

# 1 Strategy and growth model

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# 1.1. Context

GRI 3-3

## 1.1.1. Background: political polarisation, uncertain economic scenario and increased ESG regulation

The world continues to face **serious challenges**. By the end of 2022, after the end of the COVID-19 crisis in most countries, geopolitical tensions and the macro situation signalled a change in the economic cycle, marked by supply constraints, energy shortages and a return to high levels of inflation. This said, behind the difficulties also lie new opportunities. Understanding the context is key:

- In **geopolitical** terms, the war in Ukraine is redefining a new world order. After a long period (at least 30 years) of globalisation and relative calm, the world seems to be realigning around new political and ideological blocs. The increasingly polarised political situation leads to weaker and more unstable governments in traditional democracies, favouring authoritarian regimes or the rise of new populist regimes. This polarisation makes it more difficult to reach agreements that address major structural problems domestically or globally.
- The conflict in Ukraine has significantly increased **global security** risks and countries are considering increasing their defence budgets. As a preventive measure, the use of technology that can be used for war purposes (e.g. state-of-the-art chips) is restricted. In addition, the threat of cyberattacks against companies, infrastructures and individuals is increasing, leading to a substantial scaling up of efforts to protect communication infrastructures and data integrity.
- In **trade** terms, the supply crunch exacerbates the supply problems that have resulted from the pandemic in previous years. The war has led to an increase in the scarcity of raw materials and disruption in global supply chains. In addition, sanctions have disrupted regular fuel trade, triggering an energy crisis (mainly in Europe, although this has spread to the rest of the world).

- In **macroeconomic** terms, all these factors have contributed to the inflationary situation. After a decade of price increases close to zero in major world economies (though not in emerging markets), containing inflation is back on the agenda of central banks. In 2022, we are witnessing a general increase in benchmark interest rates in highly indebted countries. Economic cooling threatens to slow growth and even trigger a risk of recession.
- Rising interest rates, together with the uncertainty of the future macro scenario, have an impact on **capital markets**. Stock markets suffered a correction in the second half of 2022, especially technology stocks. Moreover, we are witnessing a major reshaping of the cryptocurrency market, which impacts on the main players and the value of the corresponding assets (cryptocurrencies, NFTs, etc.).
- From a long-term sustainability point of view, the urgent need to reduce the impact of economic activity on the environment and to **meet the 1.5 degree target scenario is increasing**. In addition to the transition to more efficient and renewable-energy-based models to reduce emissions, a shift to a circular economy is required. The ultimate goal is to maximise the reuse of resources while minimising the impact on the planet.

Against this backdrop, governments and other regulators continue to put increased pressure on the corporate world. Over the last year, this **regulatory pressure** resulted in the following standards or draft standards:

- In the course of the year, EU authorities reached political agreements on the new **Corporate Sustainability Reporting Directive (CSRD)**. The CSRD incorporates more complex and demanding reporting requirements regarding the scope and type of information to be published, as well as the format of the report.

- The **European Sustainability Reporting Standards (ESRS)** will be published soon. They aim to ensure that the information published is reliable, consistent and comparable across companies and industries. The ESRS introduce the concept of double materiality in reporting and represent a significant increase in the volume and scope of information to be reported.
- The **Corporate Sustainability Due Diligence Directive** focuses on corporate governance to integrate risk management into companies' strategies as part of the human rights and environmental targets set. The new directive seeks to avoid fragmented requirements and increase the potential liability of companies for adverse impacts. In addition, it ensures improved access to relief for injured parties and complements various other sustainability measures.
- Outside the European Union, the **SEC** (Securities and Exchange Commission) has also proposed to increase reporting requirements for companies on risks and the impact of their activities on the environment. These new rules will apply to companies with instruments listed on US markets and will include information on carbon footprint, emissions and other climate change-related impacts.

Despite the uncertainty, there is still room for growth and it is up to market leaders like Telefónica to innovate, seize this opportunity and be more sustainable over the long term. Technology is not the only answer to the challenges of the future, but it must form an important part of solutions in a highly connected and digitalised world.

### 1.1.2. Sustainable growth and inclusion: opportunities related to new global challenges

The world faces a number of major long term challenges. Global agreements, incorporating all stakeholders are vital to tackle these challenges. **Companies** playing their part, must coordinate their efforts with the rest of society in order to move forward. The following challenges provide clear opportunities for growth:

#### Challenge 1: a more environmentally friendly economy

The ongoing crisis has brought the need for concrete plans for **energy transition** back to the forefront. The development of generation, storage and distribution infrastructures that reduce dependence on fossil fuels is a priority. It is important to provide the necessary resources to invest in this field on a continuous basis despite short-term pressures.

As geopolitical tensions grow, the gap widens between nations competing for **access to resources necessary for economic growth**, including basic goods such as water, agriculture, livestock and essential industries. Energy transition targets must take into account the right to development of these countries, enabling sustainable development through support for decarbonisation.

#### Digitalisation as an opportunity for a more sustainable world:

The transition to a greener economy goes hand in hand with a digital transformation of activities (twin transition). This requires the coordination of public and private policies, together with sufficient investment in new technologies for an increasingly digital economy.

The digitalisation of infrastructure leads to better use of scarce resources. Investment in the basic infrastructure of the future requires new connected solutions, based on technologies such as the Internet of Things (IoT), big data, artificial intelligence (AI), etc. Innovation is starting to be implemented in fields such as infrastructure management, agriculture, electricity, water, waste management, smart cities, etc. and is expected to grow strongly in the future.

Technology is also at the core of the new infrastructure for sustainable energy generation. The opportunity for companies will come from the commitment to non-fossil fuel energy sources, which seek to guarantee supply and quality in the long term. This will generate cost savings and will mean that companies that transition their production models will be less vulnerable to price fluctuations and will be exposed to less regulatory risks (potential fines, limitations on activity, risk of supply rationing, etcetera.).

In the wake of the recent healthcare crisis, and given the new economic conditions, most companies have also accelerated their digital transformation. The digitalisation of company processes leads to increased productivity and better use of resources. The availability of 100% digital processes will speed up the move towards a circular economy.

## Challenge 2: promoting equity between countries and inclusion of all social groups

Successive economic crises exacerbate **economic and social inequality**, leading to tensions both between countries and within individual societies. The UN Sustainable Development Goals (SDGs) aim to reduce inequalities and ensure that no one is left behind, as “we cannot achieve sustainable development and make the planet a better world for all if there are people who are deprived of opportunities, services and the possibility of a better life”.

- **Promoting equity amongst countries**, the impact of interlinked crises (pandemic and geopolitical tensions) increases disparities in terms of access to basic supplies. The risk of humanitarian crises (famine and refugees) increases under the current macro economic conditions. The world economic order must take into account the needs of a very considerable part of the world's population in developing countries.

After the birth of the world's eight billionth inhabitant, **population pressure** continues to rise. Accommodating the circumstances of two groups of countries with opposing problems is required in order to find solutions. In the first instance, the challenge is the gradual ageing of the population and the need to provide resources, mainly in health and care. In the second instance, it involves improving basic living conditions for populations that continue to grow. The need to address migratory flows is present between the two.

- **Promoting equity within individual societies**, the inequality gap between different socio-economic groups continues unabated. The crisis has exacerbated economic disparities and threatens to put significant parts of the population at risk, even in the most developed societies.

Similarly, in order to have a fairer society, we must **encourage everybody to participate**. Economic activity must harness all available talent through active inclusion policies. Access to employment, non-discrimination and a balance between personal and family life must be part of a new social pact.

### Digitalisation as an opportunity for a more inclusive society:

Digital skills and access to networks are becoming essential in an increasingly technological society. Education and lifelong learning for workers are key tools to ensure social inclusion, reduce inequalities and enhance countries' competitiveness.

Bridging the digital divide also requires the entire population to have access to communications networks. Telecommunications companies are instrumental in the deployment of the next generation infrastructures that make the new economy possible. The challenge lies in extending the coverage of these networks to include

traditionally excluded populations (rural, remote and sparsely populated areas).

First and foremost, digital inclusion requires access to basic education in digital skills for the population. Digital literacy enables equal access to the most in-demand professions for the future and improves people's chances of development.

### 1.1.3. Telecommunications sector: high-speed networks, new digital business models and regulatory environment

The telecommunications sector is crucial for societies as it enables access to quality **digital infrastructure and services** and bridges the digital divide. This is demonstrated by the constantly growing demand for data.

**Fixed infrastructure** continues to evolve towards fibre-to-the-home (FTTH), with higher speeds and better performance than copper. Telefónica has led this transition among European and Latin American operators, opting for direct investments or for vehicles with other partners. Fibre also allows the substantial reduction of energy consumption and hence the carbon footprint of our operations and customers.

In **mobile connectivity**, the transition to the next generation (5G) is gathering pace. 5G enables new business models based on a superior quality of service, in addition to providing higher performance in terms of speed and latency. Accelerating 5G Stand Alone (SA) deployments, based on native core networks, will enable new customer use cases, initially in the industrial field.

Among the emerging technologies, the main players in the ICT sector are committed to the shift from the current internet model towards **Web3**. Communications are an essential part of this new ecosystem. Telecommunications operators develop the infrastructure that provides the technical capabilities for the metaverse, with an excellent end-user experience that requires superior connectivity.

Alongside the rollout of 5G, telecommunications operators continue to modernise their computing capabilities and systems. The deployment, management and operation of next generation networks are more and more often carried out from a software platform. This allows operators **to extend their capabilities to third parties via APIs**. In this area, telecommunications companies can implement new business models to monetise their networks not only with end-customers, but also by offering network capabilities to external developers. Telefónica is leading the rest of the industry in developing these models, starting with the standardisation of platforms.

### **Adapting regulation to new market conditions:**

The telecommunications sector remains deflationary despite the growing importance of connectivity and cost pressures. In view of the strong investment needs required to achieve the connectivity targets, it is **necessary to review the regulatory framework** in order to adapt it to the sector's new circumstances.

In terms of competitive dynamics, the main markets have a high **number of players**, especially in Europe, with a strong impact on returns on investment. The current regulatory and competition model, originating from the era of the old monopolies and being price-driven, is not sustainable in the long term or compatible with infrastructure investment. The criteria for authorising mergers should be reviewed, where appropriate, without said criteria imposing conditions that are harmful to the sector.

At the same time, the debate on the **contribution of the largest traffic generators** to network investment remains on the table. We believe that it would be beneficial for all parties if those over-the-top companies (streamers, hyperscalers, etc.), which account for a disproportionate share of traffic growth, were to contribute to deployments on a fair share basis.



# 1.2. Mission

GRI 2-22

**"To make our world more human by connecting lives".**



Our mission puts people at the centre of everything we do. We want to be a company that is trusted by customers, employees, suppliers, shareholders and society in general. Our mission has two key elements:

- **Making the world more human:** corporate **ethics** are at the heart of everything we do, always placing technology at the service of **people** and protecting the **planet** through digitalisation. We take into account our various stakeholders' expectations and needs in order to build relationships of trust.
- **Connecting people's lives:** this means that we aim to digitalise society as a whole, leaving no one behind, and reduce the **digital divide** in terms of access, affordability, accessibility and training in digital skills. It also drives us to innovate so that we can offer products and services that add value and contribute to improving people's lives and leads us to leverage digital solutions to decarbonise the economy.

The pandemic crisis made **our mission even more important**: never before has being connected made such a big difference; it has changed the way we study, work, interact and do business. This new way of doing things, which is more online and digital, also offers environmental benefits. The most obvious example is how remote working reduces employee commuting, which leads to lower fuel consumption and office air conditioning, meaning lower CO<sub>2</sub> emissions.

The telecommunications sector is a pillar of our society and in the coming years the sector will continue to play a key role in an economic and social recovery and in building a greener and fairer economy for all.

## Aligned with the 2030 Agenda

Our corporate purpose combines naturally with the **United Nations 2030 Agenda**, which explicitly highlights the key role of technology, innovation and communications in addressing the great challenges facing humanity.



For further information, see chapter 2.14. Contribution and impact on communities.

Deploying infrastructure is essential, but it is not sufficient on its own. Based on this infrastructure, we need to develop services that add value and allow us to get the full socio-economic benefit of technology. There is also a need to increase the digital skills of society and businesses. Telefónica is committed to making this happen.

We want to be recognised as a key player in the sustainable development of society, as an enabler to help tackle emerging socio-economic and environmental challenges.

## Aligned with our Responsible Business Principles

To make our mission a reality, we must have clear principles that consistently guide our decisions and actions inside and outside the Company



For further information, see chapter 2.16. Governance and a culture of sustainability.

We have a code of ethics and conduct, our Responsible Business Principles and a Sustainability Policy, which help drive us to act with integrity, commitment and transparency.

**Brand and culture alignment** is also key. Our aim is for Telefónica's corporate purpose and values to be reflected in our conduct, processes and objectives, ensuring **consistency between what we say and what we do**, so that this shared vision spreads from employees to customers and from customers to society. This culture is strengthened when we are consistent in how we behave within the Company and how we present ourselves. This helps us clarify our *raison d'être* and how we can help make the world a better place.

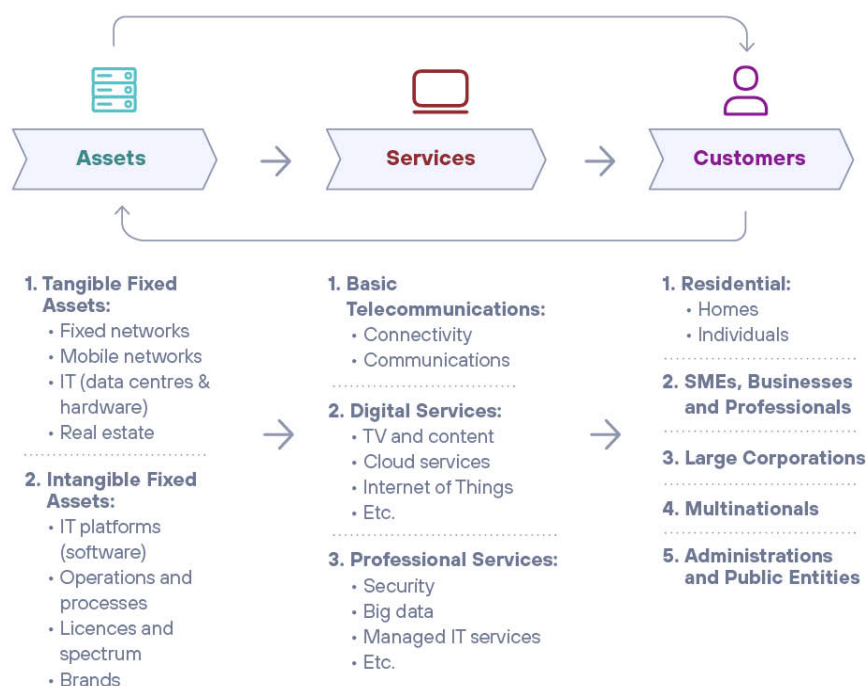
## 1.3. Business model

GRI 2-6

**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).

### 1.3.1. Traditional telecommunications model: services aimed at end customers with investment in network assets



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

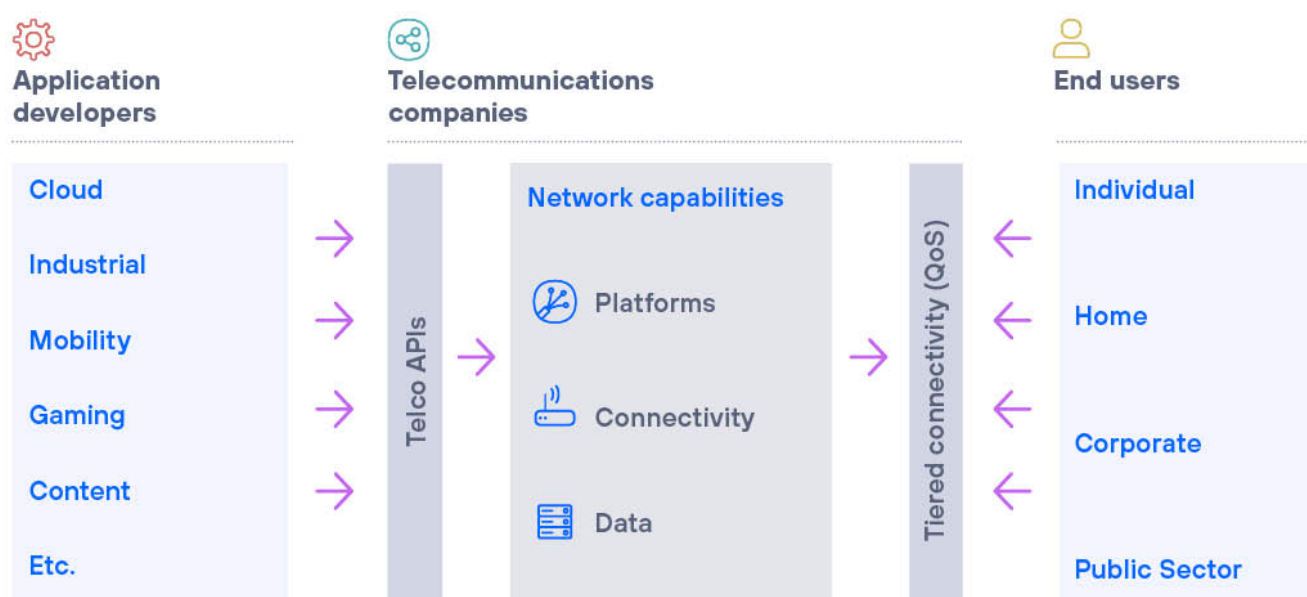
- **Assets:** a set of tangible and intangible elements, developed through investment, which is typically capital-intensive. These are mainly fixed and mobile networks, their subsequent developments, business and service platforms and other intangible elements (licences, spectrum, brands, etc.).

- **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.

### 1.3.2. Evolving telecommunications business models: APIfication of network capabilities and tiered connectivity

#### New telecommunications business models



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.

# 1.4. Materiality

## KEY POINTS

- ★ We have been reporting on double materiality since 2021 as a way to identify how sustainability issues impact Company value and how our activities affect society and the environment.
- ★ In 2022 we updated the double materiality matrix with a focus on the identification and prioritization of key issues, in keeping with EFRAG recommendations, and following consultation with our stakeholders.
- ★ Our double materiality matrix classifies material issues into three levels of impact based on their strategic relevance, urgency and/or required approach.

### 1.4.1. Double materiality

In 2022, following the approval of the European Corporate Sustainability Reporting Directive (CSRD) and in accordance with the guidance from the European Financial Reporting Advisory Group (EFRAG) technical expert group, we updated our materiality matrix to provide more detailed information based on the double materiality framework.

This approach facilitates the inclusion of sustainability as **a decisive factor in our strategy and decision-making processes** by identifying and assessing the most significant sustainability issues for our Company from a two-fold perspective:

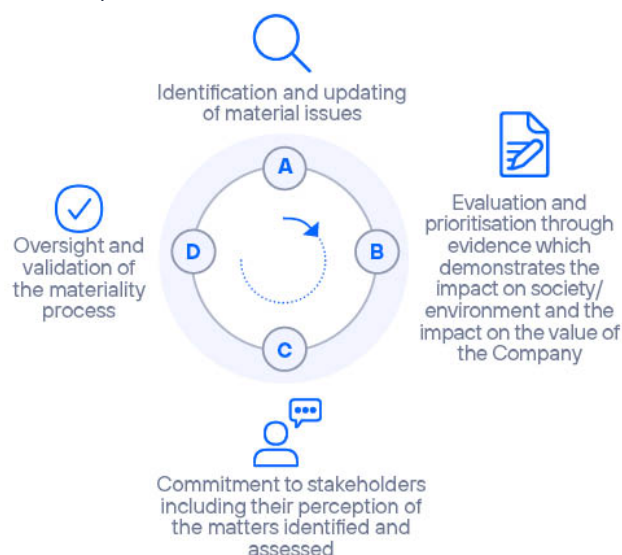
- Impacts on Company value ("**financial materiality**" or "**inward impacts**"), which are geared towards the sustainability issues that affect our financial profitability and our capacity to create value for shareholders and investors.
- Impacts on society and the environment ("**environmental and social materiality**" or "**outward impacts**") stemming from activity by the Company, including those that affect human rights.

Expectations from our stakeholders have also been included under the concept of **dynamic materiality** as a way to consider how their priorities evolve over time and the trends that affect them.

### 1.4.2. Double materiality determination process

GRI 3-1, 3-3

We have followed a four-step process to analyse double materiality:



## A. Identification and updating of material issues

The first step when analysing materiality is to identify a broad universe of sustainability issues that could potentially be significant for Telefónica. This is essential to minimise the risk of overlooking any emerging issues and to **guarantee a thorough and credible analysis**.

We therefore used our 2021 materiality analysis as a starting point. The issues considered for that analysis have been updated through external and internal documentary research that considered the nature of our Company, its value chain, its stakeholder map and the impacted audiences.

The following **sources** were used for that documentary analysis:

### External

- **Global ESG regulatory context:** analysis of international environmental, social and corporate governance standards, as well as legal requirements, globally applied local standards, economic policies, self-regulation standards, etc.
- **Benchmark:** materiality matrices of the leaders in our sector.
- **ESG criteria** applied by the main ESG rating analysts: MSCI, S&P, Sustainalytics, Moody's Vigeo, and FTSE among others.
- **Non-financial or sustainability reporting standards** (GRI and SASB).
- **Sustainable Development Goals and targets (SDGs):** taking into account the goals to which we can make the most decisive contributions.
- **Expectations from our stakeholders** by identifying priority issues through the various engagement channels we have with them. For further information, see our table of stakeholder engagement channels.

### Internal

Besides analysing relevant internal documentation, we also consulted with cross-departmental areas from an ESG point of view, mainly Global Sustainability Management and Strategy Management.

After identifying the issues, we defined and organised them into three levels, which is outlined in the appendix:



For further information, see Appendix 2.21.3. Material issues.

## B. Evaluation and prioritisation through evidence which demonstrates the impact on society/ environment and on Company value.

The material issues we identified in step one were assessed and weighted from two perspectives: their impact on society and the environment; and their impact on Company value (financial materiality).

### Impact on Society - Environment

In this regard, we considered the Company's context, the identification of real and potential impacts, and the assessment of those impacts. The following studies were taken into account when identifying adverse impacts:

- **Telefónica's Environmental and Human Rights Global Impact Assessment.** In 2022, we updated our global impact on these issues in line with the material issues identified in step one. Impact severity and likelihood were also taken into consideration.



For more information, see chapter 2.15. Human rights.

- **Telefónica's Social and Environmental Contribution Study.** In 2022, we assessed and published our impact on people and our environment.

