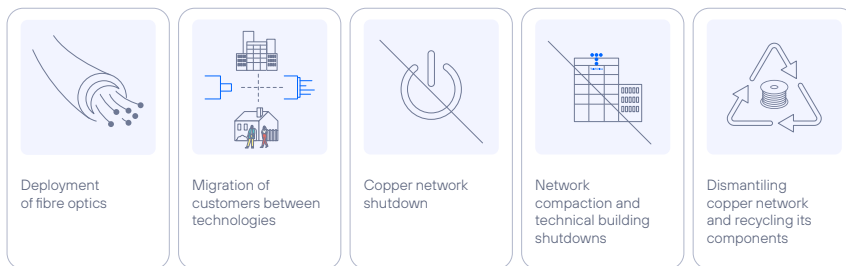
Outstanding projects: Transforming the network from copper to fibre

Fibre optics are 85% more efficient than copper in terms of energy efficiency.

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 São Paulo region) from copper to fibre to the home (FTTH).

This project contributes to shaping the network of the future: a more efficient and sustainable network that will also be the enable for 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 FTTH network between Telefónica's technical building and the CTO (point of deployment closest to the customer's home, whether a residential or a business customer).

Transport: construction of the transport network necessary to manage the data of customers with a fibre connection. This has been covered in a very limited 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 various public or private entities in which it is specified that the access technology must be fibre optics has been selected.

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

In line with Telefónica's global targets, this transformation project seeks to achieve the utmost business and environmental efficiency in the deployment and maintenance of the network.



8.7 million tonnes
of CO₂ avoided
by our customers



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



What are the benefits offered by fibre optics compared to the copper network?

- a) Greater simplification and environmental efficiency in the operation of our business:
- **Energy efficiency:** access by fibre consumes between seven and 20 times less energy per user (>85% efficiency).
 - **Shutting down technical buildings:** fibre optic connections have four 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-earth elements, etc.
 - **Space saving:** fibre takes up 10 times less space and has 100 times more capacity.
 - **Network quality and reduced maintenance and support resources:** half the number of breakdowns for fibre than with copper, reducing the number of call-outs and the need for spare parts and logistics.
- b) A new relationship model between customers and services based on self-installation/self-supply, flexibility and immediacy.
- c) A positive social and economic impact on people, companies and territories. Facilitating digital education, entrepreneurship, new business and relationship models, greater ability to balance family life and work, better access to health services and population retention in rural areas.
- d) Environmental benefits for our customers in the shape 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 the shutdown of equipment and buildings, and compacting the network.



BUSINESS

- Telefónica has one of the most extensive FTTH networks in the world, with over 166 million real estate units served.



SOCIETY

- Various studies link economic development to broadband. According to an analysis carried out by Telefónica, the deployment of fibre, mainly in rural areas, can reduce the unemployment rate by 0.8%, increase average income by 3.9% and boost new business creation when it is combined with new digital services³.

2.2. Telefónica's commitment to society

Strategy

Telefónica's digital solutions are aimed to improve people's quality of life and well-being, supporting economic development and the achievement of the United Nations Sustainable Development Goals.

The Company is committed to human-centred digitalisation to address unequal opportunities by improving access to technology as the basis of its strategy.

To this end, Telefónica deploys and maintains a telecommunications infrastructure with a focus on continuous improvement of the network, which enables it to be faster and have a greater capacity. It also aims to bring coverage to more remote areas, mainly in rural and other hard-to-reach areas, and develop products and services for customers with an inclusive perspective. 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.

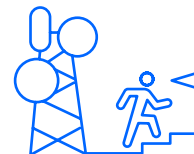
Targets

Telefónica promotes inclusive connectivity that brings digitalisation to all people and boosts the social and economic development of the communities in which we are present.

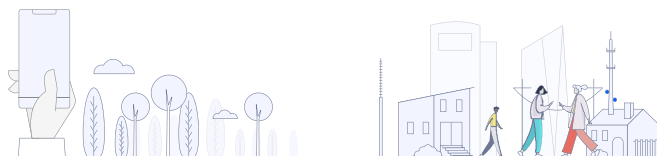
Digital solutions have shown that they can contribute to positively transforming communities and productive and economic models. The deployment of broadband networks, together with measures to boost digitalisation, have a direct impact on the socio-economic development of entire regions and on the lives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



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



RURAL DEPLOYMENT TARGET TO 2024

- Achieve broadband coverage of 90-97% of the population in the main markets, strengthening Telefónica's commitment to the development of rural areas.