We analysed our activities, operations, products and services, social action and their alignment with the Company's strategy. Consideration was given to a set of impact variables based around the Company's three strategic priorities and the Sustainable Development Goals for the assessment, and was aligned with the issues identified in step one.



For further information, see chapter 2.14. Contribution and impact on communities.

By combining the two assessments, we obtained the materiality linked to the impact from each issue. We set **five impact levels** (slight, low, moderate, high and critical) in both cases (positive and negative).

### Financial materiality or impact on Telefónica's value

To determine the impact on Company value and also based on the material issues identified in step one, we considered those risks and opportunities that affect or might affect the Group with regard to those issues and in the following way:

- **Risks:** the issues identified were linked to the risks in the Telefónica Group model, including the global assessment of each risk in 2022. This considers the criticality level based on the potential economic impact and the likelihood of occurrence, among other factors.



For further information, see chapter 3.1.4. Risk tolerance or appetite.

- **Opportunities:** following an internal analysis with the Strategy area, we estimated a number of opportunities linked to the issues identified in step one, in terms of both potential new revenues and efficiencies. The estimated impact, and the size and likelihood of capturing the opportunity were taken into account for their assessment.

We set **five impact levels for their assessment** (slight, low, moderate, high and critical) in both cases (risks and opportunities).

- **Reputational risk:** after the two assessments were included from the point of view of risks and opportunities, we weighted each issue from a reputational perspective, giving more weight to those ESG issues with a reputational impact according to RepRisk<sup>1</sup>.

The resulting combination of all these point of view reveals the material issues from a perspective of impact on Company value.

### C. Commitment to stakeholders, including their perception of the issues identified and assessed

Telefónica's strategy on engagement with and commitment to stakeholders is based on increasing transparency and effective dialogue to build relationships of trust.

These relationships enable us to identify which aspects are considered most significant by our stakeholders **(customers, employees, strategic partners and suppliers, shareholders and analysts, government bodies and regulators, opinion leaders, the media and communication services, and society)** and to identify new trends in the field of sustainability.

As a result, we consulted with various groups and took their responses into account when identifying and weighting the issues of relevance to each one. The main consultation processes are listed below:

- A consultation with our stakeholders that provided the foundations for materiality in 2021 based on methodology we developed internally which was implemented and validated by Ipsos (a multinational market research company).
- An updated consultation in Brazil and Hispanoamerica in 2022. A total of 4,598 people actively took part in Brazil and 2,289 in Hispanoamerica.
- A study on B2C customers to identify which ESG initiatives currently ongoing and/or under development are relevant to users.
- Interviews with internal and external stakeholders as part of the environmental and human rights impact assessment process.
- In addition, we considered other communication channels with our stakeholders that are further discussed in this chapter under the section entitled "Stakeholder Engagement".

### D. Oversight and validation of the materiality process

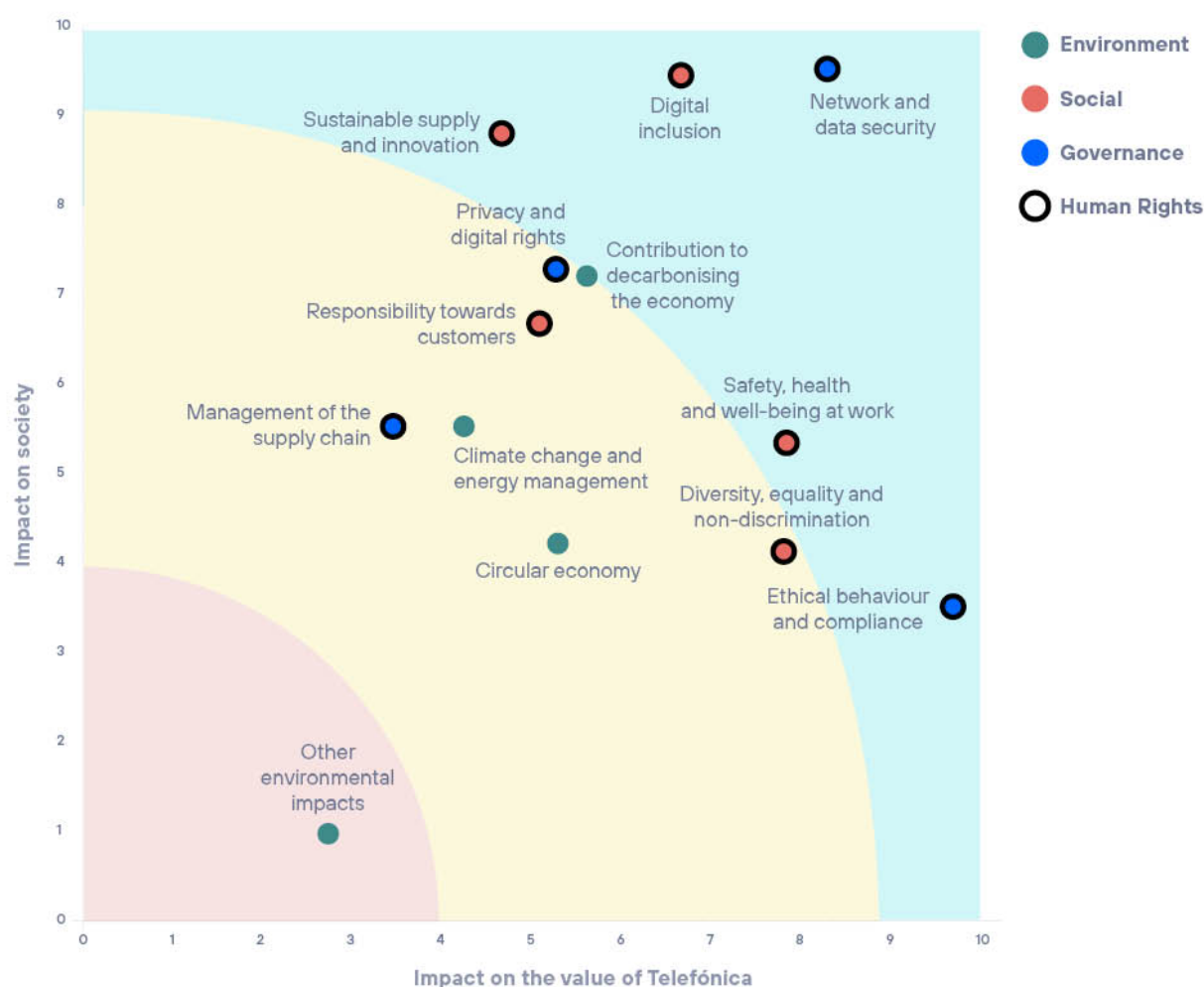
At this stage, we presented and cross-checked the results we obtained. This is undertaken with the areas that took part in the process both globally and locally, as well as with various managers and internal bodies, such as the Sustainability and Quality Committee.

<sup>1</sup> RepRisk, an ESG data science company that combines automatic learning and human intelligence to identify ESG risks with a possible reputational impact.

### 1.4.3. Materiality matrix

The process we followed has produced a **double materiality matrix from a global perspective** based on the impact on Telefónica's value and the impact on society and the environment.

We understand that all the issues identified in the matrix are material. They have been classified according to their impact on each axis, so there are priority issues from the point of view of a financial impact or from both perspectives in such a way that the various users of the information can clearly understand both the process and the results









## Classification of material issues






















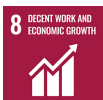













### 1.4.4. The materiality matrix in detail

GRI 3-2

Material issue	Impact on society and the environment	Impact on Company value	SDGs	Chapter of the Report	Main KPIs
<b>LEVEL ONE</b>					
<b>Network and data security</b>	●	●	 	2.19. Privacy and security	<ul style="list-style-type: none"> <li>Number of people attending training courses on information security / cybersecurity</li> <li>Security Operation Centres (SOCs)</li> <li>Number of security events monitored worldwide</li> </ul>
<b>Digital inclusion</b>	●	●	 	2.10. Digital inclusion	<ul style="list-style-type: none"> <li>Mobile coverage percentage in rural areas within major markets</li> <li>Universal Service - financial resources</li> <li>Number of people benefiting from training programmes on digital skills</li> </ul>
<b>Contribution to economic decarbonisation</b>	●	●		2.4. Digital solutions for the green transition	<ul style="list-style-type: none"> <li>Percentage of products and services developed under sustainability criteria (e.g. environmental, accessibility and ethics)</li> <li>Percentage of the B2B portfolio verified as sustainable</li> </ul>
<b>Ethical conduct and compliance</b>	●	●		2.16. Governance and a culture of sustainability 2.17. Ethics and compliance 2.18. Fiscal	<ul style="list-style-type: none"> <li>Number of operations assessed for corruption-related risks</li> <li>Number of fines paid in the year subject to the report for non-compliance with legislation and regulations</li> <li>Profit or loss before tax</li> </ul>



Material issue	Impact on society and the environment	Impact on Company value	SDGs	Chapter of the Report	Main KPIs
<b>Sustainable offering and innovation</b>			 	2.12. Responsibility in our products and services 2.14. Sustainable innovation	<ul style="list-style-type: none"> <li>Percentage of products and services that meet health and safety standards</li> </ul>
<b>Labour practices and Health &amp; Safety</b>				2.5. Human capital 2.6. Attraction, retention and skill development 2.8. New ways of working 2.9. Occupational health, safety and well-being	<ul style="list-style-type: none"> <li>eNPS</li> <li>Number of employees involved in the reskilling programme</li> <li>Percentage of employees with a hybrid work model</li> <li>Percentage of all employees covered by collective bargaining agreements</li> <li>Coverage by the occupational health and safety management system</li> <li>Total average remuneration</li> </ul>
<b>LEVEL TWO</b>					
<b>Privacy and digital rights</b>				2.19. Privacy and security	<ul style="list-style-type: none"> <li>Total number of confirmed fines for privacy / data protection issues</li> <li>Number of training hours on privacy / data protection courses</li> </ul>
<b>Diversity, equality and non-discrimination</b>				2.7. Diversity and inclusion	<ul style="list-style-type: none"> <li>Gross pay gap</li> <li>Percentage of women directors</li> <li>Number of employees with disabilities</li> </ul>
<b>Responsibility towards the customer</b>				2.11. Customers	<ul style="list-style-type: none"> <li>eNPS</li> <li>Digital channels - total customers</li> </ul>
<b>Climate change and energy management</b>				2.2. Energy and climate change	<ul style="list-style-type: none"> <li>Total energy consumption (MWh)</li> <li>Percentage of renewable energy</li> <li>Percentage of renewable electricity at owned installations</li> </ul>
<b>Supply chain management</b>				2.20. Responsible supply chain management	<ul style="list-style-type: none"> <li>Number of on-site human rights audits of suppliers (labour issues, child/forced labour, health and safety, privacy and security)</li> <li>Number of suppliers identified as suppliers with real and potential significant negative social impacts</li> <li>Number of audits on high-risk suppliers</li> <li>Number of electromagnetic field measurements</li> </ul>
<b>Circular economy</b>				2.3. Circular economy	<ul style="list-style-type: none"> <li>Waste recycled (%)</li> <li>Recovery rate of all devices</li> <li>Number of electronic equipment purchases based on circularity criteria</li> </ul>
<b>LEVEL THREE</b>					
<b>Other environmental concerns</b>				2.1. Responsibility towards the environment 2.3. Circular economy	<ul style="list-style-type: none"> <li>Visual impact reduction measures (number)</li> </ul>
<div>  CRITICAL            HIGH            MODERATE            LOW            SLIGHT         </div>					

## 1.4.5. Stakeholder engagement

GRI 2-12, 2-29

Telefónica's stakeholder engagement strategy is based on increasing transparency and effective dialogue to build relationships of trust.

These relations enable us to identify which aspects are considered most significant by our stakeholders and to identify new trends in the field of sustainability. In this way, we set our targets, define the strategic plan (the Responsible Business Plan) and also assess our ability to meet society's expectations.

Our stakeholder management is based on:

- **Collaboration:** we foster collaboration with our stakeholders as a way to contribute towards our purpose and values, and achieve the SDGs.
- **Consultation:** we encourage participation and involvement from our stakeholders, promoting voluntary consultation processes (through surveys, for example) on the relevance of current issues and their opinion about the Company in order to prepare our materiality matrix.
- **Ongoing improvement:** we regularly review our stakeholder engagement mechanisms to ensure they meet existing needs at any given moment as effectively as possible.
- **Transparency:** we guarantee transparency in relations and in financial and non-financial communication, sharing truthful, relevant, complete, clear and useful information.

At Telefónica, we have regulations that govern information to markets and other stakeholders in order to guarantee that the information released by the Company is known by the markets, investors and other stakeholders, maximising the communication and quality of this content.

Below are the main publications that report on our activities, which help ensure clear communication and foster transparency:

- Consolidated Management Report.
- Quarterly results presentations.
- Prospectuses, mainly those that meet the requirements of the legislations of some of the markets in which the company's securities are traded (20F or Registration Document).
- Publications on the global and local Telefónica websites.
- Social media presence: LinkedIn, Facebook, Twitter, Instagram, YouTube and TikTok.
- **Dialogue:** we maintain ongoing conversations with our stakeholders through active listening, the promotion of two-way and effective communication, and direct, fluid, constructive, diverse, inclusive and inter-cultural dialogue that enables us to know their expectations, identify their priorities and build a relationship of trust.

This ongoing dialogue **forms part of our daily operations** and is built on each one of the interactions that stakeholders have through the various channels set up for this purpose.



For further information, see Appendix 2.21.1. Telefónica stakeholders

The constant monitoring of the main channels for dialogue with major stakeholders enables us to measure the impact of our relations with and commitment to them. In this way, it becomes possible to **establish action plans** that meet their needs, boosting positive impacts and mitigating any that might be negative. Below is a list of the main communication channels:

## Communication channels with our stakeholders

Stakeholder	Channel for dialogue	Impact KPI	2021	2022
<b>Customers</b>	Movistar Spain Contact Centre (1004)	Unique customers served (annual average)	805,126	729,348
	Digital channels	Total customers <sup>2</sup>	2,774,565	2,686,123
	Multi-channel relationship survey	Number of surveys conducted <sup>3</sup>	More than 36,000	More than 36,000
<b>Employees</b>	eNPS	Response rate	78%	83%
	Workplace	Percentage of monthly active users	81%	75%
<b>Strategic partners / suppliers</b>	Annual consultation with stakeholders	Declared level of trust	87%	87%
<b>Shareholders and institutional investors</b>	General Shareholders' Meeting	Number of shareholders attending	69 (Telematic)	82
	Engagement activities	Meetings with minority shareholders	25 <sup>4</sup>	104 <sup>5</sup>
		Roadshows (institutional investors)	13	11
		Conferences (institutional investors)	18	12
		Minority shareholders	7,000	14,000
		Institutional investors	600	725
<b>Society</b>	Reputation	Number of RepTrak interviews conducted	22,166	49,270
	Social media	Millions of followers of @Telefonica's exclusive accounts (LinkedIn, Twitter, Facebook, Instagram, YouTube and TikTok)	2.1	2.4
<b>Government entities and regulators</b>	Meetings with EU institutions	Average number of meetings: OTTs Telecoms	Average OTTs: 14,4 Average Telecoms: 10,8	Average OTTs: 14 Average Telecoms: 11
<b>Opinion leaders, the media and communication services</b>	Press releases, interviews, invitations and responses to the media	Communication management processes (vs. 2018)	31,063	35,713

<sup>2</sup> Telefónica Spain customers who contact us through the website and the APP after "logging in".

<sup>3</sup> Daily surveys conducted on our customers in Spain, Brazil and Germany, in which they are asked about their overall experience with Telefónica. Among other aspects, they are asked about the ease with which our customers can get things done via our contact channels (Customer Effort Score).

<sup>4</sup> 6 virtual meetings and 19 telematic communications (quarterly magazine, monthly newsletter, communications, Shareholders' Meeting and information call centre).

<sup>5</sup> 4 virtual meetings and 100 telematic communications to shareholders (quarterly magazine, monthly newsletter, communications, Shareholders' Meeting).

# 1.5. Strategy

GRI 2-22

## KEY POINTS

- ☆ Telefónica continues to strengthen its strategy, building on the five strategic decisions made in November 2019.
- ☆ We continue to prioritise sustainability as a core part of our strategy, focusing on growth, efficiency and long-term value creation.
- ☆ Telefónica generates sustainable, long-term value for all the Company's stakeholders, including our customers, suppliers and employees.

### 1.5.1. Commitment to strategic decisions developed in November 2019

Telefónica's strategy has helped accelerate the Group's transformation and has enabled us to build a stronger company. We are in a privileged position to meet the challenges posed by the environment, and increase our positive impact.

After analysing our progress, the current situation and the expectations of our stakeholders, we reconfirmed the five decisions made in 2019, reinforcing the following commitments:

- **Maintain focus on our main domestic operators**, enabling us to scale up sufficiently to compete, sustain leadership and grow profitably. In these countries, Telefónica has actively participated in the reshaping of the markets and capitalised on existing opportunities for industry consolidation.
- Strengthen our growth unit in the B2B arena. **Telefónica Tech** has become a leader in advanced solutions (cloud, cybersecurity, IoT, big data) and professional services to support our customers in the digitalisation of their businesses.
- Make the value of our infrastructure more visible and support our OBs in their fibre deployments, with the development of **Telefónica Infra**.

- Return to profitable growth in **Telefónica Latin America**, through differentiated management, the regional operation of our businesses and financial sustainability across our portfolio.
- Strengthen the **Group's** role in adding greater value to our businesses, including moving towards the APIfication of our platforms, developing new tiered connectivity models and securing the necessary talent to ensure the implementation of our initiatives.

### 1.5.2. Sustainability integrated into Telefónica's strategy (growth, efficiency and long-term value creation)

Telefónica **integrates the main aspects of sustainability into its strategy**, which is based on our Responsible Business Principles. These ESG commitments translate into growth, efficiency and long-term value creation for the Group.

#### a. Growth:

In terms of social impact, we aim to ensure the universality of our connectivity services, extending their availability (mainly broadband) to new geographical locations and population segments that have traditionally been excluded (e.g. rural broadband).

In addition, Telefónica remains committed to the safe and responsible use of technology by our customers, including access to cybersecurity solutions and ensuring privacy.

### b. Efficiency:

Long-term sustainability involves continuous improvement in our operations both internally and with customers. This helps us become an increasingly efficient operator, taking advantage of the digitalisation of all business processes to generate greater value:

The deployment of new state-of-the-art networks allows us to obtain much lower costs per unit of traffic. In addition, ultra-broadband networks (fibre, 5G, etc.) provide efficiencies in terms of energy consumption and therefore have a clear impact on the company's net zero emissions targets.

At Telefónica, we also aim to optimise the use of our assets, generating a greater return on investment. This aspect includes reducing energy consumption, focusing on renewable sources of energy, and increasing the circularity of our processes and the reuse of customer equipment (routers, mobile devices, etc.).

### c. Long-term value creation:

Telefónica has integrated its sustainability commitments into the Group's long-term management. Putting ESG at the core of the strategy enhances external credibility, including:

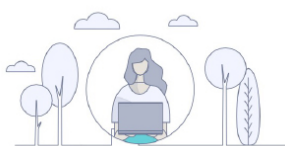
Governance of the Company, from the Board of Directors to the various management bodies (including independence, diversity, implementation of codes of conduct, respect for minority shareholder rights, etc.).




Transparency in management and compliance with (legal and voluntary) reporting obligations on key ESG indicators. In addition, Telefónica's staff remuneration has been aligned with the Company's strategic targets.

A commitment to more sustainable finances, maintaining the Group's main standards as Investment Grade. This includes the creation of new financial instruments linked to sustainability targets and projects.

## Showing consistent progress with our targets

### Environment



	2021	2022		Targets	Progress
Main target: <b>Net Zero by 2040</b> (SBTi validated)					
<b>Scope 1+2</b> % emissions reduced since 2015	70%	80%	>	80% by 2030	
<b>Scope 3</b> % emissions reduced since 2016	27%	32%	>	56% by 2030	
<b>Renewable electricity</b> % in own facilities	79%	82%	>	100% renewables by 2030	

## Social



	2021	2022		Targets	Progress
<b>Rural connectivity</b> % mobile broadband coverage	>77%	>80%	>	>90% mobile rural connectivity in main markets by 2024 <sup>1</sup>	89%
<b>Women directors</b> % women directors	29.5%	31.3% <sup>2</sup>	>	33% women directors by 2024	95%
<b>Pay gap</b> % adjusted gender pay gap	1.18%	0.74%	>	Zero (+/-1%) adjusted gender pay gap by 2024	100%

## Governance



	2021	2022		Targets	Progress
<b>Potential high-risk suppliers</b> % externally assessed on sustainability	71%	72%	>	100% of potential high-risk suppliers externally assessed on sustainability by 2024	72%
<b>Corruption</b> Number of confirmed cases of corruption	0	0	>	Zero tolerance of corruption	100%
<b>Board diversity</b> % female on the Board of Directors	33.3%	33.3%	>	Moving towards parity in top governing bodies by 2030 <sup>3</sup>	83%

<sup>1</sup> Brazil, Germany and Spain.

<sup>2</sup> In 2022, minor adjustments have been implemented in the formula for calculating the percentage of women directors. Maintaining the 2021 criteria, the figure would be 31.2%.

<sup>3</sup> Parity defined as not less than 40% of each gender. Progress is associated with Telefónica SA's Board.