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

1. Mobile broadband deployment in rural areas

Telefónica is actively engaged in the deployment, improvement, and continuous optimisation of networks in unconnected or poorly connected areas, mainly in rural areas.

Anyone with an internet connection can access information, educational content, employment and business development opportunities, and even financial and/or medical services. Digital inclusion and the opportunity to thrive by using digital resources are rooted in quality connectivity and the ability to develop the necessary skills to get the most out of using digital tools. Furthermore, in a business environment, SMEs need to access the fibre optic infrastructure, cloud connectivity and other digital services to enhance their competitiveness in a fully digital environment, and many employees need to learn new skills so they are not left behind in the digital transformation.

Benefits of rural deployment



1,000+

startups receiving
investment through
Telefónica Open
Innovation

More than
€190 million
invested in startups

W wayra
Telefónica Innovation



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 genuine 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 shown that these networks have a positive impact on GDP. Specifically, the International Telecommunication Union (ITU) found 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 GDP)⁴.

2. Fostering entrepreneurship and job creation

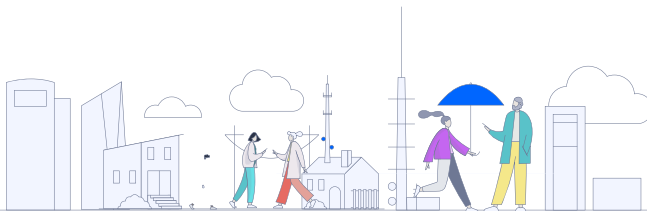
Telefónica promotes the development of entrepreneurship and technological and digital talent in the countries where it is present with the aim of making local ecosystems prosper, using innovation as a driving force.

At Telefónica, the Open Future, Wayra and Telefónica Venture Capitals programmes are our key pillars for funding innovation and fostering entrepreneurship. As a result, new startups have appeared in the area, contributing new local economic and employment opportunities and preventing the relocation of entrepreneurship and the migration of young entrepreneurs to other regions.

The socio-economic development arising from the creation of new businesses through entrepreneurship programmes generates a positive impact through improved productivity, employment and the development of technology and innovation in the communities where these new businesses are located.



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 question. In addition, due to the 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 locally and encouraging the sustainability of every region. This is especially the case in those with high unemployment, where entrepreneurship may be a viable option for the future.



3. Telefónica's sustainable financing framework

Under Telefónica's SDG Framework (last updated in February 2021), the Company can issue green, social and sustainable bonds. The use of funds raised may be used to finance or refinance, in whole or in part, existing or future projects in the following eligible categories:

Green projects:

- Energy efficiency of Telefónica's network infrastructure.
- Renewable energy.
- Energy efficiency: digital solutions with a positive impact on the environment.

Social projects:

- Mobile and fixed broadband: boosting network deployment in unconnected or poorly connected areas.
- Job creation and economic growth.

The framework received the independent second-party opinion of Sustainalytics and is aligned with the key elements listed in the Green Bond Principles, Social Bond Principles and Sustainability Bonds Guidelines: use of proceeds, process for project evaluation and selection, management of proceeds and reporting.

The Bond Committee is the body responsible for selecting and evaluating the projects to be financed. It is made up of senior management from Finance, Management Control and the Global Sustainability Office, among others.

Each and every one of the areas mentioned above helps to contribute to 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).

In addition, and in accordance with the SDG Framework, Telefónica reports to its stakeholders annually, in terms of both the allocation of funds and the 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

Issuer	Telefónica Europe B.V.
Guarantor	Telefónica S.A.
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)	750,000,000
Disbursement date	24 November 2021
Maturity date	Perpetual (amortisable as from 24 February 2028)
Coupon	2.880%
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	XS2410367747



5. Fund allocation and impacts

The total funds allocated for this issuance amounted to €752 million.