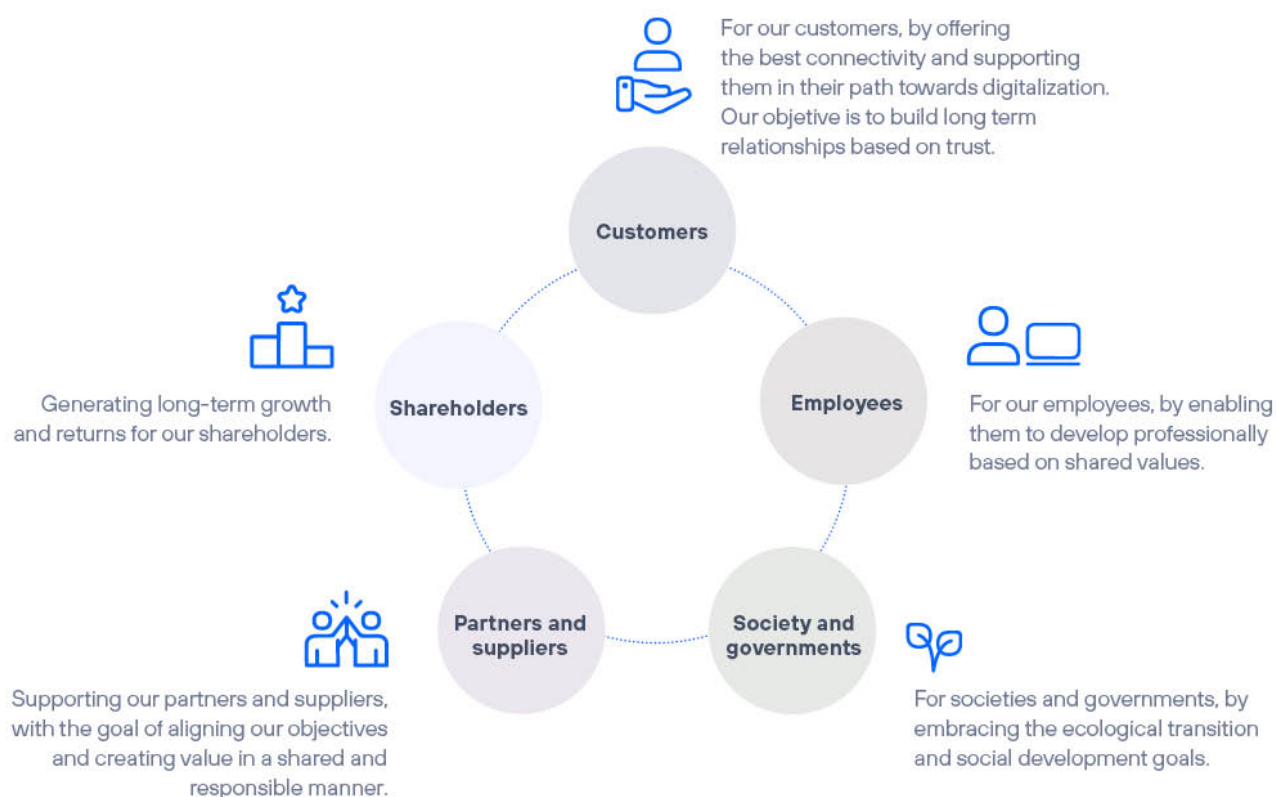


### 1.5.3. We are committed to creating value for all our stakeholders

Over the long term, at Telefónica we are committed to generating value for all our stakeholders. This concept is built on trust and commitment in areas such as customer relations, suppliers, diversity, business ethics, network security, responsible use of technology and, in general, sound corporate governance:

- We want to strengthen our **customer** relations through responsible, trust-building practices and conduct.
- Beyond our own long-term targets, at Telefónica we aspire to have our **network of suppliers** commit to the same responsible principles, creating a more sustainable environment in the telecommunications sector.
- At Telefónica, we also recognise the value for our **employees** in facilitating a workplace that respects diversity and allows for personal and professional development. In order to facilitate a work-life balance and take advantage of new technologies, we have developed and implemented new remote working models across the organisation. We work to train all our employees in new work tools and technologies and to attract new digital talent.
- We transmit confidence to our **investors** by meeting their key demands, delivering on our commitments and providing solid returns.
- We contribute to the economic and social development of the **communities** where we operate in a way that is closely linked to the Sustainable Development Goals.

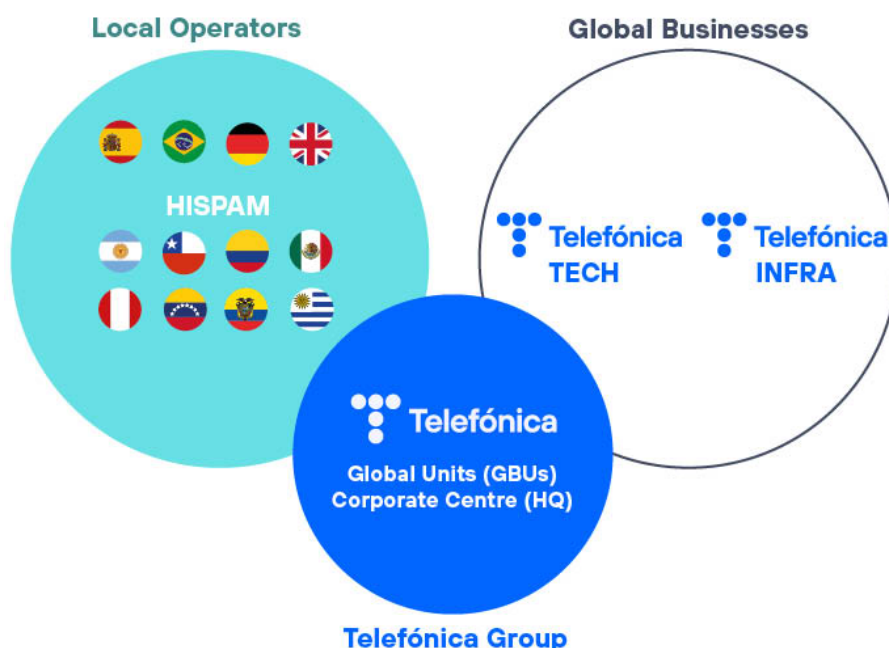
### We benefit all our stakeholders



# 1.6. Organisation

GRI 2-6, 3-3

## Telefónica's organisation



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:

### 1.6.1. 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.

## 1.6.2. 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.

### Key Security Services Indicators

	2022
Total number of external audits on Product and Service Security (Telefónica Tech)	13
Number of Digital Operational Centres (DOCs)	1
Number of Security Operation Centres (SOCs)	12

## Telefónica Tech capabilities



~6,000 professionals  
highly qualified

60 nationalities  
diversified team

~80% resources  
located in Europe

>3,500 certifications  
in third-party technologies

>300 partnerships  
with key industry leaders

>300K devices  
monitored, supervised and secured

1 DOC  
Digital Operations Centre (DOC)

+

12 SOC  
Security Operation Centres (SOCs)

>100 Products  
58% with the Eco Smart sustainability  
certificate

## Telefónica Tech products and services



### Cybersecurity and Cloud

#### Security

- Network security and data protection
- Cloud security and IoT/OT security
- Employee access management
- Comprehensive, managed defence across cloud, endpoint, network and IT
- Detection and response
- Cyber-threat intelligence and vulnerability management

#### Cloud

- Telefónica's Cloud
- Telefónica's PaaS
- Telefónica's SaaS
- Cloud of our partners
- Enterprise applications

**We build trust:** At Telefónica Tech, cybersecurity is present throughout our product and service creation process.

**We reinvent the digital workplace:** Because being digital ensures that customers are more productive and hybrid models attract more talent.

**Adopting the cloud:** This minimises costs and is a future safeguard for business due to its speed, flexibility and capacity for innovation.

**Cutting-edge networks:** With which we get the most out of cloud and offer a comprehensive cloud networking and Secure Access Service Edge (SASE) service.

**Supporting SMEs:** So SMEs can expand their digital business quickly with our comprehensive cloud and cybersecurity services.

### AI of Things

#### AI, IoT, big data and blockchain – Data-driven decisions supported by advanced platforms and AI

- |                                     |                           |
|-------------------------------------|---------------------------|
| • Logistics                         | • Telco                   |
| • Industry 5.0                      | • Banking and insurance   |
| • Retail                            | • Health                  |
| • Transport and mobility management | • Smart cities and spaces |
| • Agriculture and livestock         | • Sports                  |
| • Tourism and leisure               | • Gas                     |

**Environmental benefits:** Eco Smart services, which reduce energy consumption, water consumption and CO<sub>2</sub> emissions, and boost the circular economy.



For further information, see chapter 2.3. Circular Economy.

- **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..

### 1.6.3. 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.

## 1.7. Sustainable finance

### KEY POINTS

- ★ Telefónica continues to lead the sector in sustainable financing, which reached 27% over Telefónica Group's total financing in 2022.<sup>1</sup>
- ★ We have set a new target for financing linked to sustainability to represent between 30% and 35% over the total in 2024.
- ★ ESG oriented investment is growing steadily. Over 36% of Telefonica's institutional investors apply strict ESG criteria.<sup>2</sup>

### 1.7.1. Context

The need to shift towards a decarbonised and socially fair global economy is embodied today in greater regulatory pressures around ESG matters and an obligation to redirect capital flows in line with a sustainable growth model. Simply complying with the climate and energy targets set by the European Union requires an estimated annual investment of €275 billion between now and 2030<sup>3</sup>.

The investment community is therefore lending increased weight to **ESG factors** in investment decision-making processes. According to Bloomberg Intelligence, the volume of worldwide ESG assets under management could reach \$50 trillion (USD) by 2025, a third of all managed assets worldwide.

This trend is also being reflected in ESG financing trends in the capital markets. Despite market instability and a rise in interest rates across the board in the year, the total volume of sustainable issuances rose to \$863 billion (USD) in 2022, according to Bloomberg.

The entry into force of the Sustainable Finance Disclosure Regulation (SFDR) as part of the EU Action Plan on Sustainable Finance offers Telefónica an opportunity to highlight our Company's leadership in such fields as decarbonisation and digital inclusion, among others.

This regulation requires detailed information to be reported on various sustainability criteria adopted by investment funds when investing their capital and applies to those funds that promote environmental and social characteristics (Article 8, SFDR) as well as those aimed at sustainable investment (Article 9, SFDR). Telefónica is anticipating requirements by providing the information that these funds need, thereby positioning ourselves as a sustainable investment under the criteria imposed by the regulation.

We have been working for many years on an internal business transformation at Telefónica, which combines environmental and social sustainability with financial sustainability.

One of the results is that we maintain a leading position on sustainable financing in the telecommunications sector, in terms of both the volume and diversification of the instruments we use. Similarly, we continue to explore new ways to expand our financing model based on ESG criteria so that sustainable financing can be one of the main tools for achieving our targets.

Regulation is also a fundamental lever in this context. Since the Taxonomy Regulation came into force, we have made progress in implementing its rules and analysing the technical criteria required to demonstrate the substantial

<sup>1</sup> Financing includes balance sheet debt, hybrids and undrawn committed credit lines.

<sup>2</sup> According to data in investors' public filings.

<sup>3</sup>Source: [European Commission](#).



contribution of our activities to the fight against global warming.



For further information, see chapter 1.8. European taxonomy for sustainable activities.

Authorities and supervisory bodies are also currently focusing their attention on the disclosure of climate change impacts in companies' financial statements. Therefore, in 2022, we worked to anticipate future regulatory changes by adapting our report to place a greater emphasis on the effects from global warming on Telefónica's activities. Furthermore, we have included, for the first time in our financial statements, information on the actions and commitments made by Telefónica linked to climate change, such as the power purchase agreements and our energy efficiency projects, among others.



For further information, see Note 29 d) Environmental matters at Consolidated Financial Statements

Nonetheless, our commitment goes beyond mere regulatory compliance, and an increasing number of our projects, agreements and daily operations combine the twin pillars of sustainability and finance.

Environmental and social criteria are an integral part of all areas of our business. Our commitment translates into a series of initiatives that consider ESG issues in decision-making processes on internal or third-party investment projects. In this regard, we are defining mechanisms to implement an internal carbon price that will help us prioritise those investment projects that are better aligned with our path towards net-zero emissions. Furthermore, we are working with the Inter-American Development Bank on an initiative to promote inclusive digital transformation in Latin American and Caribbean countries; we are actively collaborating in the development of digitalisation and sustainability proposals to respond to the requirements of NextGenerationEU funds; and we are working on the holistic integration of ESG criteria into M&A operations.

Telefónica also has an independent asset manager (Fonditel) that is responsible for the pension plan of Telefónica employees, as well as for the commercialisation of other pension plans and investment funds, based on sustainability criteria.

## 1.7.2. Sustainable finance strategy

At Telefónica, we seek to strengthen our leadership in the field of sustainable finance so that we can meet our commitments to society and the planet. To achieve this, we have a strategy that enables us to:

- **Use debt as a financial instrument** to support the sustainability strategy of the business; and
- Proactively position Telefónica **to attract investors** that promote investment strategies and styles that are in line with ESG criteria, according to emerging regulation.

Furthermore, **sustainable finance** offers us new opportunities for interaction with our partners and investors so:

- We can listen to their expectations and therefore consider them in our long-term decision-making processes.
- At the same time, this dialogue gives us the opportunity to keep them informed about our sustainability challenges and opportunities.
- Financial instruments leveraged on ESG criteria, such as bonds, hybrid instruments and bank financing, give us the **opportunity** to analyse a new market demand, improve profitability and attract new business opportunities, highlighting our role as a key partner on the road to the **decarbonisation** of many activities.

## 1.7.3. Sustainable and Responsible Investment (SRI)

Our ability to **attract sustainable and responsible capital** reflects the impact and positive perception from investors and analysts of Telefónica's activity. ESG criteria are an increasingly important factor in decision-making processes for investors, analysts, proxy advisers and financial markets participants.

This issue has become even more relevant since the entry into force of Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector (SFDR). This regulation establishes reporting obligations for financial market participants and advisors regarding the disclosure of information on how they integrate sustainability-related risks in their investment policies.

The regulation has some indirect sustainable management-related repercussions on the companies in which actors in the financial market choose to invest. This presents Telefónica with the opportunity to highlight its sustainability performance, as well as to assess the **alignment of the Company's priorities** with those of investors.

The EU Taxonomy Regulation for sustainable activities came into force on 12 July 2020. It is an ambitious programme that seeks to prevent the risk of greenwashing on the one hand, and to increase investment in activities that contribute positively to priorities defined by the European Union from a sustainability perspective on the other, including climate change mitigation and adaptation. In this regard, we are working on three fronts:

1. Telefónica is disclosing data on the alignment of its activities with the taxonomy for the 2022 financial year, following the initial eligibility analysis published previously for 2021.
2. Furthermore, with the entry into force of information disclosure provisions for investment funds subject to the SFDR, Telefónica is also making information available for the first time on its Principal Adverse Impacts (PAIs), including the set of key indicators that investors are required to monitor periodically vis-à-vis their investment positions. In this way, we seek to make reporting tasks easier for those investors with a sustainable mandate subject to this new regulation. This mainly affects those funds that promote environmental and social characteristics (Article 8, SFDR) and those who target making sustainable investments (Article 9, SFDR). A table is therefore included in the Annex to this report with the mandatory and optional indicators on PAIs for investors to consult as they wish.
3. Our Company has decided to go even further in its analysis by complementing this information disclosure with a detailed study of our impacts in the field of sustainability from the perspective of the Sustainable Development Goals (SDGs). This study was published in 2022 and quantifies our social and environmental impact.

Another fundamental pillar of the ESG investment strategy is our proactive communication with financial markets participants, such as institutional investors, analysts and ESG information providers.

Our constant dialogue with these actors is aimed at aligning expectations on their need for sustainability-related information. This task is particularly relevant given their varied set of criteria and weightings used when assessing our performance.

This proactive communication creates a virtuous circle of ongoing improvement while strengthening our leadership in sustainability and is ultimately reflected in the ratings obtained by our Company and our inclusion on benchmark ESG indices, such as the S&P Dow Jones Sustainability Index.



For further information, see chapter 1.9 Main indicators and footprint

## Fonditel

Fonditel is Telefonica Group's independent Asset Manager and has over 30 years of experience in managing pension funds and investment funds tailored to the risk profile of its clients.

As a part of its commitment to a Sustainable and Responsible Investment (SRI) purpose, Fonditel became a signatory to the United Nations Principles for Responsible Investment (UNPRI) in 2022. This new milestone represents another step in Fonditel's SRI strategy and completes the journey begun in 2018, when Telefónica Employees' Pension Plan joined the global network of UNPRI signatories. Since then, the six Principles have become, together with the Sustainable Development Goals (SDGs), the cornerstones of Fonditel's SRI philosophy, thus contributing to the development of a more sustainable global financial system.

Fonditel is convinced that the combination of financial and extra-financial criteria provides a more complete view of the assets in which it invests, mitigating the sources of risk in its portfolios and enhancing long-term returns. In short, helping to make better informed investment decisions.

Over the past few years, Fonditel has made progress in defining the investment themes aligned with the SDGs that are priorities for its stakeholders. The objective is to find investments that combine long-term economic sense and commitment to the SDGs, seeking to ensure that its investments not only offer attractive financial returns, but also make a positive contribution to the environment and society. Fonditel has two products classified as art. 8 under SFDR (Fondo de Pensiones de Empleados de Telefónica de España and Fonditel Bolsa Mundial Sostenible FI).

## > Progress in 2022

### Sustainable and Responsible Investment (SRI)

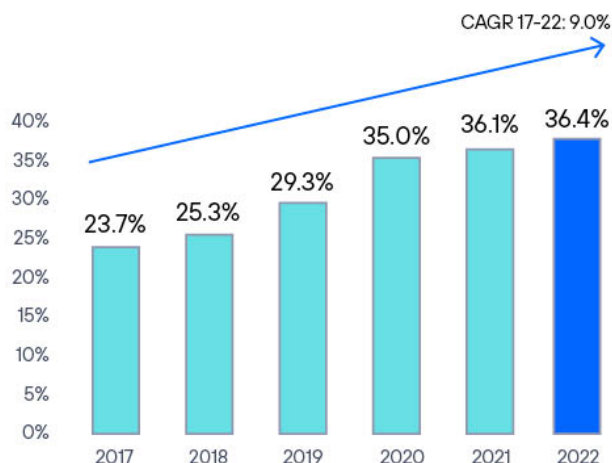
The presence of investors among the Telefónica shareholders, who, among other criteria, consider the Company's performance on environmental, social and good governance issues and take them into account for their investment strategies, is a highly useful indicator. It confirms the growing importance of ESG factors in investment processes and the alignment of our sustainability strategy and performance with the expectations of these investors.

This indicator demonstrates the proportion of Telefónica shares included in two main categories of ESG investors: institutional investors with advanced ESG integration processes; and ESG thematic funds (investment funds focused on climate change solutions, ethical funds, etc.).

According to the latest analysis conducted by a third party, the percentage of Telefónica shares managed by institutional investors that follow ESG criteria has increased year after year since 2017.

## Percentage of shares that integrate ESG criteria

Of the total managed by institutional investors in Telefónica<sup>4</sup>



This study was completed using data at 31 December 2022 by analysing the ownership of managed shares in Telefónica by institutional investors under ESG criteria according to public information and the methodology developed by external consultants.

This methodology is based on criteria focused on the effective integration of ESG issues in portfolio management by institutional investors according to established ESG principles and their policies on dialogue with investee companies in line with said criteria.

By the end of 2022, this percentage had reached 36.4%, measured on the publicly-disclosed total number of Telefónica shares managed by institutional investors.

The elevated financial market volatility during 2022 resulted in slower growth by sustainable investment funds invested in equities. This context reaffirms the importance of communicating our ESG strategy effectively given its increasing relevance for the financial markets. In addition, it enables us, as a Company, to differentiate ourselves from our peers based on the positive market perceptions of our sustainability progress and disclosures.

In the long term, this market is expected to continue burgeoning, and new European regulation is expected to stimulate a flourishing environment for sustainable investment funds.

This highlights the importance of good sustainability performance and reporting, so that we can continue to harness the growth opportunity in this market and thereby increase the presence of ESG investors in Telefónica.

<sup>4</sup> Source of public information on the ownership of shares in Telefónica by institutional investors according to FactSet. Analysis by Leaders Arena of the percentage of investment based on ESG criteria.

## 1.7.4. Financing tools

Sustainable financing is a **fundamental tool** for supporting the transformation of our business through

investment in projects with a positive environmental and social impact.

### History of sustainable debt issuances



In 2018, our 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 International Capital Market Association (ICMA) Green Bond, Social Bond and Sustainable Bond Principles.

 For further information on sustainable financing, visit the website at [Telefónica/shareholders-investors/rating/Sustainable-financing-framework](https://www.telefonica.com/shareholders-investors/rating/Sustainable-financing-framework).


It should be pointed out that we were the **industry's first issuer of senior green bonds and hybrid instruments (green and sustainable)**. The funds that were obtained have been allocated to environmental projects focused on switching our network from copper to fibre, 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. We intend to continue harnessing the opportunities offered to us by this financing model.

In addition to green senior bonds and hybrid instruments, we use other sustainable bank financing tools, such as **loans and credits linked to sustainability objectives** that make it possible for us to progress steadily towards such important corporate targets as reducing emissions or gender equality. Also in this case, the main syndicated loan of the Telefónica Group 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.

These sustainable financing tools (bonds, hybrid instruments and bank financing) are becoming more and more important in the Group's financing structure and are set to become one of the main tools for financial instruments and private investment flows.

At Telefónica, we play an active role in the development of all necessary legislation by collaborating with sectoral associations and public bodies. We also provide a **technical vision** (thanks to our knowledge of the business) and a strategic vision (thanks to our experience in sustainable finance) to promote transparency and make the ESG impact of our business known to the investor world.

The new taxonomic reporting requirements are addressed in a specific chapter with the corresponding taxonomic eligibility data.

 For further information, see chapter 1.8. European taxonomy for sustainable activities.

## > Progress in 2022

In 2022, Telefónica Group's sustainable financing activity (including balance-sheet debt, hybrid instruments and committed credit lines) exceeded 27% of the Company's total financing, positioning the Company as the market leader in the global telecommunications sector in terms of the volume of bond and hybrid instrument issuances.

### Capital markets

In 2022, our Company maintained an active presence in the capital markets through numerous issuances. These included its first sustainable senior bond issuance for €1 billion in May with a term of nine years. The proceeds from this issuance will be allocated to environmental projects related to transformation of the telecommunications network via the rollout of fibre optics and 5G technology, as well as social projects aimed at promoting inclusive connectivity, entrepreneurship and job creation.

The Company's second hybrid green instrument issuance took place in November for the value of €750 million, with the first redemption date at six years. In this case, the investment proceeds will aim at the shutdown of obsolete equipment and the transformation of network infrastructure through energy efficiency projects.

Despite the current market instability, both issuances were well received by the market with a broadly international and diversified investor base.

In Brazil, Vivo carried out its first issuance of Sustainability-linked Bonds (SLB), for the aggregated amount of R\$3.5 billion (equivalent to €628 million at closing 2022 exchange rate). Financing costs are linked to meeting sustainability targets between now and 2027. From an environmental perspective, Vivo has committed to reducing direct greenhouse gas emissions (Scope 1) by 40% compared to 2021. In terms of social matters, Vivo has set a target to have at least 30% of leadership positions at the company held by Black persons. The transaction was carried out according to Vivo's Sustainability-linked Financing Framework, drawn up in line with the 2021 Sustainability-linked Bond Principles (SLBP) of the International Capital Market Association (ICMA) and the 2021 Sustainability-linked Loan Principles

(SLLP). The document was also endorsed by a second party opinion from Bureau Veritas.

In January 2023, a new green hybrid bond has been issued for an amount of 1,000 million euros.