The proceeds of this issuance have been earmarked for the financing of 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 €)
			2021	2022 (1H)	
Transforming the network from copper to fibre (Spain and Brazil)		Fixed network electricity consumption/traffic (kWh/PB)	76,054	N/A	519
		Electricity savings due to shutdowns and network transformation (kWh)	48,951,701	N/A	
		Avoided CO ₂ emissions from shutdown and network transformation (tCO ₂)	9,364	N/A	
Rural mobile broadband (Spain, Brazil and Germany)		Population benefiting from investment in deployment or improvement of mobile broadband connectivity in rural areas	43,528,185	17,163,522	229
		Number of users benefiting from investment in deployment or improvement of mobile broadband connectivity in rural areas	13,836,084	6,233,705	
		Number of rural areas benefiting from investment in deployment or improvement of mobile broadband connectivity in rural areas	6,038	2,743	
Fostering entrepreneurship and job creation (Spain and Brazil)		Number of companies receiving investment through Telefónica Open Innovation	40	N/A	4
		Number of jobs created through investment from Telefónica Open Innovation	400	N/A	

TOTAL **752**



6. Impact indicators and calculation methodology

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

Project	SDG	Indicator	OB	2021
Energy efficiency of Telefónica's network infrastructure: Transformation of the network from copper to FTTH	  	Fixed network electricity consumption/traffic (kWh/PB)	Spain	52,475 (-10% vs 2020)
			Brazil	23,579 (-30% vs 2020)
		Electricity savings due to shutdowns and network transformation (kWh)	Spain and Brazil	48,951,701
		Avoided CO ₂ emissions from shutdown and network transformation (tCO ₂)	Spain and Brazil	9,364

With the aim of measuring the positive impact of the project to transform the network from copper to FTTH, a set of monitoring indicators has been established, in line with the indicators that form part of Telefónica's sustainable financing framework.

Description of impact KPIs:

● Fixed network electricity consumption (kWh)

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 in providing 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 São Paulo region, with the largest number of customers in the country and the region in which the network transformation process is being developed most intensively.

● 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)

Electricity saved by disconnecting elements from the copper network and subsequent total shutdowns of technical buildings.

The copper network is made up of a number 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 uniform manner, either through the element's technical specifications or through the direct measurement of its consumption. A small fraction is added to this consumption, corresponding to the savings in air conditioning thanks to the reduced heat dissipation of the communication equipment.


The number of elements that are shut down and their type are reported monthly. This, alongside 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, only the savings over 15 days are allocated for the current month. From the following month onwards, the amount of electricity saved over 30 days is taken into account.

● Avoided carbon emissions from electricity savings (tCO₂)

The calculation of avoided carbon emissions is based on the electricity savings generated by the disconnection of the copper grid, using the emission factors of the electricity mix in Spain and Brazil⁵.

⁵ In Spain, the emission factors used are from the annual reports on electricity guarantees and labelling published by the CNMC (Spanish National Commission for Markets and Competition). In Brazil, emission factors are provided by the Ministry of Science, Technology, Innovations and Communications (archives of CO₂ emission factors).

Impact of the project to deploy mobile broadband in rural areas

Project	SDG	Indicator	OB	2021	2022 (1H)
Mobile broadband in rural areas		Population benefiting from investment in deployment or improvement of mobile broadband connectivity in rural areas	Spain	8,092,288	4,495,130
			Brazil	9,777,278	12,668,392
			Germany	25,658,619	N/A
		Number of users benefiting from investment in deployment or improvement of mobile broadband connectivity in rural areas	Spain	1,957,777	1,161,436
			Brazil	5,020,317	5,072,269
			Germany	6,857,990	N/A
		Number of rural areas benefiting from investment in deployment or improvement of mobile broadband	Spain	5,112	1,852
			Brazil	733	891
			Germany	193	N/A

Description of impact KPIs:

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

Number of people in rural areas benefiting from the deployment, expansion and/or optimisation of Telefónica's mobile broadband services (HSPA+, 4G, LTE, 5G), and who, as a result, become better connected. The locations where they live can be regarded as connected areas⁶.

It is calculated based on the population census of all the municipalities in which there has been an investment made by Telefónica for the task described in the previous paragraph.

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

Number of end users (private individuals/B2C and companies/B2B) that benefited from the deployment, extension and/or optimisation of Telefónica's mobile broadband services (HSPA+, 4G, LTE, 5G). It is calculated based on the number of lines belonging to 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

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


Those geographical areas that fulfil the official and national definition of "rural area" have been deemed rural areas. For 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 Law). For Brazil, the information comes from the Instituto Brasileiro de Geografia e Estatística, which is a federal agency linked to the Ministry of Economy. For Germany, the definition has been provided by the Bundesinstitut für Bau-, Stadt, und Raumforschung, which is a public agency of the Federal Government.

⁶ These are those areas that 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. Those where the backhaul or access capacity of the given site do not allow for 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 download speed of 25 Mbps and upload speed of 3 Mbps. This would include, among others, HSPA+, 4G, and 5G mobile broadband technologies. This usually (but not necessarily) involves scattered populations and rural municipalities.

Impact of the project to foster entrepreneurship and job creation

Project	SDG	Indicator	OB	2021
Fostering entrepreneurship and job creation		Number of companies receiving investment through Telefónica Open Innovation	Spain and Brazil	40
		Number of jobs created through investment from Telefónica Open Innovation		400

Description of impact KPIs:

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

Number of companies that 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 a company that has received investment through one of the three investment vehicles of Telefónica Open Innovation, taking an average of 10 employees per company⁷.

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 that have an unemployment rate that is higher than the average OECD rate (in this bond's fund allocation period): Spain and Brazil.

⁷ 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 XS2410367747)",
for the period between 24 November 2021 and 23 November 2022



**Free translation from the original in Spanish.
In the event of a discrepancy, the Spanish language version prevails**

Independent limited assurance report

To the directors of Telefónica, S.A.

We have undertaken a limited assurance engagement in respect of 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 XS2410367747), issued by Telefónica Europe B.V. (hereinafter, “the Bond”), contained in the “Telefónica’s Sustainable Hybrid” report of Telefónica S.A. (hereinafter, “Telefónica”) for the period between 24 November 2021 and 23 November 2022, 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 engagement 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 themselves.
- The allocation of the funds obtained through the Bond to the (re)financed projects and that the capital invested in the projects (re)financed is attributable to the Bond.
- Checking that the impact indicators (Fixed network electricity consumption/traffic (kWh/PB), electricity savings due to shutdowns and network transformation (kWh), avoided CO2 emissions from shutdown and network transformation (tCO2), 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’s Sustainable Hybrid”.

Responsibility of the Directors of Telefónica S.A.

The directors of Telefónica are responsible for the preparation, content, and presentation of the “Telefónica’s Sustainable Hybrid” report, in accordance with the criteria included in the Framework in which the eligibility criteria of the projects, the allocation of funds and the impact indicators are described. This responsibility includes the design, implementation and maintenance of the internal control necessary to allow the information included in “Telefónica’s Sustainable Hybrid” report to be free of material misstatement, whether due to fraud or error.

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

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Our independence and quality control

We have complied with the independence requirements and other ethical requirements of the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standard Board for Accountants (IESBA Code) which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality, and professional behaviour.

Our firm applies the International Standard on Quality Control 1 (ISQC 1) and therefore has in place a global quality control system, which includes documented policies and procedures related to compliance with ethical requirements, professional standards and applicable legal and regulatory provisions.

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 tests. The general procedures employed are described below:

- Meetings with Telefonica's personnel from various departments who have been involved in the preparation of the "Telefónica's Sustainable Hybrid" report to understand 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's Sustainable Hybrid".
- 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 (re)financed have been made in accordance with the Framework criteria.
- Checking through sampling tests and substantive tests of the information related to impact indicators. We have also verified whether the impact indicators have been appropriately compiled from the data provided by Telefónica's sources of information.
- Obtainment of a management representation letter from the directors of Telefonica.



Limited assurance conclusion

As a result of the procedures carried out and the evidence obtained, nothing has come to our attention that causes us to believe that:

- The projects (re)financed by the Bond included in the “Telefónica’s Sustainable Hybrid” report does not comply, in all its significant matters, with the eligibility criteria described in the Framework.
- The funds obtained through the Bond have not been assigned to the (re)financed projects 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 matters, in accordance with what is indicated in the Framework and as indicated in the “Telefónica’s Sustainable Hybrid” report in relation to its calculation.

Use and distribution

Our report is only issued to the directors 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 directors.

PricewaterhouseCoopers Auditores, S.L.

Original in Spanish signed by

Pablo Bascones Ilundain

20 December 2022



Telefónica