### Loans and lines linked to sustainability targets

In terms of bank financing, the Telefónica Group's main syndicated loan was refinanced at a corporate level in 2022 for the amount of €5,500 million, the interest applied to which will be linked to compliance with sustainability targets. The deal was supported by nearly 30 entities, with an over-subscription of more than 30%.

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 at the close of 2022, the interest applied to which is also linked to compliance with sustainability targets.

The first target is linked to climate change mitigation and establishes a commitment to reduce absolute greenhouse gas emissions (Scopes 1 and 2) by 70% by 2025 and by 80% by 2030. These targets are in line with the global ambition to keep the temperature rise below 1.5°C and have been validated by the Science Based Targets initiative (SBTi) within the framework of the net-zero emissions target set by Telefónica for the main markets by 2025 and by 2040 for the whole Group and value chain.

The second target is linked to an increase in the number of women directors in the Company to 37% by 2027.

KPI	Benchmark value	2022
Reduction of Scope 1 and 2 greenhouse gases (%)	(Year 2015) 1,811.155	80 %
Women directors in the Group (%)	(Year 2020) 27,4%	31.3 % <sup>5</sup>




In Colombia, Telefónica has a loan of \$300 billion COP (equivalent to a €58 million at closing 2022 exchange rate) which we have made sustainable and will be linked to energy efficiency targets.

<sup>5</sup> In 2022, minor adjustments have been implemented in the formula for calculating the percentage of women directors. Maintaining the 2021 criteria, the figure would be 31.2%.







## Sustainable issuances: use and impact of funds

### ENVIRONMENT

Projects		
Energy efficiency of network infrastructure	Renewable energy	Digital solutions for the environment
Main topics		
Deployment of a more efficient network: fibre	Use of more environmentally friendly energy sources	Energy efficiency
Impacts <sup>1</sup>		
 <b>+115,000</b> tCO <sub>2</sub> avoided  <b>+470,000</b> MWh of energy saved  <b>86%</b> less consumption of energy/traffic (MWh/PB) in fixed network in Spain		

### SOCIETY

Projects	
Broadband deployment (mobile broadband) in unconnected areas	Support for employment and entrepreneurship
Main topics	
Mobile connectivity in rural areas Closing the digital divide	Creation of companies Job creation
Impacts <sup>2</sup>	
 <b>+4,600</b> average number of rural areas benefiting annually from mobile broadband deployment and upgrades  <b>+12,400</b> average number of users benefiting annually from mobile broadband deployment and upgrades	 <b>97</b> companies receiving investment through Open Innovation  <b>970</b> jobs created

Data referred to:

1 Cumulative environmental impacts for first 4 issuances: €1bn inaugural green bond (2019); €500m green hybrid (2020); €1bn sustainable hybrid (2021); €750m sustainable hybrid (2021).

2 Figures have been calculated as an average for the period 2019-2022. The impact for 2022 only considers the first half of the year.

# 1.8. European taxonomy for sustainable activities

## KEY POINTS

- ★ The ICT sector is one of the six sectors listed in the taxonomy because of its contribution to climate mitigation and adaptation.
- ★ In 2022, the alignment of the company's taxonomic activities is reported for the first time, along with eligibility, which was already reported in 2021
- ★ The European Commission's draft of frequently asked questions (FAQs) of 19 December 2022 almost completely limits the relevance of the telco sector in the EU Taxonomy as a facilitator of the decarbonisation of the economy

## 1.8.1. Regulatory background

**Regulation (EU) 2020/852** paved the way for establishing a regulatory framework for an economic activity to be categorised as sustainable: the **EU Taxonomy**. This framework arose in the context of the **Action plan on financing sustainable growth** and the **European Green Deal** with the objective of promoting the required investments to achieve a circular, competitive and climate-neutral economy by 2050. The EU Taxonomy aims to establish a common language to identify sustainable activities consistently throughout the European Union.

The development of this regulatory framework is in process, having published **three delegated regulations**<sup>1</sup> that complement Regulation (EU) 2020/852 in relation to climate change mitigation and adaptation. Another **delegated regulation has yet to be published** that will outline the technical screening criteria for the final four environmental objectives (the sustainable use and protection of water and marine resources; the transition to a circular economy; pollution prevention and

control; and the protection and restoration of biodiversity and ecosystems). Against this backdrop, the European Commission has also published **several communications on the interpretation of the legal provisions** included in those delegated regulations in a bid to reduce the uncertainty related to this complex and novel regulatory framework and its application.

In **2021**, in line with the requirements of the regulatory framework in force, Telefónica disclosed the proportion of its revenues, capital expenditure and operating expenditure derived from its **Taxonomy-eligible activities**<sup>2</sup> (i.e. from activities covered by the Taxonomy due to their potential to make a substantial contribution to climate change mitigation and climate change adaptation). In the **second year of application** of the EU Taxonomy, non-financial undertakings must report the proportion associated with **Taxonomy-aligned**

<sup>1</sup> Delegated Regulation (EU) 2021/2139 (climate); Delegated Regulation (EU) 2021/2178 (disclosure); Delegated Regulation (EU) 2022/1214 (complementary to the climate regulation).

<sup>2</sup> An economic activity is considered as Taxonomy-eligible if it is described in the related Delegated Regulation.



**activities**<sup>3</sup> of the same three key performance indicators (KPIs) in addition to material information on their accounting policy, compliance with the EU Taxonomy regulation and contextual information about those KPIs.

### 1.8.2. Scope of the report

The scope of application of the EU Taxonomy Regulation consists of the **activity of Telefónica, S.A. and all Group subsidiaries** (fully consolidated companies).

Telefónica offers **connectivity solutions and digital services** that connect people by deploying environmentally and sustainably efficient telecommunication networks.

Sustainability is embedded into Telefónica's strategy to the extent that:

- Telefónica is aligned with **global goals to reverse climate change**, keeping its commitment to reducing its total Scope 1 and 2 emissions by 80% by 2030 and achieving net-zero emissions by 2040, according to the Net-Zero Standard. These objectives are validated by the SBTi.
- It deploys **state-of-the-art networks** (optic fibre, 5G) that are much more efficient than their forerunners (e.g., 85% in the case of fibre compared to copper and 90% for 5G compared to 4G) in terms of energy consumption and, therefore, their environmental footprint.
- Telefónica also strives to be a **key supplier** that helps its customers reduce their climate impact, avoiding **81.7** million tonnes of CO<sub>2</sub> emissions by our customers in 2022.
- The company promotes the transition to a more sustainable **circular economy** based on eco-design, re-use and recycling (98% of its waste was recycled in 2022) as part of its goal of becoming a Zero Waste company.



For further information see chapter 2.2 Energy and climate change

Telefónica carries out its business based on **digitalisation**, offering connectivity solutions using the most efficient technologies available on the market (e.g., fibre and 5G) and promoting services such as cloud, the *Internet of Things (IoT)*, *big data* and *e-Health*. In this vein, in addition to its operators in each country, Telefónica has two large subsidiaries:

- **Telefónica Tech**, a potential source of value due to its fast-growing B2B digital services and leader towards an inclusive digital transition.
- **Telefónica Infra**, manager of the portfolio of FTTH vehicles, data centres and submarine cable investments. The subsidiary has the leading portfolio of FibreCos that bring connectivity to the most underserved areas.

Network leadership evolution brings an opportunity for our industry by building up the **concept of Network as a Service** (NaaS). On this front, Telefónica is working internally and in collaboration with the industry (GSMA) to expose our telco capabilities to third parties so that more efficient technologies can be developed and to become enablers of new and more advanced services.

The **digital services** Telefónica offers can be tailored to the needs of all kinds of customers. They are not only aimed at make the use of technology easier in their daily lives, but also to benefit the environment by reducing emissions when using these services through the Group's infrastructure.

### 1.8.3. Vision and scope of the taxonomy

Telefónica, along with the rest of the ICT sector, is covered by the taxonomy for its **climate change mitigation potential**. According to **ETNO** and **BCG**<sup>4</sup>, the sector has the potential to reduce global CO<sub>2</sub> emissions by as much as 15% resulting from full digitalisation (including smart cities and buildings, transportation, industry IoT, blockchain applications, and energy). Other **studies** such as the *Exponential Roadmap*<sup>5</sup> indicate that digital technologies can indirectly support a further reduction of up to 35% considering criteria like changing consumption habits over the coming years.

Application of the current regulatory framework leads to **uncertainty and doubts regarding interpretation** in the market. Essentially, this stems from the difficult articulating a common language for all European sectors and geographies in the highly diverse and complex field of sustainability.

In the ICT sector, the main issues surrounding interpretation are related to its consideration as an enabling activity. In other words, an activity with the potential to enable a reduction of emissions for third-party **telecommunication network** activities. Networks understood as connectivity solutions developed for data transmission, storage and use that can reduce greenhouse gas emissions would help enable decarbonization of third parties. Telecommunications networks are the only technology specifically described in

<sup>3</sup> An eligible activity is considered as Taxonomy-aligned when it has been assessed to comply with the specific technical screening criteria (substantial contribution to one of the environmental objectives and do no significant harm) for each activity and meets the minimum safeguards.

<sup>4</sup> Connectivity & Beyond How Telcos Can Accelerate a Digital Future for All. ETNO and Boston Consulting Group. March 2021.

<sup>5</sup> Exponential roadmap. Scaling 36 solutions to halve emissions by 2030. Version 1.5.1. January 2020

the Delegated Regulation (e.g. 5G) that support data transmission.

Telefónica uses the definition provided by the International Telecommunications Union (ITU) in its recommendation ITU-L.1480 (12/2022)<sup>6</sup> for **ICT solutions**: "A system encompassing ICT goods, ICT networks and/or ICT services that contributes to meeting a technical, societal or business challenge.". Therefore, according to this body, telecommunications networks are inherently ICT solutions.

However, the **draft commission notice on frequently asked questions (FAQs)** published by the European Commission on 19 December 2022<sup>7</sup> restricts the classification of telecommunications networks to activity 8.2. The purpose of this document, which has yet to be published in the OJEU<sup>8</sup>, aims to clarify the content of the delegated act, though it is not a binding regulation, but it is a 'communication'. With this in mind, **Telefónica's reporting** took into account the FAQs in the draft to adapt how it calculates KPIs in this report. This adaptation was performed over a short period of time since the date of publication of the draft was close to the end of the reporting period. The publication of the final version of FAQs, or future possible additional clarifications by the regulator and the legislator could affect the considerations reflected in this report. The following sections set out **the criteria used by Telefónica** based on the current situation. In other words, considering the FAQs published in the draft notice of 19th December 2022 and not the Company's previous interpretation.

## 1.8.4. Methodology and results

### 1.8.4.1. Understanding the taxonomy requirements

According to article 8 of **Regulation (EU) 2020/852**, non-financial undertakings subject to application of the EU taxonomy must disclose, as provided for in Annex I of Delegated Regulation (EU) 2021/2178, the following information:

- The proportion of their **turnover** derived from Taxonomy-eligible and Taxonomy-aligned activities
- The proportion of their **capital expenditure** (CapEx) derived from Taxonomy-eligible and Taxonomy-aligned activities
- The proportion of their **operating expenditure** (OpEx) derived from Taxonomy-eligible and Taxonomy-aligned activities

- **Explanatory information** accompanying the relevant KPIs:

- Accounting policy.
- Assessment of compliance with Regulation (EU) 2020/852.
- Contextual information.

The regulation also specifies<sup>9</sup> that qualitative explanations and quantitative breakdowns must be provided in the event of any change in the approach and methodology used previously along with comparative figures and sufficient information to be able to trace the trend of the data provided.

For the **Taxonomy-eligibility and Taxonomy-alignment assessment**, Telefónica used the following methodological approach to quantify its contribution to the climate change mitigation and climate change adaptation objectives established by the EU Taxonomy:

1. **Assessment of Taxonomy eligibility** of the Company's activities (analysis of the accounting items relating to the three KPIs based on the description of activities provided in Annexes I and II to Delegated Regulation (EU) 2021/2139);
2. Assessment of the **technical screening criteria for substantial contribution** laid down in Delegated Regulation (EU) 2021/2139;
3. Assessment of the **criteria for 'do no significant harm'** to the other environmental objectives (DNSH) provided in that Delegated Regulation;
4. Assessment of compliance with **social minimum safeguards** according to:
  - Platform report on Social Minimum Safeguards.
  - OECD Guidelines for Multinational Enterprises.
  - United Nations Guiding Principles on Business and Human Rights (including the principles and rights included in the International Labour Organization's eight core conventions as set out in the Declaration on Fundamental Principles and Rights at Work and those expressed in the International Bill of Human Rights).

<sup>6</sup> As included in the document Enabling the Net Zero transition: Assessing how the use of information and communication technology solutions impact greenhouse gas emissions of other sectors.

<sup>7</sup> DRAFT COMMISSION NOTICE on the interpretation and implementation of certain legal provisions of the EU (europa.eu).

<sup>8</sup> Official Journal of the European Union.

<sup>9</sup> As indicated in point 1.2.3.1, sections a) and c) of the Delegated Regulation (EU) 2021/2178.

5. Calculation of the percentages of each of the three **KPIs** of Taxonomy-eligible and Taxonomy-aligned economic activities (i.e. that comply with points 2, 3 and 4).

Following is a description of the **process for calculating the three KPIs**, covering also key aspects related to **accounting policy, compliance with Regulation (EU) 2020/852** and **contextual information** to support the adequate understanding of those indicators.

#### 1.8.4.2. General considerations

To carry out the calculation of the revenues, CapEx and OpEx KPIs in accordance with the Regulation, in 2022, Telefónica used as a basis the information corresponding to the **various business units**, with higher granularity, that contribute to the aggregation of the information at consolidation level for the Group (bottom up).

This enabled it to fine-tune the calculation of the KPIs and restate the figures corresponding reported for previous period to show comparability with the current period.

Data for Telefónica United Kingdom was excluded from the calculation because of the changes in the Group's scope of consolidation.

**Intragroup transactions** were excluded from the calculations.

Throughout the entire process, due care was taken to **avoid double counting**:

- a. **Reconciliation with accounting information**, which ensures appropriate consideration of eliminations and adjustments on consolidation.
- b. **Use of consistent information sources**, which prevents considering the same item in two different KPIs or twice in the same KPI.
- c. **Verification of the completeness and accuracy of the data**.

After assessing each of the three indicators, the following were identified as **the main Taxonomy-eligible economic activities**:

- Activities that can make a substantial contribution to **climate change mitigation**:
  - Activity 8.1. Data processing, hosting and related activities
  - Activity 8.2. Data-driven solutions for GHG emissions reductions
- Activities that can make a substantial contribution to **climate change adaptation**:
  - Activity 8.3. Programming and broadcasting activities

- Activity 13.3. Motion picture, video and television programme production, sound recording and music publishing activities

Furthermore, in accordance with the Regulations, **Telefónica identified other secondary activities** that, although they are not part of the company's business activity, contribute to the reduction of GHG. The Taxonomy Regulation identifies these actions as individual measures that are **mainly related to energy efficiency and sustainable mobility**.

These activities are:

- Activity 6.5. Transport by motorbikes, passenger cars and light commercial vehicles
- Activity 7.3. Installation, maintenance and repair of energy efficiency equipment
- Activity 7.5. Installation, maintenance and repair of instruments and devices for measuring, regulation and controlling energy performance of buildings
- Activity 7.7. Acquisition and ownership of buildings

The following aspects must be considered for a better understanding of the information reported for 2022 financial year and comparison with the 2021 financial year: the **context of the previous year's report**, the complexity of the interpretation and application of the regulatory framework and the lack of a clarifying formal legal document.

In this context, Telefónica opted in 2021 to report, in the eligibility exercise, a **minimum and maximum percentage** of eligibility of its economic activities, to provide greater transparency in the assessment performed. The difference between the two numbers is due to the consideration of telecommunications networks as connectivity solutions, which depend on the interpretation of the description of activity 8.2. The **minimum value** reported in the calculation of the three KPIs (revenues, CapEx and OpEx) only factors in the development or use of digital services, without including the telecommunications network required for data transmission. The **maximum value** included, in addition to the data transmission phase, the use of technologies such as fibre or 5G.

Both interpretations arose from the **complexity in applying the regulatory framework**, mostly because there is a certain level of ambiguity in the items and descriptions of the activity and the technical screening criteria of Delegated Regulation (EU) 2021/2139. The Platform on Sustainable Finance, in its document published in October 2022 entitled *Platform Recommendations on Data and Usability of the EU*

*Taxonomy*<sup>10</sup>, proposed providing more technical guidance on compliance with criteria for substantial contribution and DNSH (Do no significant harm) regarding activity 8.2, among others.

However, as there is no formally approved explanatory document, the interpretation provided in the draft of **FAQs** of December 2022 takes an approach that focuses exclusively on the substantial contribution of digital services to climate change mitigation and not the full **potential of telecommunications networks** as connectivity solutions, with the following **exceptions**:

- **Additions to network infrastructure** (public) required in the context of supporting the connectivity needs for a digital service that are developed with the predominant purpose to reduce emissions.
- **Proportional share of networks deployed and used** in the specific geographic location of a digital service developed with the predominant purpose to reduce emissions.
- **Digital solutions applied to networks** to enhance efficiency.

The first two considerations would imply an assumption that **telecommunications networks** can be treated as divisible and independent fragments as if they were designed for a specific solution with the ability to transmit data autonomously from one end to another. In practices, this assumption would not be valid in most cases, since generally network components are indivisible and shared in all services provided by Telefónica.

#### 1.8.4.3 Percentage of turnover derived from Taxonomy-eligible and Taxonomy-aligned activities

This KPI shows the relative weight of turnover derived from **products or services associated with economic activities covered by the Taxonomy** over **total turnover**<sup>11</sup>. For the economic activities to be Taxonomy-aligned, they must also meet the related technical screening criteria.

Telefónica has analysed the various items included in its **revenue model**, enabling it to identify revenue items considered Taxonomy-eligible and then differentiate between those that comply with the technical screening criteria described in the previous section (Taxonomy-aligned items) and those that are not covered by the Taxonomy. Revenues have been classified into the following items:

- **Revenues from Taxonomy-eligible and Taxonomy-aligned activities (515 million euros) - A.1 in the template:** revenue from digital services/solutions linked to the collection, transmission and analysis of data that reduce emissions associated to other activities (activity 8.2).
- **Revenues from Taxonomy-eligible and not-Taxonomy-aligned revenues (3,153 million euros) - A.2:** revenues derived from the production, programming and broadcast of video and television content not strictly aimed at increasing the level of resilience to third-party physical climate risks (2,448 million euros) (activities 8.3/13.3) and revenues derived from cloud services provided to users over Internet, allowing user data to be stored in data centres (705 million euros) (activity 8.1).
- **Revenues derived from Taxonomy-non-eligible activities (36,325 million euros) - B:** revenues derived from connectivity solutions through state-of-the-art data transmission networks<sup>12</sup> (10,579 million euros) and rest of networks<sup>13</sup> (6,163 million euros) and revenue from voice services, handset sales and digital services/solutions that do not reduce emissions associated with other activities.

**Disclosures on turnover for 2022** below are based on the template included in Annex II of Delegated Regulation (EU) 2021/2178 (the Disclosure Delegated Act):

<sup>10</sup> Platform Recommendations on Data and Usability. October 2022.

<sup>11</sup> See [Note 26](#) to the Consolidated Financial Statements.

<sup>12</sup> Fibre fixed network, 4G and 5G mobile networks.

<sup>13</sup> Mainly copper fixed network, 2G and 3G mobile networks.

### Proportion of turnover derived from products or services associated with Taxonomy-aligned economic activities – disclosure covering financial year 2022

Economic activities	Codes	Absolute turnover €M	Proportion of turnover %	Substantial contribution criteria						DNSH Criteria ('Does Not Significantly Harm')							Taxonomy-aligned proportion of turnover, year N	Taxonomy-aligned proportion of turnover, year N-1	Category (enabling activity) E	Category (transition activity) T
				Climate Change Mitigation	Climate Change adaptation	Water and marine resources	Circular economy	Pollution	Biodiversity and ecosystems	Climate Change mitigation	Climate Change adaptation	Water and marine resources	Circular economy	Pollution	Biodiversity and ecosystems	Minimum safeguards				
				%	%	%	%	%	%	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	%	%	E	T
<b>A. TAXONOMY-ELIGIBLE ACTIVITIES</b>																				
<b>A.1 Environmentally sustainable activities (Taxonomy-aligned)</b>																				
Data-driven solutions for GHG emissions reductions	8.2	515	1.3	100	NI	P	P	P	P	NA	Y	NA	Y	NA	NA	Y	1.3	NR	E	
<b>Turnover of environmentally sustainable activities (Taxonomy-aligned) (A.1)</b>	<b>515</b>	<b>1.3</b>															<b>1.3</b>			
<b>A.2 Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned)</b>																				
Data processing, hosting and related activities	8.1	705	1.8																	
Programming and broadcasting activities	8.1	1,538	3.8																	
Motion picture, video and television programme production, sound recording and music publishing activities	13.3	910	2.3																	
<b>Turnover of Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned) (A.2)</b>	<b>3,153</b>	<b>7.9</b>																		
<b>Total (A.1 + A.2)</b>	<b>3,668</b>	<b>9.2</b>															<b>1.3</b>			
<b>B. TAXONOMY-NON-ELIGIBLE ACTIVITIES</b>																				
<b>Turnover of Taxonomy-non-eligible activities (B)</b>	<b>36,325</b>	<b>90.8</b>																		
<b>Total (A + B)</b>	<b>39,993</b>	<b>100.0</b>																		

**NI:** Activity 8.2 is not included within the criteria of Annex II of the Delegated Act on Climate Change.

**P:** Pending. The detailed technical screening criteria associated with the other four environmental objectives (sustainable use and protection of water and marine resources, transition to a circular economy, pollution prevention and control, protection and restoration of biodiversity and ecosystems) have yet to be published.

**NA:** Not applicable according to Commission Delegated Regulation (EU) 2021/2139 of June 4, 2021.

**NR:** No alignment was reported based on legal requirements in the 2021 Consolidated Management Report.



As explained previously, information reported on Taxonomy eligibility for the previous year corresponding to activity 8.2 considered a **minimum value** (revenues related to digital services) and a **maximum value** (which also considered the revenue corresponding to connectivity solutions provided by telecommunications networks).

The **minimum value** corresponding to **2022** (A1+A2 in the previous table) of **9.2%** would be comparable to the 9.1%<sup>14</sup> of the 2021 financial year.

The **maximum value** corresponding to **2022** of **51.0%** would be comparable to the 51.1%<sup>15</sup> of the 2021 financial year.

#### 1.8.4.4 Percentage of CapEx of Taxonomy-eligible and Taxonomy-aligned activities

This indicator shows the proportion of capital expenditure (CapEx) associated with **assets or processes associated with economic activities covered by the Taxonomy**. For the economic activities to be Taxonomy-aligned, they must also meet the related technical screening criteria.

The denominator includes **additions to property, plant and equipment and intangible assets** (equal to CapEx as defined in the financial information reported by the Group<sup>16</sup>). The definition of CapEx associated with the taxonomy also includes additions of **right-of-use assets** recognised in accordance with IFRS 16, as well as additions of property, plant and equipment, intangible assets or right-of-use assets arising from **business combinations**.

Telefónica analysed the various items included in its **CapEx model**, enabling it to classify investments into the following items:

- **Investments in Taxonomy-eligible and Taxonomy-aligned activities (50 million euros) - A.1:**  
investments directly and exclusively related to digital services/solutions and some specific measures applied to telecommunications networks that improve their energy efficiency (42 million euros) (activity 8.2). Investments in some energy saving measures on equipment (6 million euros) and buildings (2 million euros) are also included (activities 7.3 and 7.5).
- **Investments in Taxonomy-eligible and not Taxonomy-aligned activities (225 million euros) - A.2:**  
investments related to the production, programming and broadcasting of video and television content not strictly aimed at increasing the level of resilience to third-party physical climate risks (125 million euros) (activities 8.3/13.3) and investments linked to *cloud*

services that are made available to users via Internet, facilitating the storage of user data in *data centers* (38 million euros) (activity 8.1). This item also includes additions related to fleet management (3 million euros) (activity 6.5), the acquisition and ownership of buildings (55 million euros) (activity 7.7), some specific energy saving measures (3 million euros) (activity 7.3) and a specific solution applied to improve the telecommunications network efficiency (2 million euros) (activity 8.2).

- **Investments in Taxonomy-non-eligible activities (7,992 million euros) - B:** investments associated with next-generation data transmission networks<sup>17</sup> (access, infrastructure, transmission, core and capitalised expenditure related to labour) (4,527 million euros) and other networks<sup>18</sup> (1,120 million euros) as well as other CapEx concepts (non-eligible right-of-use additions, systems, etc.)

**Disclosures on CapEx for 2022** provided below are based on the template included in Annex II of Delegated Regulation (EU) 2021/2178 (the Disclosure Delegated Act):

<sup>14</sup> Restated value for 2021. The value reported in the 2021 Consolidated Management Report is 9.0%.

<sup>15</sup> Restated value for 2021. The value reported in the 2021 Consolidated Management Report is 51.6%.

<sup>16</sup> See [Note 6](#) and [Note 8](#) to Consolidated Financial Statements.

<sup>17</sup> Fibre fixed network, 4G and 5G mobile networks.

<sup>18</sup> Mainly copper fixed network, 2G and 3G mobile networks.

## Proportion of CapEx derived from products or services associated with Taxonomy-aligned economic activities – disclosure covering financial year 2022

				Substantial contribution criteria						DNSH Criteria ('Does Not Significantly Harm')												
Economic activities	Codes	Absolute CapEx	Proportion of CapEx	Climate Change Mitigation	Climate Change adaptation	Water and marine resources	Circular economy	Pollution	Biodiversity and ecosystems	Climate Change mitigation	Climate Change adaptation	Water and marine resources	Circular economy	Pollution	Biodiversity and ecosystems	Minimum safeguards	Taxonomy-aligned proportion of CapEx, year N	Taxonomy-aligned proportion of CapEx, year N-1	Category (enabling activity)	Category (transition activity)		
	€M	%	%	%	%	%	%	%	%	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	%	%	E	T		
A. TAXONOMY-ELIGIBLE ACTIVITIES																						
A.1 Environmentally sustainable activities (Taxonomy-aligned)																						
Installation, maintenance and repair of energy efficiency equipment	7.3	6	0.1	100	0	P	P	P	P	NA	Y	NA	S	Y	NA	Y	0.1	NR	E			
Installation, maintenance and repair of instruments and devices for measuring, regulation and controlling energy performance of buildings	7.5	2	0.02	100	0	P	P	P	P	NA	Y	NA	S	NA	NA	Y	0.02	NR	E			
Data-driven solutions for GHG emissions reductions	8.2	42	0.5	100	NI	P	P	P	P	NA	Y	NA	Y	NA	NA	Y	0.5	NR	E			
CapEx of environmentally sustainable activities (Taxonomy-aligned) (A.1)		50	0.6													0.6						
A.2 Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned)																						
Transport by motorbikes, passenger cars and light commercial vehicles	6.5	3	0.04																			
Installation, maintenance and repair of energy efficiency equipment	7.3	3	0.03																			
Acquisition and ownership of buildings	7.7	55	0.7																			
Data processing, hosting and related activities	8.1	38	0.5																			
Data-driven solutions for GHG emissions reductions	8.2	2	0.02																			
Programming and broadcasting activities	8.3	86	1.0																			
Motion picture, video and television programme production, sound recording and music publishing activities	13.3	39	0.5																			
CapEx of Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned) (A.2)		225	2.7																			
Total (A.1 + A.2)		275	3.3																		0.6	
B. TAXONOMY-NON-ELIGIBLE ACTIVITIES																						
CapEx of Taxonomy-non-eligible activities (B)		7,992	96.7																			
Total (A + B)		8,266	100.0																			

NI: Activity 8.2 is not included within the criteria of Annex II of the Delegated Act on Climate Change.

P: Pending. The detailed technical screening criteria associated with the other four environmental objectives (sustainable use and protection of water and marine resources, transition to a circular economy, pollution prevention and control, protection and restoration of biodiversity and ecosystems) have yet to be published.

NA: Not applicable according to Commission Delegated Regulation (EU) 2021/2139 of June 4, 2021.

NR: No alignment was reported based on legal requirements in the 2021 Consolidated Management Report.



As previously explained, the information reported on eligibility in 2021, in relation to activity 8.2, considered a minimum value (which exclusively contemplated the CapEx related to digital services) and a maximum value (which also considered the investments associated with the telecommunications networks, necessary to provide connectivity solutions and data transmission).

The **minimum value** corresponding to **2022** (A1+A2 in the previous table) of **3.3%** would be comparable to 1.8%<sup>19</sup> for the year 2021. The differences with respect to the previous year are mainly explained by the inclusion of: acquisition of buildings (+0.7 p.p.), increase investments in *Cloud* (+0.3 p.p.) and in platforms (+0.3 p.p.) that were identified based on the higher granularity of the information.

The **maximum value** corresponding to **2022** of **71.6%** would be comparable to 68.5%<sup>20</sup> for the year 2021. New this year is that the values also considered investments associated with wholesale services and other investments associated with the network that were identified based on the higher granularity of the information.

#### 1.8.4.5 Percentage of OpEx of Taxonomy-eligible and Taxonomy-aligned activities

This indicator shows the **proportion of operating expenditure (OpEx) associated with the economic activities covered by the taxonomy**.

The denominator includes **direct non-capitalised costs** related to **short-term leases, maintenance and repairs**, and any other direct expenditures relating to the **day-to-day servicing of assets of property, plant and equipment** that are necessary to ensure the continued and effective functioning of such assets.

Telefónica analysed the different items included in its **OpEx model**, obtaining a Taxonomy-eligible result of approximately 0% in 2022, in accordance with the definition of operating expenses contemplated in the Regulation. Non taxonomy-eligible OpEx amounts to **2,833 million euros (B)**.

The **information related to OpEx for the year 2022** is shown below according to the template included in Annex II of the Delegated Regulation (EU) 2021/2178 (the Disclosure Delegated Act):

<sup>19</sup> Restated value of 2021. The value reported in the 2021 Consolidated Management Report is 1.3%.

<sup>20</sup> Restated value of 2021. The value reported in the 2021 Consolidated Management Report is 67.6%.

#### Proportion of OpEx derived from products or services associated with Taxonomy-aligned economic activities – disclosure covering financial year 2022

				Substantial contribution criteria						DNSH Criteria ('Does Not Significantly Harm')											
Economic activities	Codes	Absolute OpEx	Proportion of OpEx	Climate Change Mitigation	Climate Change adaptation	Water and marine resources	Circular economy	Pollution	Biodiversity and ecosystems	Climate Change mitigation	Climate Change adaptation	Water and marine resources	Circular economy	Pollution	Biodiversity and ecosystems	Minimum safeguards	Taxonomy-aligned proportion of OpEx, year N	Taxonomy-aligned proportion of OpEx, year N-1	Category (enabling activity)	Category (transition activity)	
		€M	%	%	%	%	%	%	%	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	%	%	E	T	
A. TAXONOMY-ELIGIBLE ACTIVITIES																					
A.1 Environmentally sustainable activities (Taxonomy-aligned)																					
OpEx of environmentally sustainable activities (Taxonomy-aligned) (A.1)		0	0.0																		
A.2 Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned)																					
Data-driven solutions for GHG emissions reductions		8.2	0.1	0.004																	
OpEx of Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned) (A.2)		0.1	0.004																		
Total (A.1 + A.2)		0.1	0.004																		
B. TAXONOMY-NON-ELIGIBLE ACTIVITIES																					
OpEx of Taxonomy-non-eligible activities (B)		2,833	100.0																		
Total (A + B)		2,833	100.0																		

As previously explained, the information reported on eligibility the previous year in relation to operating expenses considered a minimum and a maximum value.

The **minimum value** considered exclusively expenditures related to digital services, which was approximately **0%**, in both 2021 and **2022**.

The **maximum value** considered the OpEX associated with the network technologies that carry out the data transmission. The value of **71.0% corresponding to 2022** would be comparable to the 77.3% included in the 2021 Consolidated Management Report.

## 1.8.2 Compliance with the technical screening criteria

Each activity identified as Taxonomy eligible is assessed for compliance with the **technical screening criteria** of substantial contribution and "Do no significant harm" as laid down in the Regulation. Compliance with social minimum safeguards at Group level was also verified.

The main actions and measures taken by Telefónica can be summarised as follows:

### Substantial contribution to climate change mitigation of activity 8.1:

The substantial contribution to climate change mitigation of data processing, hosting and relative activities requires compliance with two main **technical criteria**:

- Implement all relevant practices listed in the most recent version of the **EU Code of Conduct for Energy Efficiency in Data Centres<sup>21</sup>** and third-party assurance at least every three years.
- Use of refrigerants in the data centre cooling system which **global warming potential** (GWP) do not exceed 675.

In its draft of FAQs, disclosed in December 2022, the European Commission includes certain clarifications about this activity, specifically about the criteria for compliance and verification of compliance with the Code of Conduct. The response states that in early 2023 the Code of Conduct will be completed with an **assessment framework** for external verification of compliance with the practices set out in that Code of Conduct.

Telefónica has participated in the ICT Council's working group, providing feedback on the proposal for establishing this assessment framework to verify compliance with the Code of Conduct in order to make it auditable.

Since the framework is still not available, it is not possible to report alignment with these technical criteria in 2022.

### Substantial contribution to climate change mitigation of activity 8.2:

The substantial contribution to climate change mitigation of data-driven solutions is associated with the fulfilment of the following technical screening criteria:

1. ICT solutions predominantly used for the **provision of data and analytics** enabling GHG emission reductions .
2. Demonstration through **life cycle analysis** of the substantial GHG emission savings compared to the best performing alternative solution/technology, where an alternative solution/technology is already available on the market.

Regarding **technical criterion one**, the use of solutions to reduce emissions, is demonstrated through a set of studies and methodologies that evaluate, identify, and often quantify the impacts of the digital solutions provided by Telefónica to its customers on the climate.

There are numerous industry studies showing how the use of digital solutions reduce emissions, such as those mentioned above. Example include the GSMA's *The Abatement Effect* and the *GeSI Mobile Carbon Impact* both of which provide information on the substantial contribution of avoided emissions from these ICT solutions.

Analysis carried by Telefónica included the following projects:

#### • Avoided emissions methodology:

Telefónica analysed many of the connectivity and digital solutions that it offers both to customers in the business sector and to private customers that are associated with emission reductions and quantify those reductions.

To address the technical screening criteria outlined in the Taxonomy, the solutions were grouped into the following categories:

- **Solutions for smart cities:** IoT solutions for the efficient and sustainable management of cities in various areas, such as public transport, use of energy or water resources, public spaces or communication with its inhabitants.
- **Mobility Solutions:** IOT solutions aimed at route planning and increasing the efficiency of different modes of transport. The connectivity provided by Telefónica for the operation of this type of solution makes it possible to increase the efficiency of fleet management, and the speed up of management and improve driver behaviour.
- **Industry 5.0 Solutions:** Considers those IOT connections that aim to quantify how the use of

<sup>21</sup> [https://joint-research-centre.ec.europa.eu/energy-efficiency/energy-efficiency-products/code-conduct-ict/code-conduct-energy-efficiency-data-centres\\_en](https://joint-research-centre.ec.europa.eu/energy-efficiency/energy-efficiency-products/code-conduct-ict/code-conduct-energy-efficiency-data-centres_en)

specific pieces of equipment within their operating limit affects their energy consumption and subsequently their emissions profile.

- **Smart Working Solutions:** a set of services that enable people to work remotely, hold audio/video conferencing, e-learning, etc., thereby reducing the amount of GHG emissions generated by travel.
- **Energy Efficiency Solutions:** a set of services that include telemetry and remote management of energy consumption in offices, factories or corporate buildings with a wide geographical distribution, such as hotels, banks or supermarkets.
- **Agricultural management solutions:** solutions that enable innovation, digitalisation and data analysis for crops with the aim of optimising resources use.
- **E-health solutions:** Telefónica's network connections facilitate the use of remote medical care services, avoiding the need to travel to and from medical care centers.



For further information, see chapter 2.4. Solutions for the green transition

#### • **Eco Smart** label:

This label is an initiative developed by Telefónica with the aim of identifying the environmental benefits generated by our products and services following implementation in customers e.g. in terms of savings in energy consumption.



For further information, see chapter 2.4. Solutions for the green transition

In relation to the first technical screening criterion, the substantial contribution of solutions applied to the telecommunications network has also been analysed and demonstrated.

#### • **Digital services Life Cycle Assessment (LCA):**

Regarding the **second technical criterion**, related to life cycle analysis, this criterion is not considered applicable to the categories of solutions described above, as there is no alternative solution on the market. For example, all solutions based on the *Internet of Things* have as a baseline scenario that the devices are not connected, but there has been no development of intermediate technology.

However, in 2022 and with the aim of analysing the environmental impact of some of its digital services, Telefónica carried out different life cycle analyses to measure the impact in tonnes of CO<sub>2</sub>eq of providing these services on both fixed and mobile networks<sup>22</sup>. These analyses were carried using the ETSI ES 203 199 standard and the results were verified by an independent third

party. It is important to note that when considering the full life cycle of digital solutions, connectivity is the most relevant part in terms of environmental impact, and therefore, the main part for this analysis.

Therefore, Telefónica carried out this LCA to compare the environmental impact of new technologies with legacy technologies. The results of the analysis show that fibre has 18 times less environmental impact than copper, and 4G/5G has seven times less impact than 2G/3G (in terms of PB). This analysis demonstrates the substantial contribution of next-generation connectivity solutions. In 2022, investment in these new telecommunication networks accounted for 54.8% of Telefónica Group's CapEx.

In addition to meeting customer demand for digital services that increase productivity and reduce emissions, Telefónica continues to invest in strengthening its **infrastructure** and making it **one of the most sustainable in the market** in terms of energy and GHG emissions. These investments focus on the migration to new fixed and mobile technologies, the use of renewable energy and other energy efficiency measures.

#### **Substantial contribution to climate change adaptation of activity 8.3/ 13.3:**

Telefónica identified the audiovisual content broadcast on its Movistar Plus platform and classified it into two categories in accordance with the Regulation for each activity:

1. Own content or acquisition of rights to broadcast programmes (e.g. sports, culture, entertainment, children and/or music programmes) related to the activity 8.3.
2. Own content or acquisition of broadcasting rights for cinematographic productions, whether fictional or non-fictional (including films, short films, series and documentaries, etc.) related to the activity 13.3.

<sup>22</sup> [Connectivity Solutions' Life Cycle Assessment](#)

To substantially contribute to climate change adaptation, the Regulation states that activities 8.3 and 13.3 must provide a technology, product, service, information or practice to increase the level of resilience of third parties to physical climate risks.

Telefónica broadcasts content related to the environment and climate change, mainly through the broadcasting of documentaries (activity 13.3). For this activity, it was not possible to fully justify the technical alignment criteria. However, it should be noted that, in Spain alone, the viewing of this content reached a total of almost 6 million hours in 2022, taking into account only Movistar Plus' own channels.

### Substantial contribution to climate change mitigation from secondary activities

As mentioned previously, Telefónica also carries out numerous actions related to energy efficiency that contribute to reducing greenhouse gas emissions from its own activity.

The following activities have been considered Taxonomy-aligned:

#### – 7.3. Installation, maintenance and repair of energy efficiency equipment

The initiatives identified by Telefónica are mainly related to the modernisation of air conditioning and *free-cooling* in buildings. Telefónica includes EER purchase criteria identifying minimum performance, in line with its energy efficiency strategy. Equipment that meets the minimum criteria of high energy efficiency was considered Taxonomy-aligned.

#### – 7.5. Installation, maintenance and repair of instruments and devices for measuring, regulation and controlling energy performance of buildings

The initiatives identified by Telefónica correspond to the implementation of electronic devices to improve the energy management of buildings. Therefore, this activity is considered to be aligned with the individual measures listed in activity 7.5.

### Do No Significant Harm to climate change adaptation

The 'do not significant harm to climate change adaptation' principle requires the identification and assessment of physical climate risks associated with Telefónica's operations under different climate scenarios. The objective is to identify and apply adaptation solutions that significantly reduce the material risks identified. Risk identification is carried out in accordance with the Group's risk management approach, tailored to the cause underlying the climate risk assessment. For each risk, the probability of occurrence is estimated for each risk, along with the possible impact and economic value, to arrive at an expected level of exposure for each scenario analysed<sup>23</sup>.

To this end, Telefónica assessed the physical risk of climate change using climate projections covering both the RCP2.6 (global temperature increase by the end of the century of no more than 2°C) and RCP 8.5 (global temperatures increase by the end of the century of around 4°C) climate scenarios and time horizons up to 2030, 2040 and 2050.

In addition, Telefónica has developed an Adaptation Plan containing, which includes several lines of initiatives aimed at protecting the Company's assets against any extreme weather event (e.g. extreme wind, fires or sea level rise) to reduce its exposure to the main physical risks identified and to adapt to the consequences of climate change.



For further information, see chapter 2.2. Energy and climate change

### Do no significant harm to sustainable use and protection of water and marine resources:

Telefónica's water consumption is mainly due to sanitary use, and to a lesser extent to its use in cooling. Aware of this, Telefónica takes several measures to use water more efficiently, especially in areas of high water stress (765 millions of liters in 2022).

Water consumption of data centres is undertaken through a closed cooling system, so there are no discharges to freshwater streams or seawater that could cause harm or have a material adverse impact.

Of the 3,194 millions of liters of water we consumed in 2022, the vast majority was for sanitary uses of the Group's employees..

### Do no significant harm to the transition to a circular economy

The maintenance of the network infrastructure is the main source of waste for Telefónica.

With regard to the management of waste at the end of the useful life of electrical and electronic equipment, Telefónica maintains contractual agreements for the collection of waste and verifies that the waste manager is authorised and has adequate control over the waste. In addition, the appropriate documentation is in place to ensure compliance with the directives applicable to the equipment purchased and that are part of the Company's operations.

<sup>23</sup> For climate change, any risk associated with a negative perception of Telefónica's commitments to a low carbon economy or adapting to resource scarcity is considered a material strategic impact.



For further information, see chapter 2.3. Circular Economy

### Social minimum safeguards

For an economic activity to qualify as environmentally sustainable, it must be carried out in accordance with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights. Telefónica's compliance was assessed taking into account the Platform on Sustainable Finance's Report on Minimum Safeguards published in October 2022.

It is worth noting that, this Platform report was prepared for the sole purpose of guiding the European Commission in establishing formal criteria for assessing social issues, Telefónica considered it a good practice to anticipate potential future regulatory developments and analysed the alignment with social safeguards based on the four areas identified in the report: human rights, corruption, taxation and fair competition.

Telefónica respects and promotes human rights throughout its entire value chain. For this reason, it has a due diligence system in place that includes policies, periodic procedures to assess adverse impacts, management measures to prevent and mitigate identified potential impacts, monitoring and communication procedures, and complaint and remedy mechanisms. Likewise, it also has policies and procedures in place regarding competition, anti-corruption, responsible business, conflicts of interest, and fiscal responsibility, among others, to reinforce the Group's commitment to social rights and sustainable growth.



For further information, see chapter 2.15. Human rights

Based on the issues addressed in the previous sections, Telefónica is implementing all the requirements it needs to comply with the three levels of technical screening criteria associated with the climate change mitigation and adaptation objectives for activities reported by Telefónica.

# 1.9. Main indicators and footprint

GRI 2-1, 2-6

Telefónica is the company that it is today thanks to its almost 100 years of transformation and adaptation.

At a time when technology is more present than ever in our lives, we cannot forget that the most important connections are human ones. They are the main source of people's well-being and happiness.

At Telefónica, we know that it is people who give meaning to technology and not the other way around. For this reason, we offer connections that bring people together, rather than isolate them; connections that allow them to express themselves, share with others and improve their quality of life. This mission compels us to protect people and the planet, as well as ensure that business ethics are at the heart of everything we do.

We aim to digitalise the whole of society, leaving no one behind, naturally aligning ourselves with the United Nations 2030 Agenda, which highlights the key role of technology, innovation and communications in addressing the great challenges facing humanity.

We offer innovative solutions that transform and simplify people's lives, and we continue to work to do so more and more effectively.

We believe in a more compassionate world that is driven by the talents of people. That is why we have spent nearly 100 years not only securing the best connections, but supporting talent the best way we know how, by connecting it.

We are a privately held and listed global company that in 2022 operated in 12 countries (Spain, Germany, Brazil, the United Kingdom, Argentina, Chile, Colombia, Ecuador, Mexico, Peru, Uruguay and Venezuela) and had a presence in 38 countries, representing 383 million connections worldwide.

We also have emerging units such as Telefónica Infra, a subsidiary of the Telefónica Group that operates as a portfolio manager, which owns and rotates stakes in vehicles for investments in infrastructure together with financial investors.

## > Key indicators

### Revenue

2022	Revenue by segment (millions of euros)
Telefónica Spain	12,497
Telefónica Germany	8,224
Telefónica Brazil	8,870
Telefónica Hispam	9,141
VMED O2	12,155

### Connections

2022	Total accesses (thousands)
Telefónica Spain	40,493
Telefónica Germany	48,892
Telefónica Brazil	112,424
Telefónica Hispam	110,971
VMED O2	57,745

## 1.9.1. Consolidated results

### Key financial indicators

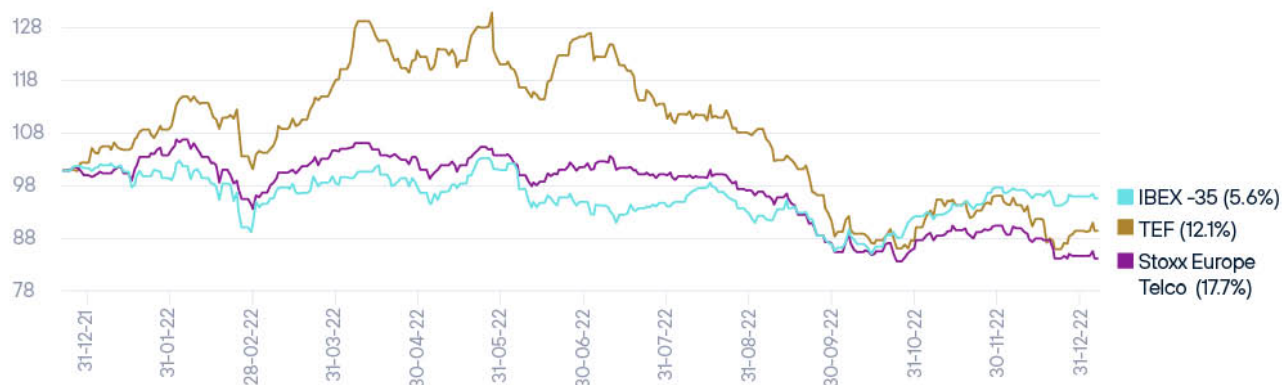
Millions of euros	2022	Reported annual variation
Revenues	39,993	1.8%
OIBDA	12,852	(41.5%)
Profit for the year	2,319	(78.4%)
Free Cash Flow	4,566	72.4%
Net financial debt	26,687	2.3%



## 1.9.2. Share price performance

### Telefónica on the stock exchange, 2022

#### Share price performance (TEF & IBEX-35 & STOXX EUROPE TELCO)



#### Share figures

Close (€)	3.39
52-week maximum	5.06
52-week minimum	3.25
Total daily volume average (mill. Shares)	54.0
Number of shares (million)	5,775
Market capitalisation (million €)	19,549

#### Analysts' recommendations<sup>1</sup>

Buy	47%
Hold	38%
Sell	15%

#### Stock Exchange listings

Madrid
Nueva York (ADR)
Lima (ADS)

#### Remuneration/total shareholder return

**€0.3/share in cash**

- €0.15 /share December 2022
- €0.15/ share June 2023
- Calendar payments in 2022:
  - €0.15/sh. June voluntary scrip dividend
  - €0.15/sh. December in cash

**RTA 2022: -5.3%**

#### Target Price<sup>1</sup>

**4.57**  
€/share

#### Credit ratings

Moody's	Baa3
Fitch	BBB
S&P	BBB-

#### Number of shareholders

**1.1**  
million

#### Major shareholders

BBVA	4.87%
Caixa/Criteria	3.50%
BlackRock	4.48%

1. Bloomberg; 31/12/2022

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.

### 1.9.3. Moving towards a more sustainable world

Sustainability starts at home. Acting with integrity, commitment and transparency is what helps us build trusting relationships. That is why we go beyond our responsibility and aim to be an exemplary company with the trust of our stakeholders: customers, employees, suppliers and shareholders.

#### > Networks: our connectivity

Connectivity is the fundamental requirement for access to the digital world and at Telefónica we focus our efforts on having the best technology for our network, a network based on fibre technologies, fibre to the home (FTTH) and the development of 4G and 5G mobile technologies, thereby ensuring excellent Wi-Fi connectivity in the home.

Telefónica has already switched on 5G technology in its four main markets: Spain, Brazil, Germany and the United Kingdom. 5G is not just a new generation of mobile telephony, it is a revolution, both due to its practical applications for all sectors and because it enables ultra-broadband coverage to be extended. In addition, 5G technology is more efficient, up to 90% more efficient than 4G per unit of traffic.

Our network has always been a unique asset. People's lives depend on it and it has shown unrivalled resilience when it has been needed most. It has demonstrated its robustness and stability by accommodating the large growth in traffic caused by the COVID-19 crisis in 2020 without significant incidents or saturation.



For further information, see chapter 2.12. Responsibility in our products and services.

We have a scalable, innovative network, capable of handling more and more traffic, a greater number of services and a more complex value proposition in both B2C and B2B areas. It is a flexible and efficient network thanks to an increasingly automated management that is evolving towards the zero-touch concept. It is also a more sustainable network, powered by renewable sources, which has managed to reduce energy consumption by 7.2% since 2015, despite a 7.4-fold increase in the traffic handled since then.

Our aim is to bring technology to everyone so that they can benefit from the opportunities it offers and build fairer, more prosperous and sustainable societies. Infrastructure deployment is key in this regard, as it allows our services to reach all regions, including rural or hard-to-reach areas.

In this regard, our LTE mobile networks have a penetration of 91% and we have over 24 million ultra-broadband connections (6.6% higher than the previous year). We are committed to achieving between 90-97% rural mobile broadband coverage by 2024. In 2022, we already have 80% in Brazil, 94% in Spain and we have exceeded the target in Germany with 99%.

### LTE Penetration

	2021	2022
Spain	91.6%	91.6%
United Kingdom	91.5%	90.5%
Germany	98.9%	97.3%
Brazil	85.1%	88.1%
Argentina	89.2%	91.0%
Peru	91.3%	92.3%
Chile	91.8%	90.5%
Uruguay	91.4%	92.8%
Colombia	83.1%	86.1%
Mexico	79.7%	85.9%
<b>Total</b>	<b>89.6%</b>	<b>90.5%</b>

### UBB Accesses (thousands)

	2021	2022	YoY variation
Spain	4,848	5,042	4.0%
Germany	1,857	1,939	4.4%
Brazil	5,535	5,968	7.8%
Hispania	4,432	5,155	16.3%
<b>Total</b>	<b>22,282</b>	<b>23,758</b>	<b>6.6%</b>

### > Customer trust

We have been monitoring and reporting our Net Promoter Score (NPS) as a **recommendation indicator for our products and services** since 2018. We perform the calculation of the Group's Global NPS based on the results obtained from each of our operations. This indicator has also been set as a **target** linked to Customer Trust for the **variable remuneration** of all the Company's employees in the short term.



For further information, see chapter 2.11. Customers

In 2022, we ended the year with a result of 30 points, **4 above** last year's figure and we exceeded the annual target as a result of positive performance in Brazil, Hispania and Germany and, more significantly in Spain..

### NPS Telefónica Group

2021 <sup>1</sup>	2022
26	30

Includes Spain, Germany, Brazil and Hispania (Argentina, Chile, Colombia, Ecuador, Mexico, Peru, Uruguay, and Venezuela).

### > Environmentally responsible

At Telefónica, we aim to **minimise our footprint** and take advantage of **digitalisation** as a key tool for tackling environmental challenges. Our environmental strategy, therefore, cuts across the business and seeks to decouple economic growth from our impact on the planet.

To help limit the global temperature rise to 1.5°C, we will have **net zero emissions by 2040**, including our value chain. We also aim to be a **Zero Waste company by 2030**, through eco-design, circular purchasing, reuse and recycling.

These targets are not only compatible with the expansion of the network and quality of service, but also help us to be **more competitive**.

We obtained 82% of our electricity consumption from renewable sources in the Group as a whole -100% in our main markets, as well as in Chile and Peru- and we have reduced carbon emissions by 80% (scope 1+2) compared to 2015.



For further information, see chapter 2.2. Energy and climate change



For further information, see chapter 2.3. Circular Economy

We also drive connectivity and digitalisation as key levers to help our customers run their business more efficiently and sustainably. Thanks to the efficiencies generated by our products and services, 81.7 million tonnes of CO<sub>2</sub> emissions were avoided in 2022.



For further information, see chapter 2.4. Digital solutions for the green transition

<sup>1</sup> Reported figure in 2021: 27.

## Key energy and climate change indicators

	Base year: 2015	2021	2022
% Renewable electricity consumption in own facilities	17%	79%	82%
Energy consumption per traffic unit (MWh/PB)	386	54	49
% Evolution of energy efficiency (base year: 2015)	–	-86%	-87%
GHG emissions scope 1+2 (market method) (tCO <sub>2</sub> e)	1,811,155	536,737	353,346

## Zero Waste in 2030

	Target 2030	2021	2022
Percentage of recycled waste	100%	98%	98%

### > Diversity among our employees

At Telefónica, we incorporate diversity and inclusion as a key element to connect talent and grow as a company.

The Global Diversity Council promotes an inclusive culture and leadership style to ensure environments where employees can give their best.

We are committed to diversity in all its forms, but our strategy is built around five lines of work: gender equality, the LGBT+ community, people with disabilities, generational diversity and ethnic diversity.

In particular, when it comes to **gender equality**, our targets for 2024 are to have 33% of directors being filled by women and to achieve an adjusted pay gap of +/-1%. These targets will contribute to eliminating the gender pay gap by 2050, which is our long-term north star.

With regard to people with disabilities, we are committed to doubling the number of employees with disabilities over the next two years.



For further information, see chapter 2.7. Diversity and inclusion.

## Women in Telefónica

	2021	2022
Women in the workforce	38.1%	38.6%
Women directors	29.5%	31.3% <sup>2</sup>

<sup>2</sup> In 2022, minor adjustments have been implemented in the formula for calculating the percentage of women directors. Maintaining the 2021 criteria, the figure would be 31.2%.

<sup>3</sup> The calculation methodology has been changed to take into account the different socio-economic realities of the countries that make up the group. Reported data in 2021: 21.79%.

<sup>4</sup> Correction applied due to error in the reporting of the data in the 2021 Consolidated Annual Report.

## Pay gap

	2021	2022
Gross pay gap	17.49% <sup>3</sup>	16.80%
Adjusted pay gap	1.18%	0.74%

## Employees with disabilities

	2021	2022
	1,128 <sup>4</sup>	1,482

### > Our contribution and impact

With the Sustainable Development Goals as our compass and our unwavering commitment to human rights, we help society thrive by fostering economic and social progress through digitalisation.

At Telefónica, we identify where and how we contribute most significantly to the SDGs and measure our social and environmental impact annually.

We have developed an innovative ESG impact assessment model with a methodology based on Harvard University's Impact Weighted Account Initiative (IWAI) and KPMG's True Value methodology, which shows that we contribute over €98 billion to communities.

In addition, sustainable financing helps us to continue to support the SDGs with projects that have a social and environmental impact.



For further information, see chapter 2.14. Contribution and impact on communities

## Telefónica's overall contribution

2022	Revenues (million €)	Employees	Percentage of suppliers awarded local contracts	Total investment (CapEx) (million €)	Personnel expenses (million €)	Input taxes (million €)
Group	39,993	103,638	91%	5,819	5,524	2,438

## 1.9.4. Analysts and rankings

**Bloomberg Gender-Equality Index**



Included

**CDP**



A

**CDP Supplier Engagement**



Leader

**Digital Inclusion Benchmark (DIB)**



89.5/100  
1st in the world (ICT sector)  
2021 Assessment

**EcoVadis**



76/100

**Fortune**

**Fortune**

Members of the Most Admired Companies 2022 list (4th in the world/2nd in Europe)

## 1.9.4. Analysts and rankings

**FTSE Russell**



FTSE4Good

4.4/5

1st in the world (telecommunications sector)

**Moody's Vigeo Eiris**

Moody's | ESG Solutions

67/100

**MSCI**

**MSCI**  
ESG RATINGS



A

CCC B BB BBB A AA AAA

**Ranking Digital Rights**



1st in the telecommunications sector

**Refinitiv**

REFINITIV®



An LSEG Business

A -

**S&P DJSI**

Member of  
**Dow Jones**  
**Sustainability Indices**  
Powered by the S&P Global CSA

86/100  
Member of DJSI Europe

**Sustainalytics**



15.2 (low risk)  
6th in the telecommunications sector

**Workforce Disclosure Initiative**



91%

The table includes the latest valuations provided by institutions in 2022 or later, but based on information from that year.



# 1.10. Business overview

GRI 2-6

## 1.10.1. Highlights

2022 was a challenging year, during which Telefónica showed its resilience and ability to mitigate the effects of an adverse macro environment. Additionally, in 2022 the foreign exchange rates positively affected Telefónica's results, after various years of negative impacts, mitigating the impact of the inflation in Europe and certain Latin American markets. In 2022, revenues grew in reported terms y-o-y for the first time since 2015 (+1.8%). In organic terms, considering 50% of the results of VMO2 in 2021 and 2022, revenues grew 4.0% y-o-y, supported by a strong commercial momentum. OIBDA in organic terms, considering 50% of the results of VMO2 in 2021 and 2022, grew 3.0% due to higher revenues and cost efficiencies.

Telefónica strengthened its position in core markets:

- In **Spain**, Telefónica's revenues grew thanks to the good commercial performance and despite a complex macro environment, increasing 0.6% y-o-y.
- In **Brazil**, Telefónica maintained its strong operating momentum, accelerating FTTH rollout (reaching 23.3 million premises passed by December 31, 2022) and increasing its mobile contract ex IoT market share to 43.5%, following the acquisition of Oi's mobile assets. These factors, together with the appreciation of the Brazilian real, led to significant revenue growth.
- In **Germany**, Telefónica continued to bolster network quality, surpassing its 5G initial rollout goals and gaining

solid commercial traction, reflected in higher revenues and operating income growth.

- In the **United Kingdom**, **VMO2** continued its operating progress driven by synergies.

We took further steps in our strategy to build a stronger Telefónica and focused our investments on next-generation networks, while maintaining a disciplined capital allocation framework.

Telefónica's **total accesses** include Oi accesses base since April 1, 2022 within Telefónica Brazil and exclude Telefónica El Salvador since January 1, 2022, totaling 383.1 million as of December 31, 2022. Accesses base increased by 3.8% year-on-year, mainly due to the prior impacts. Excluding the sale of Telefónica El Salvador, the increase of the accesses base was 4.3%.

The table below shows the evolution of accesses over the past two years as of December 31, of such years:



## Accesses

Thousands of accesses	2021	2022	%Reported YoY	%Organic YoY
Fixed telephony accesses <sup>(1)</sup>	29,966.9	27,941.9	(6.8%)	(6.4%)
Broadband	25,833.3	26,303.9	1.8%	1.8%
UBB	22,281.8	23,757.7	6.6%	6.6%
FTTH	12,243.8	14,273.0	16.6%	16.6%
Mobile accesses	277,793.3	292,168.1	5.2%	5.8%
Prepay	129,675.7	129,685.7	0.0%	1.2%
Contract	117,432.1	126,242.3	7.5%	7.7%
IoT	30,685.4	36,240.1	18.1%	18.1%
Pay TV	11,111.7	10,586.5	(4.7%)	(4.7%)
<b>Retail Accesses</b>	<b>344,945.5</b>	<b>357,213.3</b>	<b>3.6%</b>	<b>4.1%</b>
<b>Wholesale Accesses</b>	<b>24,173.3</b>	<b>25,932.9</b>	<b>7.3%</b>	<b>7.3%</b>
Fixed wholesale accesses	3,694.5	3,665.7	(0.8%)	(0.8%)
FTTH wholesale accesses	2,988.0	3,211.7	7.5%	7.5%
Mobile wholesale accesses	20,478.8	22,267.2	8.7%	8.7%
<b>Total Accesses</b>	<b>369,118.9</b>	<b>383,146.2</b>	<b>3.8%</b>	<b>4.3%</b>

Notes:

- The table includes, with respect to 2021, accesses of Telefónica El Salvador (1.8 million total accesses as of December 31, 2021). The sale of Telefónica El Salvador was completed on January 13, 2022.

<sup>(1)</sup> Includes fixed wireless and VoIP accesses.

The table below shows the contribution to reported growth of each item considered to calculate the organic variations. To exclude the impact of the sale of Telefónica El Salvador in the calculation of organic variations, the 2021 comparative figures exclude the accesses of Telefónica El Salvador. For each line item, the

contribution to reported growth, expressed in p.p., is the result of dividing the amount of each impact (on a net basis when the impact affects both years) by the consolidated reported figure for the previous year.

## Contribution to the reported growth (percentage points)

Thousands of accesses	%Reported YoY	%Organic YoY	Telefónica El Salvador
Fixed telephony accesses	(6.8%)	(6.4%)	—
Broadband	1.8%	1.8%	—
UBB	6.6%	6.6%	—
FTTH	16.6%	16.6%	—
Mobile accesses	5.2%	5.8%	(0.5)
Prepay	0.0%	1.2%	(0.4)
Contract	7.5%	7.7%	(0.1)
IoT	18.1%	18.1%	—
Pay TV	(4.7%)	(4.7%)	—
<b>Retail Accesses</b>	<b>3.6%</b>	<b>4.1%</b>	<b>(0.5)</b>
<b>Wholesale Accesses</b>	<b>7.3%</b>	<b>7.3%</b>	<b>—</b>
Fixed wholesale accesses	(0.8%)	(0.8%)	—
FTTH wholesale accesses	7.5%	7.5%	—
Mobile wholesale accesses	8.7%	8.7%	—
<b>Total Accesses</b>	<b>3.8%</b>	<b>4.3%</b>	<b>(0.5)</b>

The table below shows the evolution of accesses by segment:

ACCESSES	YoY variation	% Over Total Accesses	
		2021	2022
Telefónica Spain	0.9%	10.9%	10.6%
Telefónica United Kingdom / VMED O2 UK <sup>(1)</sup>	3.1%	15.2%	15.1%
Telefónica Germany	(2.6%)	13.6%	12.8%
Telefónica Brazil	13.7%	26.8%	29.3%
Telefónica Hispam	0.5%	29.9%	29.0%
Other companies	(6.6%)	3.7%	3.3%

Note:

<sup>(1)</sup> Our former Telefónica United Kingdom segment was replaced by our new VMED O2 UK segment on June 1, 2021.

**Mobile accesses** totaled 292.2 million as of December 31, 2022, up 5.2% compared to December 31, 2021, mainly due to the inclusion of Oi's mobile accesses, partially offset by the sale of Telefónica El Salvador. Excluding the sale of Telefónica El Salvador, mobile accesses increased by 5.8%. Postpaid accesses represented 49.3% of the mobile accesses excluding IoT accesses (+1.8 p.p. and +1.6 p.p. excluding the impact of the sale of Telefónica El Salvador).

**Fixed broadband accesses** stood at 26.3 million at December 31, 2022, up 1.8% year-on-year. Retail fiber (FTTH) accesses stood at 14.3 million at December 31, 2022, growing by 16.6% compared to December 31, 2021.

**Pay TV accesses** totaled 10.6 million as of December 31, 2022, down 4.7% year-on-year mainly due to lower accesses in Telefónica Spain.

The tables below show the evolution of Telefónica's estimated access market share for mobile and fixed broadband for the past two years.

### Competitive Position Evolution

Telefónica	Mobile Market Share <sup>(1)</sup>	
	2021	2022
Spain	27.6 %	27.5 %
United Kingdom <sup>(2)</sup>	30.1 %	29.6 %
Germany	34.9 %	34.2 %
Brazil	33.1 %	38.9 %
Argentina	29.2 %	28.5 %
Chile	25.8 %	25.5 %
Peru	30.4 %	29.0 %
Colombia	26.0 %	25.6 %
Venezuela	54.7 %	53.3 %
Mexico	19.5 %	18.3 %
Ecuador	31.5 %	31.4 %
Uruguay	29.1 %	27.8 %

<sup>(1)</sup> Internal estimates in both years.

<sup>(2)</sup> It refers to VMO2 market share as of September 2021 and September 2022, respectively.

Telefónica	FBB Market Share <sup>(1)</sup>	
	2021	2022
Spain	35.3 %	34.0 %
Brazil	15.3 %	14.6 %
Argentina	11.7 %	11.3 %
Chile	29.8 %	31.5 %
Peru	61.0 %	55.1 %
Colombia	13.8 %	15.1 %

<sup>(1)</sup> Internal estimates in both years.

## 1.10.2. 2022/2021 Consolidated results

In this section, we discuss changes in the Group's consolidated income statements for the years ended December 31, 2022 and 2021.

Consolidated Results	Year ended December 31,		Variation	
	2021	2022	2022 vs 2021	
	Total	Total	Total	%
<b>Millions of euros</b>				
Revenues	39,277	39,993	716	1.8%
Other income	12,673	2,065	(10,608)	(83.7%)
Supplies	(12,258)	(12,941)	(683)	5.6%
Personnel expenses	(6,733)	(5,524)	1,209	(18.0%)
Other expenses	(10,976)	(10,741)	235	(2.1%)
<b>OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION (OIBDA)</b>	<b>21,983</b>	<b>12,852</b>	<b>(9,131)</b>	<b>(41.5%)</b>
OIBDA Margin	56.0 %	32.1 %		(23.8 p.p.)
Depreciation and amortization	(8,397)	(8,796)	(399)	4.8%
Amortization of intangible assets, depreciation of property, plant and equipment	(6,748)	(6,731)	17	(0.2%)
Amortization of rights of use	(1,649)	(2,065)	(416)	25.2%
<b>OPERATING INCOME (OI)</b>	<b>13,586</b>	<b>4,056</b>	<b>(9,530)</b>	<b>(70.1%)</b>
Operating Margin	34.6 %	10.1 %		(24.4 p.p.)
Share of income of investments accounted for by the equity method	(127)	217	344	c.s.
Net financial expense	(1,364)	(1,313)	51	(3.7%)
<b>PROFIT BEFORE TAX</b>	<b>12,095</b>	<b>2,960</b>	<b>(9,135)</b>	<b>(75.5%)</b>
Corporate income tax	(1,378)	(641)	737	(53.5%)
<b>PROFIT FOR THE YEAR</b>	<b>10,717</b>	<b>2,319</b>	<b>(8,398)</b>	<b>(78.4%)</b>
Attributable to equity holders of the parent	8,137	2,011	(6,126)	(75.3%)
Attributable to non-controlling interests	2,580	308	(2,272)	(88.0%)

c.s.: change of sign

### Adjustments made to calculate organic variations

Year-on-year percentage changes referred to in this document as "organic" or presented in "organic terms" intend to present year-on-year variations on a comparable basis, by considering a constant perimeter of consolidation, constant average foreign exchange rates and by making certain other adjustments which are described herein. Organic variations should not be viewed in isolation or as an alternative to reported variations.

For purposes of this report, 2022/2021 organic variation is defined as the reported variation as adjusted to exclude the impacts detailed below:

- **Foreign exchange effects:** we have excluded the impact of changes in exchange rates (except for countries with hyperinflationary economies: Argentina and Venezuela) by assuming constant average foreign exchange rates year-on-year (using average foreign exchange rates of 2021 for both years).

Foreign exchange rates had a positive impact on our reported 2022 results, mainly due to the appreciation of the Brazilian real against the euro.

Foreign exchange effects increased revenue growth by 4.5 percentage points, OIBDA growth by 3.0 percentage points and operating income growth by 1.6 percentage points in 2021.

- **Changes in the consolidation perimeter:** we have excluded the impact of changes in our consolidation perimeter in 2022 and 2021. The main changes are the exclusion from the perimeter of consolidation of Telefónica United Kingdom (prior to the registration of the Virgin Media O2 UK joint venture) and the towers divisions of Telxius Group in June, 2021. To exclude these impacts, we have excluded the results of these Groups in our 2021 comparative basis.

As explained below, 50% of the results of VMO2 are included in the organic variation of the Group.

Following its exclusion from the scope of consolidation, the amortization of rights of use of Telxius assets by the Group's operators is no longer eliminated in the consolidation process.

- **Gains or losses on the sale of companies:** the gains obtained or losses incurred from the sale of companies have been excluded to calculate organic variations.

In 2022 it is excluded mainly the capital gain from the sale of fiber optic assets in Colombia (162 million euros) and the capital gains of fiber optic assets in United Kingdom (20 million euros).

In 2021, we mainly excluded the gains resulting from the establishment of VMO2 (4,460 million euros), the sale of the European and Latin American towers divisions of the Telxius Group (6,099 million euros), the sale of the companies related to the establishment of FiBrasil (26 million euros), the sale of 60% of the shares in InfraCo, SpA (274 million euros) and the sale of Telefónica de Costa Rica (136 million euros).

- **Restructuring costs:** we have excluded the impact in 2022 and 2021 of restructuring costs, mainly those related to the Individual Suspension Plan adopted under the Social Pact for Employment in Telefónica Spain in 2021.

The distribution by segment of the restructuring costs, in terms of their impact on OIBDA and operating income, is as follows:

Millions of euros	2021	2022
Telefónica Spain	1,382	57
Telefónica United Kingdom	—	—
Telefónica Germany	22	16
Telefónica Brazil	—	—
Telefónica Hispam	174	98
Other companies	85	8
<b>Total restructuring costs</b>	<b>1,663</b>	<b>179</b>

- **Reported variation of companies in hyperinflationary countries:** in the organic variation, the y-o-y reported variation of the companies in countries with hyperinflationary economies (Argentina and Venezuela) is excluded. In reported terms, in 2022 the revenues of these companies increased by 27 million euros and their OIBDA, operating income and OIBDA-CapEx decreased by 13 million euros, 86 million euros, 35 million euros, respectively, compared to 2021.
- **Impairment of goodwill and other assets:** in 2022 the impairment of assets amounted to 77 million euros, in Telefónica Argentina is excluded. In 2021 the

impairment of goodwill amounting to 416 million euros, mainly in Telefónica Peru, has been excluded.

- **Judicial decision PIS/COFINS:** we excluded the positive impact of the judicial decisions of the Brazilian Supreme Court recognizing the right to deduct the state tax on goods and services (ICMS) from the calculation of the basis of the Social Integration Program-PIS (Programa de Integração Social) and the Financing of Social Security - COFINS (Contribuição para Financiamento de Seguridade Social) amounting to 243 million euros in OIBDA in 2021.
- **Spectrum acquisition:** the organic variation of capital expenditures ("CapEx") excludes the impact of spectrum acquisitions in 2022 and 2021.

In 2022, spectrum acquisitions amounted to 173 million euros of which 125 million euros corresponded to Telefónica Colombia, 35 million euros to Telefónica Brasil, 8 million euros to Telefónica Argentina and 5 million euros to Telefónica Uruguay.

In 2021, spectrum acquisitions amounted to 1,704 million euros of which 706 million euros corresponded to Telefónica Brazil, 515 million euros to our former Telefónica United Kingdom segment (which acquisitions took place before JV VMED O2 UK was established), 352 million euros to Telefónica Spain and 131 million euros to Telefónica Chile.

- **Other adjustments:** organic variations exclude the following:

In 2022: (i) the impact of the accelerated amortization related to the transformation of the operating model of Telefónica México (following the AT&T agreement entered into in 2019) amounting to 24 million euros in amortization and operating income amounting to 24 million euros; and other adjustments amounting to 6 million euros.

In 2021: (i) the provision for contingencies in Telefónica Brazil amounting to 154 million euros with a negative impact in OIBDA; (ii) the impact of the accelerated amortization related to the transformation of the operating model of Telefónica México (following the AT&T agreement entered into in 2019) on depreciation and amortization amounting to 88 million euros; (iii) the provisions recorded in Telefónica Spain to optimize the distribution network (44 million euros in OIBDA).

The table below shows 2022/2021 variations in reported and organic terms (the latter, calculated in accordance with the adjustments referred to above) of certain line items of the consolidated income statement and CapEx and OIBDA-CapEx:

<b>TELEFÓNICA 2022</b>	<b>YoY variation</b>	
	<b>% Reported YoY</b>	<b>% Organic YoY</b>
Revenues	1.8%	4.0%
Other income	(83.7%)	12.8%
Supplies	5.6%	8.3%
Personnel expenses	(18.0%)	3.9%
Other expenses	(2.1%)	1.7%
<b>OIBDA</b>	<b>(41.5%)</b>	<b>3.0%</b>
Depreciation and amortization	4.8%	(1.3%)
<b>Operating income (OI)</b>	<b>(70.1%)</b>	<b>15.4%</b>
CapEx	(19.9%)	4.6%
<b>OIBDA-CapEx</b>	<b>(52.2%)</b>	<b>1.8%</b>

The table below shows the contribution to reported growth of each item considered to calculate the organic variations, as explained above. For each line item, the contribution to reported growth, expressed in percentage points, is the result of dividing the amount of the impact of each such item (on a net basis when the impact affects both years) by the consolidated reported figure for the previous year.

<b>Contribution to reported growth (percentage points)</b>									
<b>TELEFÓNICA 2022</b>	<b>Exchange rate effect</b>	<b>Perimeter change</b>	<b>Capital gains/ losses on sale of companies</b>	<b>Restructuring costs</b>	<b>Reported variation in hyperinflationary countries</b>	<b>Impairment of goodwill and other assets</b>	<b>Judicial decision PIS/ COFINS</b>	<b>Spectrum acquisition</b>	<b>Other adjustments</b>
Revenues	4.5	(7.1)	—	—	0.1	—	—	—	—
Other income	0.6	(0.6)	(85.3)	—	0.1	—	—	—	—
Supplies	3.3	(7.7)	—	—	0.0	—	—	—	—
Personnel expenses	3.1	(3.3)	—	(22.0)	0.6	—	—	—	—
Other expenses	5.0	(6.3)	0.1	(0.0)	0.1	(2.9)	2.2	—	(1.8)
<b>OIBDA</b>	<b>3.0</b>	<b>(4.5)</b>	<b>(49.2)</b>	<b>6.8</b>	<b>(0.1)</b>	<b>1.4</b>	<b>(1.1)</b>	<b>—</b>	<b>0.9</b>
Depreciation and amortization	5.3	1.3	—	—	0.9	—	—	—	(0.8)
<b>Operating income (OI)</b>	<b>1.6</b>	<b>(8.2)</b>	<b>(79.6)</b>	<b>10.9</b>	<b>(0.6)</b>	<b>2.3</b>	<b>(1.8)</b>	<b>—</b>	<b>1.9</b>
CapEx	4.2	(13.6)	—	—	0.3	—	—	(17.7)	—
<b>OIBDA-CapEx</b>	<b>2.4</b>	<b>(0.1)</b>	<b>(73.5)</b>	<b>10.1</b>	<b>(0.2)</b>	<b>2.1</b>	<b>(1.7)</b>	<b>8.8</b>	<b>1.3</b>

### 1.10.3. Analysis of results

**Revenues** in 2022 totaled 39,993 million euros, increasing 1.8% year-on-year in reported terms, positively impacted by foreign exchange effects, mainly due to the appreciation of the Brazilian real against the euro (+4.5 p.p.), despite the changes in the consolidation perimeter (-7.1 p.p.) related mainly to the exclusion of the entities that comprised our former Telefónica United Kingdom segment since June 1, 2021. In organic terms, as explained above, considering 50% of VMO2 in 2021 and 2022, revenues grew by 4.0%, thanks to the positive growth in service revenues (+3.2%) driven by Telefónica Brazil, Telefónica Germany and Telefónica Hispam.

**Other income** mainly includes work on fixed assets and gains on disposal of assets. In 2022, other income totaled 2,065 million euros compared to 12,673 million euros

recorded in the same period of 2021 mainly due to the capital gain from the sale of the Telxius towers business (6,099 million euros), the establishment of VMO2 (4,460 million euros), the sale of 60% of the shares in InfraCo, SpA in Chile (274 million euros), the sale of Telefónica Costa Rica to Liberty Global (136 million euros) and the establishment of FiBrasil in Brazil (26 million euros). In 2022 the sale of fiber optic assets in Colombia (162 million euros) and the sale of fiber optic assets in United Kingdom (20 million euros) were recorded. In organic terms as explained above, considering 50% of VMO2 in 2021 and 2022, other revenues grew by 12.8%.

The **total amount of supplies, personnel expenses and other expenses** (mainly external services and taxes) was 29,206 million euros in 2022, down 2.5% year-on-year in reported terms. compared to 2021. This decrease was mainly attributable to the impact of changes in the

scope of consolidation (-6.2 p.p.) mainly the exit of Telefónica United Kingdom from the perimeter on June 1, 2021, and lower restructuring costs (-5.0 p.p.), partially offset by changes in foreign exchange rates (+3.9 p.p.). In organic terms, as explained before, considering 50% of the results of VMO2 in 2021 and 2022, the total amount of supplies, personnel expenses and other expenses increased by 5.0%. The evolution of these expenses is explained in greater detail below:

- **Supplies** amounted to 12,941 million euros in 2022, up 5.6% year-on-year in reported terms, mainly as a result of the impact of changes in foreign exchange rates (+3.3 p.p.) and in spite of changes in the scope of consolidation (-7.7 p.p.). In organic terms, as explained before, considering 50% of VMO2, supplies increased by 8.3% year-on-year, mainly due to higher handset costs due to higher commercial activity.
- **Personnel expenses** amounted to 5,524 million euros in 2022, down by 18.0% year-on-year in reported terms compared to 2021, mainly as a result of lower restructuring costs (-22.0 p.p.) and changes in the scope of consolidation (-3.3 p.p.) and partially offset by the impact of changes in foreign exchange rates (+3.1 p.p.). In organic terms, as explained before, considering 50% of VMO2, personnel expenses increased by 3.9% year-on-year, as a result of higher expenses in Germany and Brazil.

The average headcount was 102,563 employees in 2022, down 4.8 % compared to 2021, mainly as a result of the deconsolidation of the entities that comprised our former Telefónica United Kingdom segment in June 2021.

- **Other expenses** amounted to 10,741 million euros in 2022, down 2.1% year-on-year in reported terms. This decrease was mainly attributable to the impact of changes in the scope of consolidation (-6.3 p.p.), partially offset by the impact of foreign exchange rates (+5.0 p.p.). In organic terms, as explained before, considering 50% of VMO2, other expenses increased by 1.7% year-on-year due mainly to higher expenses in Spain and Germany.

As a result of the foregoing, OIBDA totaled 12,852 million euros in 2022, compared with 21,983 million euros in 2021, strongly impacted by the gains from the transactions recorded in "Other income" in 2021 (-49.2 p.p.), changes in the scope of consolidation (-4.5 p.p.) partially offset by lower restructuring expenses in 2022 (+6.8 p.p.), and the positive exchange rate impact (+3.0 p.p.). In organic terms, as explained above, considering 50% of VMO2 in 2021 and 2022, OIBDA would grow 3.0% year-on-year.

**Depreciation and amortization** amounted to 8,796 million euros in 2022 increasing by 4.8%, mainly affected by the impact of the exchange rates (+5.3 p.p.) as well as the changes in the consolidation perimeter (+1.3 p.p.) as a consequence of the sale of the towers communications

division sale in 2021, which resulted in an increase in the amortization of rights of use.

In organic terms, as explained above, considering 50% of the results of VMO2 in 2021 and 2022, amortization would decrease by 1.3% year-on-year.

**Operating income (OI)** for 2022 totaled 4,056 million euros compared to 13,586 million euros recorded in the same period of 2021, strongly impacted by the capital gains on the sale of businesses discussed above (-79.6 p.p.) and changes in the scope of consolidation (-8.2 p.p.), partially offset by lower restructuring expenses in 2022 (+10.9 p.p.). In organic terms, as explained above, considering 50% of VMO2 in 2021 and 2022, operating income grew by 15.4% year-on-year due to the result of revenue growth in all segments.

The **share of income (loss) of investments** accounted for by the equity method in 2022 was an income of 217 million euros, compared to a loss of 127 million euros in 2021, mainly due to the respective results of VMO2, affected by changes in the fair value of derivatives.

**Net financial expense** amounted to 1,313 million euros in 2022, down 51 million euros compared to 2021, mainly due to extraordinary income related to the payment by the Spanish administration to the Group of delayed interest in connection with tax litigation in Spain, which more than offset the increase in the expenses due to the increase in interest rates and a higher level of debt denominated in Brazilian reais.

**Corporate income tax** amounted to 641 million euros in 2022, decreasing compared to 2021 (1,378 million euros) by 737 million euros. The y-o-y change is explained mainly by the extraordinary expenses recorded in 2021 (among others, the impact of the Spanish tax inspection closing), the deconsolidation of the entities that comprised our former Telefónica United Kingdom segment since June 2021, the positive outcome of the tax inspection closing in Germany in 2022 and the corporate simplification carried out in Brazil in 2022.

As a result, **profit for the year attributable to equity holders of the parent** in 2022 was 2,011 million euros (8,137 million euros in 2021).

**Profit attributable to non-controlling interests** was 308 million euros in 2022 (2,580 million euros in 2021). The variation is mainly due to a decrease in profit attributable to non-controlling interests in Telxius, which completed the sale of its towers divisions in Europe and Latin America in 2021.

**CapEx** totaled 5,819 million euros in 2022, down 19.9% year-on-year in reported terms, impacted by lower spectrum purchases in 2022 (-17.7 p.p.), and the change in the consolidation perimeter (-13.6 p.p.), partially offset by the exchange rate impact (+4.2 p.p.). In organic terms, as explained above, considering 50% of VMO2 in 2021 and 2022, CapEx increased by 4.6% year-on-year.



**OIBDA-CapEx** stood at 7,033 million euros in 2022, compared to 14,716 million euros in 2021 (-52.2%), strongly affected by the above mentioned capital gains from the sale of businesses (-73.5 p.p.), partially offset by lower restructuring expenses (+10.1 p.p.), the positive effect of lower spectrum purchase (+8.8 p.p.), the recording of goodwill impairment in 2021 in a greater amount than asset impairments in 2022 (+2.1 p.p.) and exchange rate impact (+2.4 p.p.). In organic terms, as explained above, considering 50% of VMO2 in 2021 and 2022, OIBDA-CapEx grew by 1.8% year-on-year.

## 1.10.4. 2022/2021 Segment results

### TELEFÓNICA SPAIN

The table below shows the evolution of accesses in Telefónica Spain over the past two years as of December 31 of such years:

#### ACCESSES

Thousands of accesses	2021	2022	%Reported YoY
Fixed telephony accesses <sup>(1)</sup>	8,376.3	8,102.3	(3.3%)
Broadband	5,874.9	5,854.5	(0.3%)
FTTH	4,847.6	5,042.2	4.0%
Mobile accesses	18,484.6	19,347.3	4.7%
Prepay	752.5	796.0	5.8%
Contract	15,210.7	15,099.5	(0.7%)
IoT	2,521.5	3,451.8	36.9%
Pay TV	3,716.4	3,526.3	(5.1%)
<b>Retail Accesses</b>	<b>36,460.9</b>	<b>36,838.9</b>	<b>1.0%</b>
<b>Wholesale Accesses</b>	<b>3,674.3</b>	<b>3,653.6</b>	<b>(0.6%)</b>
FTTH Wholesale Accesses	2,982.0	3,206.1	7.5%
<b>Total Accesses</b>	<b>40,135.2</b>	<b>40,492.6</b>	<b>0.9%</b>

Notes:

<sup>(1)</sup> Includes "fixed wireless" and Voice over IP accesses.

<sup>(2)</sup> Accesses in 2022 include an upward revision of approximately 500 thousand IoT accesses recorded in March 2022.

In May 2022, we launched miMovistar, a new global portfolio for the general public through which customers will be able to choose the products and services they need in a simple, customizable and flexible way. The proposal is the natural evolution of Movistar Fusión, Movistar's benchmark product over the last ten years.

The portfolio starts with connectivity (Internet, voice and data), to which, if the customer wishes, modules can be added to include a television content offer and value-added services such as, initially, health, gaming and security, to build the most complete and adapted formula that the customer wants. The company plans to integrate in the future more services within the miMovistar ecosystem, such as Movistar Car/Moto, Movistar Money, Home Insurance, Energy, as well as additional connectivity options.

With this new move, Telefónica Spain responds to the needs derived from the transformation of the market and a consumer who demands flexibility and personalization, both in connectivity services and in content or services relevant to his life, while being able to control costs.

In addition, each of the miMovistar connectivity options also includes a device at no cost to the customer, whose catalog depends on their choice and includes, in addition to smartphones, smart TVs, tablets, laptops or smart watches.

Existing Movistar Fusión customers can choose to continue with their current tariff or switch to miMovistar and adapt it to what they choose.

Telefónica Spain's investment in the 5G mobile network made it possible to achieve 85% of population coverage as of December 31, 2022.

Additionally, in 2022, Telefónica Spain has continued to improve its offer proposals to strengthen its relationship with customers and reach new segments, highlighting:

- **Solar 360**, a joint venture of Repsol and Telefónica Spain formed to develop a solar self-consumption business. The new company started to operate in June 2022, offering a comprehensive self-consumption solution to private customers, communities of neighbors and companies, SMEs, and large companies, through solar panel installation.
- **Movistar Prosegur Alarmas**, a joint venture of Prosegur and Telefónica Spain, reached 445 thousand customers as of December 31, 2022.

Telefónica Spain had 40.5 million **accesses** as of December 31, 2022, an increase of 0.9% as compared to December 31, 2021, due to an increase in the IoT accesses base.

The **convergent offer** (residential and SMEs) had a customer base of 4.5 million customers as of December 31, 2022, a decrease of 2.2% y-o-y.

**Retail fixed accesses** totaled 8.1 million and decreased 3.3% as compared to December 31, 2021, with a net loss of 274 thousand accesses as of December 31, 2022.

**Retail broadband accesses** totaled 5.9 million (-0.3% y-o-y), with a net loss of 20 thousand accesses as of December 31, 2022.

**Retail fiber (FTTH) accesses** reached 5.0 million customers (+4.0% as compared to December 31, 2021), representing 86.1% of total retail broadband customers (+3.6 p.p. y-o-y) with net adds of 195 thousand accesses as of December 31, 2022. At December 31, 2022, fiber deployment reached 28.0 million premises, 1.1 million more than at December 31, 2021.

**Total retail mobile accesses** stood at 19.3 million as of December 31, 2022, an increase of 4.7% as compared to December 31, 2021 as a result of an increase in the IoT accesses base (+36.9% y-o-y impacted by an upward revision recorded in March 2022 figures, in an amount of 500 thousand accesses) and prepay accesses (+5.8% y-o-y), with a decrease in mobile contract accesses (-0.7% y-o-y).

**Pay TV accesses** reached 3.5 million at December 31, 2022, decreasing 5.1% year-on-year due to a higher penetration of customers in service bundles that do not include TV.

**Wholesale accesses** stood at 3.7 million at December 31, 2022, down 0.6% year-on-year, and wholesale fiber (FTTH) accesses were up 7.5% year-on-year (87.8% of total wholesale accesses at December 31, 2022 compared with 81.2% at December 31, 2021).

The table below shows Telefónica Spain's results over the past two years:

Millions of euros				
TELEFÓNICA SPAIN	2021	2022	% Reported YoY	% Organic YoY (1)
Revenues	12,417	12,497	0.6%	0.6%
Mobile handset revenues	400	548	37.4%	37.4%
<b>Revenues ex-mobile handset sales</b>	<b>12,017</b>	<b>11,948</b>	<b>(0.6%)</b>	<b>(0.6%)</b>
Retail	9,699	9,662	(0.4%)	(0.4%)
Wholesale and Other	2,318	2,286	(1.4%)	(1.4%)
Other income	664	803	20.9%	20.9%
Supplies	(4,636)	(5,008)	8.0%	8.0%
Personnel expenses	(3,201)	(1,765)	(44.9%)	(6.1%)
Other expenses	(1,867)	(1,939)	3.9%	6.4%
<b>OIBDA</b>	<b>3,377</b>	<b>4,588</b>	<b>35.9%</b>	<b>(3.3%)</b>
Depreciation and amortization	(2,153)	(2,157)	0.2%	0.2%
Amortization of intangible assets, depreciation of property, plant and equipment	(1,807)	(1,747)	(3.3%)	(3.3%)
Amortization of rights of use	(346)	(410)	18.3%	18.3%
<b>Operating income (OI)</b>	<b>1,224</b>	<b>2,431</b>	<b>98.6%</b>	<b>(6.1%)</b>
CapEx	1,815	1,550	(14.6%)	5.9%
OIBDA-CapEx	1,562	3,038	94.5%	(7.3%)

Notes:

(1) See adjustments made to calculate organic variations below.

The table below shows 2022/2021 variations in reported and organic terms (the latter, calculated in accordance with the adjustments referred to above) of certain line items of the income statement and other measures, and the contribution of each item for which we have adjusted to our reported growth:

TELEFÓNICA SPAIN 2022	YoY variation		Contribution to reported growth (percentage points)		
	% Reported YoY	% Organic YoY	Optimization Distribution Network	Restructuring costs	Spectrum acquisition
Revenues	0.6%	0.6%	—	—	—
Other income	20.9%	20.9%	—	—	—
Supplies	8.0%	8.0%	—	—	—
Personnel expenses	(44.9%)	(6.1%)	—	(41.4)	—
Other expenses	3.9%	6.4%	(2.3)	—	—
<b>OIBDA</b>	<b>35.9%</b>	<b>(3.3%)</b>	<b>1.3</b>	<b>39.2</b>	<b>—</b>
Depreciation and amortization	0.2%	0.2%	—	—	—
<b>Operating income (OI)</b>	<b>98.6%</b>	<b>(6.1%)</b>	<b>3.6</b>	<b>108.2</b>	<b>—</b>
CapEx	(14.6%)	5.9%	—	—	(19.4)
<b>OIBDA-CapEx</b>	<b>94.5%</b>	<b>(7.3%)</b>	<b>2.8</b>	<b>84.8</b>	<b>22.5</b>

## Analysis of results

**Revenues** in 2022 amounted to 12,497 million euros, growing 0.6% y-o-y both in reported and in organic terms. This trend was supported by handset revenues due to the fact that since April 2021 the portfolio includes several devices as part of the packages (including 5G smartphones of different brands, Smart TVs, tablets and laptops, among others). The evolution of revenues excluding mobile handset sales is described below:

- **Retail revenues** totaled 9,662 million euros in 2022, decreasing by 0.4% year-on-year both in reported and in organic terms, due in part to the customer base decline, partially offset by higher IT revenues due to the higher demand for digitalisation projects in the B2B segment.
- **Wholesale and other revenues** totaled 2,286 million euros in 2022, decreasing by 1.4% year-on-year both in reported and in organic terms, due mainly to the decrease in fixed traffic revenues, mobile interconnection revenues due to lower mobile termination rates, and the impact of less "La Liga" content available in the wholesale offer since mid-August. These have been partially offset by an important recovery in roaming-in revenues at pre-pandemic levels and the growth of revenues from MVNOs.

The **total amount of supplies, personnel expenses and other expenses** (mainly external services and taxes) amounted 8,712 million euros in 2022, down 10.2% year-on-year in reported terms compared to 2021. The year-on-year evolution was mainly attributable to the restructuring costs recorded in 2021 (1,382 million euros). In organic terms, expenses increased by 4.6%.

- **Supplies** amounted to 5,008 million euros in 2022, up 8.0% year-on-year both in reported and organic terms compared to 2021, mainly attributable to higher handset costs in the year (from commercial campaigns offering free devices) as well as the costs related to IT revenue growth.
- **Personnel expenses** amounted to 1,765 million euros in 2022, down 44.9% year-on-year in reported terms compared to 2021, mainly attributable to the restructuring plan in 2021 (1,382 million euros). In organic terms, personnel expenses decreased by 6.1% due to savings from prior restructuring plan.
- **Other expenses** amounted to 1,939 million euros in 2022, up 3.9% year-on-year in reported terms compared to 2021, mainly attributable to the optimization of the distribution network (44 million euros) in 2021 (-2.3 p.p.). In organic terms, other expenses increased by 6.4% due mainly to higher energy costs.

**OIBDA** reached 4,588 million euros in 2022, a year-on-year increase of 35.9% in reported terms (-3.3% year-on-year in organic terms).

**Depreciation and amortization** amounted to 2,157 million euros in 2022, increasing by 0.2% year-on-year both in reported and organic terms.

**Operating income** amounted to 2,431 million euros in 2022, a year-on-year increase of 98.6% in reported terms. The year-on-year increase was mainly driven by the higher restructuring provision in 2021 than in 2022 (+108.2 p.p.) as well as the optimization of the distribution network in 2021 (+3.6 p.p.). Excluding these impacts, the decrease is 6.1%, impacted by lower service revenues and the impact of the higher energy costs for most of the year.

## VMO2

After receiving the final approval from the UK Competition & Markets Authority (CMA), the joint venture between Liberty Global and Telefónica was established on June 1, 2021, and our former Telefónica United Kingdom segment was replaced by the new VMO2 segment. Telefónica ceased to fully consolidate the results of the entities that composed our former Telefónica United Kingdom segment in its consolidated financial statements and started to account for VMO2's results under the equity method. Therefore, since June 1, 2021, for purposes of the Group's consolidated results, the results of VMO2 are reflected under a single heading of the consolidated income statement, "Share of income of investments accounted for by the equity method". However, the VMO2 segment information included in this section is presented under management criteria, and shows 100% of the VMO2's results; Telefónica's actual percentage ownership of VMO2 is 50%.

The information of this segment in reported terms refers to the period from January 1 to December 31, 2022, compared with the period from June 1, 2021 to December 31, 2021. See additional information in: Note 2. Basis of presentation of the consolidated financial statements. "Agreement between Telefónica and Liberty Global plc to combine their operating businesses in the UK".

More than one year after the formation of VMO2, the company continues to integrate and innovate while investing heavily to expand and upgrade its fiber and 5G networks to provide the highest quality connectivity to more regions of the country.

The FTTP speed upgrade of the existing network is accelerating after the completion of tests in the first quarter of 2022, paving the way for the planned

deployment of fiber throughout the fixed network, which began in the fourth quarter of 2022 and is expected to be completed by 2028.

The "Lightning" project rollout now totals 2.9 million accesses, further reinforcing VMO2's gigabit leadership in the UK with speeds of 1.1 Gbps offered across its entire footprint of 16.1 million premises passed.

On July 29, 2022, T. Infra, Liberty Global plc ("Liberty Global") and InfraVia Capital Partners ("InfraVia") reached an agreement for the establishment of a joint venture that will deploy fiber-to-the-home (FTTH) to 5 million homes in the United Kingdom currently not reached by VMO2's network, with potential for expansion to an additional 2 million homes. The fiber network will offer wholesale FTTH access to telecommunications service providers, with VMO2 acting as the lead customer, as well as providing a range of technical services. Liberty Global and Telefónica jointly hold a 50% stake in the joint venture through a holding company, with InfraVia owning the remaining 50%.

VMO2 launched the "Better Connections Plan", its first sustainability strategy as a joint business, in May 2022 with a commitment to reduce carbon emissions, champion the circular economy, such as recycling devices and donating smartphones and tablets, and giving back to the community. The company has an ambitious target to achieve net zero carbon emissions across its operations, products and supply chain by the end of 2040, 10 years ahead of the Paris Agreement and the UK's target of net zero emissions by 2050.

The following table shows the evolution of accesses in VMO2 in 2022 compared to 2021:

## ACCESSES

Thousands of accesses	2021	2022	%Reported YoY
Broadband	5,626.7	5,661.6	0.6%
UBB	5,596.8	5,653.8	1.0%
Mobile accesses	32,276.8	33,831.3	4.8%
Prepay	8,119.1	7,968.3	(1.9%)
Contract	15,938.1	16,087.6	0.9%
IoT	8,219.7	9,775.5	18.9%
Retail Accesses	46,021.1	46,926.8	2.0%
Wholesale Accesses	9,966.6	10,818.6	8.5%
<b>Total Accesses</b>	<b>55,987.8</b>	<b>57,745.4</b>	<b>3.1%</b>

The **total accesses base** grew 3.1% year-on-year and stood at 57.7 million as of December 31, 2022, mainly driven by the increase in the mobile accesses base, which grew 4.8% year-on-year and reached 33.8 million accesses.

The **contract mobile customer base** grew 0.9% year-on-year and reached 16.1 million accesses adding 149.5 thousand new accesses to the base in 2022. Churn remained stable at low levels.

The **prepay mobile customer base** decreased 1.9% year-on-year and totaled 8.0 million accesses declining 150.8 thousand accesses to the base in 2022.

**IoT mobile customer base** grew 18.9% year-on-year and reached 9.8 million accesses underpinned by the Smart Metering Programme roll out.

**The fixed broadband base** grew 0.6% year-on-year and reached 5.7 million accesses, adding 34.9 thousand new accesses in 2022. UBB accesses grew 1.0% year-on-year with a net gain of 57.0 thousand new accesses in 2022, supported by the increase in customer demand for higher

speeds. The company's average broadband speed is 301 Mbps and increased 41% year-on-year, five times higher than the national average.

The table below shows the evolution of the VMO2 segment's results over the past two years (which, for the purposes of 2022, consists of the results obtained by VMO2 from January 1 to December 31, 2022, and, for the purposes of 2021, consists of the results obtained by VMO2 from June 1 (the date on which VMO2 was established) to December 31, 2021):

Millions of euros

<b>VMO2</b>	<b>June 1 to December 30 2021</b>	<b>December 2022</b>	<b>% Organic YoY</b>
Revenues	7,223	12,155	0.0 %
<b>Mobile Business</b>	<b>4,122</b>	<b>6,938</b>	<b>1.7 %</b>
Handset revenues	1,234	1,894	(0.9 %)
<b>Fixed Business</b>	<b>2,782</b>	<b>4,639</b>	<b>(3.4 %)</b>
<b>Other</b>	<b>319</b>	<b>578</b>	<b>8.0 %</b>
Other income	290	551	13.6 %
Supplies	(2,601)	(4,019)	(5.1 %)
Personnel expenses	(786)	(1,348)	(4.2 %)
Other expenses	(1,676)	(2,938)	2.3 %
<b>OIBDA</b>	<b>2,450</b>	<b>4,401</b>	<b>6.3 %</b>
Depreciation and amortization	(2,395)	(4,170)	1.3 %
<b>Operating income (OI)</b>	<b>55</b>	<b>231</b>	<b>147.8 %</b>
Share of income (loss) of investments accounted for by equity method	—	1	
Financial income	27	24	
Financial expenses	(504)	(1,020)	
Realized and unrealized gains on derivative instruments, net (1)	489	2,567	
Foreign currency transaction losses, net	(367)	(1,296)	
<b>Net financial result</b>	<b>(355)</b>	<b>275</b>	
<b>Result before taxation</b>	<b>(300)</b>	<b>507</b>	
<b>Net result</b>	<b>(235)</b>	<b>492</b>	
<b>CapEx</b>	<b>1,508</b>	<b>2,707</b>	
<b>OIBDA-CapEx</b>	<b>942</b>	<b>1,694</b>	

(1) VMO2 entered into various derivative instruments to manage interest rate exposure and foreign currency exposure. Generally, VMO2 does not apply hedge accounting to its derivative instruments. Accordingly, changes in the fair values of most of its derivatives are recorded in the finance results of its consolidated income statement.



## Analysis of results

Year-on-year changes are mainly explained by the fact that the VMO2 segment's results for 2022 include VMO2's results for the full year, whereas the VMO2 segment's results for 2021 include VMO2's results for seven months only. Further, the 2021 results were adversely affected by restructuring and integration costs incurred in connection with the incorporation of VMO2. Since both periods are not entirely comparable, the below explanations discuss the drivers of the 2022 and 2021 results separately.

The evolution of the results of 100% VMO2 in organic terms is detailed below, considering seven months of VMO2 in 2021 and the full year 2022.

In the full year 2022, **revenues** amounted to 12,155 million euros, growing flat (0.0%) in organic terms, driven by the macro-economic environment that offsets the price increases.

- **Mobile Revenues** amounted to 6,938 million euros in the year 2022 including 1,894 million euros from handset sales, growing 1.7% in organic terms, as a result of the price increases and the recovery of roaming revenues.
- **Fixed business revenues** amounted to 4,639 million euros in the year 2022, decreasing by 3.4% in organic terms, mainly due to decline in fixed-line ARPU impacted by macro conditions coupled with continued decline in B2B Fixed.
- **Other revenues** amounted to 578 million euros in the year 2022, growing 8% in organic terms, driven by the growth in digital services.

The **total amount of supplies, personnel expenses and other expenses** (mainly external services and taxes) was 8,305 million euros in 2022, down 2.4% year-on-year in organic terms compared to 2021. This decrease was mainly attributable to the realization of synergies and other cost efficiencies that resulted from the formation of the joint venture, which offset inflationary tendencies.

- **Supplies** amounted to 4,019 million euros in 2022, down 5.1% year-on-year in organic terms compared to 2021. This decrease was attributable to the realization of synergies, mainly due to the migration of the Virgin Mobile MVNO contract coupled with other cost efficiencies.
- **Personnel expenses** amounted to 1,348 million euros in 2022, down 4.2% year-on-year in organic terms compared to 2021 positively impacted by the realization of synergies that resulted from the formation of the joint venture, through the execution of restructuring plans aiming to deliver a single operating model and a leaner company.
- **Other expenses** amounted to 2,938 million euros in 2022, up 2.3% year-on-year in organic terms compared

to 2021. This increase was mainly attributable to inflationary tensions, mainly by the increase in energy prices.

OIBDA in the 2022 reached 4,401 million euros, growing 6.3% year-on-year in organic terms.

**Depreciation and amortization** amounted to 4,170 million euros in 2022, increasing by 1.3% year-on-year in organic terms.

**Operating income (OI)** amounted to 231 million euros in the year 2022, growing 147.8% year-on-year in organic terms, mainly thanks to the synergies, roaming recovery, price increase in fixed and mobile businesses and cost efficiencies that cushion current inflationary pressures.

## TELEFÓNICA GERMANY

The table below shows the evolution of accesses in Telefónica Germany over the past two years as of December 31 of such years:

### ACCESSES

Thousands of accesses	2021	2022	%Reported YoY
Fixed telephony accesses <sup>(1)</sup>	2,179.6	2,211.6	1.5%
Broadband <sup>(2)</sup>	2,262.3	2,294.2	1.4%
UBB	1,856.8	1,939.1	4.4%
Mobile accesses <sup>(3)</sup>	45,693.6	44,306.6	(3.0%)
Prepay	18,973.0	16,274.8	(14.2%)
Contract	25,107.8	26,336.2	4.9%
IoT <sup>(4)</sup>	1,612.8	1,695.7	5.1%
Retail Accesses	50,219.3	48,891.6	(2.6%)
<b>Total Accesses</b>	<b>50,219.3</b>	<b>48,891.6</b>	<b>(2.6%)</b>

Notes:

<sup>(1)</sup> Includes "fixed wireless" and Voice over IP accesses.

In 2022, Telefónica Germany delivered strong operational and financial momentum. The company continues to expand its mobile market share in a rational yet dynamic environment on the back of core business strength building on strong O2 brand appeal including strong customer demand for the innovative "O2 Grow" tariff, network parity and ESG leadership.

Telefónica Germany's key milestones in 2022 were as follows:

- Sustained commercial momentum, with 1.2 million new clients in contract driven by O2 Free portfolio and strong traction of the successful tariff innovation "O2 Grow".
- Telefónica Germany successfully completed its three-year "Investment for Growth" program, making strong progress with network modernization and 5G roll-out as well as fulfilling the coverage obligations of the German regulator. Telefónica Germany's 5G population coverage stood higher than 80% at year end, significantly over-achieving its initial target. The company aims for more than 90% coverage by year-end 2023 and believes it is on track to offer nationwide 5G coverage by no later than year-end 2025.

The **total access base** decreased 2.6% year-on-year and stood at 48.9 million at December 31, 2022, mainly driven by a 3.0% decrease in the mobile accesses base, which reached 44.3 million.

The **contract mobile customer base** grew 4.9% year-on-year and reached 26.3 million accesses, increasing the share over the total mobile accesses base to 59.4%. Net adds reached 1.2 million accesses driven by high O2 brand appeal thanks to the O2 Free tariff portfolio's gross

add momentum in the market and the continued solid contribution of partner brands. Churn was 1.3% in 2022 (+0.1 p.p. y-o-y) leveraging network and service quality and commercial success despite being impacted by the European Electronic Communications Code (EECC) introduction, as a result of which contract customers can terminate their contracts at any time.

The **prepay mobile customer base** decreased 14.2% year-on-year to 16.3 million accesses. This decrease was driven mainly by a combination of a technical base adjustment in December 2022 (which was revenue neutral) following the introduction of a stricter active SIM card definition and the ongoing German market trend of prepaid to postpaid migration leading to a net loss of 2.7 million prepay customers in 2022.

**Broadband accesses** reached 2.3 million accesses (up 1.4% y-o-y), with a net add of 31.9 thousand accesses in 2022, reflecting the success of the "O2 myHome" tariff portfolio with high-speed cable and fiber connections as well as FMS (Fixed Mobile Substitution) driving customer demand.

The table below shows the evolution of Telefónica Germany's results over the past two years:

Millions of euros				
TELEFÓNICA GERMANY	2021	2022	% Reported YoY	% Organic YoY (1)
Revenues	7,765	8,224	5.9%	5.9%
<b>Mobile Business</b>	<b>6,942</b>	<b>7,394</b>	<b>6.5%</b>	<b>6.5%</b>
Handset revenues	1,450	1,652	13.9%	13.9%
<b>Fixed Business</b>	<b>814</b>	<b>806</b>	<b>(1.0%)</b>	<b>(1.0%)</b>
Other income	140	153	9.2%	9.2%
Supplies	(2,403)	(2,524)	5.0%	5.0%
Personnel expenses	(585)	(622)	6.2%	6.8%
Other expenses	(2,493)	(2,673)	7.2%	7.4%
<b>OIBDA</b>	<b>2,424</b>	<b>2,558</b>	<b>5.5%</b>	<b>5.2%</b>
Depreciation and amortization	(2,394)	(2,295)	(4.1%)	(4.1%)
Amortization of intangible assets, depreciation of property, plant and equipment	(1,809)	(1,659)	(8.3%)	(8.3%)
Amortization of rights of use	(585)	(636)	8.9%	8.9%
<b>Operating income (OI)</b>	<b>30</b>	<b>263</b>	<b>n.m.</b>	<b>n.m.</b>
CapEx	1,284	1,209	(5.8%)	(5.8%)
OIBDA-CapEx	1,140	1,349	18.3%	17.4%

Notes:

(1) See adjustments made to calculate organic variations below.

n.m.: not meaningful

The table below shows 2022/2021 variations in reported and organic terms (the latter, calculated in accordance with the adjustments referred to above) of certain line items of the income statement and other measures and the contribution of each item for which we have adjusted to our reported growth:

TELEFÓNICA GERMANY 2022	YoY variation		Contribution to reported growth (percentage points)
	% Reported YoY	% Organic YoY	Restructuring costs
Revenues	5.9%	5.9%	—
Other income	9.2%	9.2%	—
Supplies	5.0%	5.0%	—
Personnel expenses	6.2%	6.8%	(0.5)
Other expenses	7.2%	7.4%	(0.1)
<b>OIBDA</b>	<b>5.5%</b>	<b>5.2%</b>	<b>0.3</b>
Depreciation and amortization	(4.1%)	(4.1%)	—
<b>Operating loss</b>	<b>n.m.</b>	<b>n.m.</b>	<b>20.2</b>
CapEx	(5.8%)	(5.8%)	—
<b>OIBDA-CapEx</b>	<b>18.3%</b>	<b>17.4%</b>	<b>0.5</b>

n.m.: not meaningful

### Analysis of results

Total **revenues** were 8.224 million euros in 2022, a year-on-year increase of 5.9%, driven by the increase in the mobile business.

- **Mobile business revenues** totaled 7.394 million euros, increasing 6.5% y-o-y in reported terms. This reflects the sustained mobile service revenue momentum on the back of the ongoing strong commercial traction of the O2 brand and a solid contribution from partners, more than compensating for the negative impact from the accelerated Mobile Termination Rate glide path (which has led to a decrease in termination charges).
- **Handset revenues** (which are included in mobile business revenues) amounted to 1,652 million euros, increasing 13.9% y-o-y in reported terms due to continued good customer demand and availability of

devices at Telefónica Germany's, with customers increasingly opting for longer-term handset financing.

- **Fixed business revenues** were 806 million euros, decreasing 1.0% y-o-y in reported terms reflecting the lower European mobile termination rates in the carrier business, offset in part by the steadily growing share of high value customers in the fixed retail broadband accesses.

**Mobile ARPU** was 10.1 euros (+1.5% y-o-y) in reported terms due to the 6.2% y-o-y increase in prepay ARPU, offset in part by the 1.5% y-o-y decrease in contract ARPU reflecting the accelerated MTR glide path and higher focus on customer loyalty and retention. Data ARPU was 6.7 euros (+10.8% y-o-y), supported by the success of the O2 Free portfolio.

TELEFÓNICA GERMANY	2021	2022	% Reported YoY
<b>ARPU (EUR)</b>	<b>10.0</b>	<b>10.1</b>	<b>1.5%</b>
Prepay	6.3	6.7	6.2%
Contract <sup>(1)</sup>	13.5	13.3	(1.5%)
<b>Data ARPU (EUR)</b>	<b>6.1</b>	<b>6.7</b>	<b>10.8%</b>

<sup>(1)</sup> Excludes IoT.

The **total amount of supplies, personnel expenses and other expenses** (mainly external services and taxes) amounted to 5,819 million euros in 2022, increasing 6.2% year-on-year in reported terms. In organic terms, total expenses increased 6.3%.

- **Supplies** amounted to 2,524 million euros in 2022, increasing 5.0% year-on-year in reported terms. In organic terms, supplies costs would increase 5.0% mainly attributable to higher hardware cost of sales partially offset by positive effects from cuts in the MTR (Mobile Termination Rate) fees paid to other operators.
- **Personnel expenses** amounted to 622 million euros in 2022, increasing 6.2% year-on-year in reported terms, partially offset by lower restructuring costs in 2022 compared to 2021 (-0.5 p.p.). In organic terms, personnel expenses increased 6.8% mainly explained by the social security payments received from the Government in 2021 in connection with employees affected by the temporary closing of O2 shops during the enforced COVID-19 lockdown in the first half of 2021 and the salary increase in 2022, partially offset by a y-o-y lower number of full-time employees.
- **Other expenses** amounted to 2,673 million euros in 2022, increasing 7.2% year-on-year in reported terms compared to 2021, partially offset by lower restructuring costs in 2022 compared to 2021 (-0.1 p.p.). In organic terms, other expenses increased 7.4%, reflecting higher energy costs, technology transformation and commercial activity costs.

OIBDA totaled 2,558 million euros in 2022, increasing by 5.5% y-o-y in reported terms. In organic terms, OIBDA increased by 5.2% year-on-year.

**Depreciation and amortization** amounted to 2,295 million euros in 2022, decreasing 4.1% year-on-year in reported terms mainly as a result of the 3G switch-off at year-end 2021 in combination with the decision to shorten the useful life of assets in the context of technology optimization and modernization. This was partly offset by higher right of use asset amortization and new additions in IT-architecture added in the context of network modernization.

**Operating income** totaled 263 million euros in 2022, compared to 30 million euros in 2021. In organic terms, the year-on-year comparison was positively impacted by improved operational leverage in both, fixed and mobile, reflecting own brand momentum and efficiency gains and tight cost management.

## TELEFÓNICA BRAZIL

The table below shows the evolution of accesses of Telefónica Brazil over the past three years as of December 31 of such years:

### ACCESSES

Thousands of accesses	2021	2022	%Reported YoY
Fixed telephony accesses <sup>(1)</sup>	7,506.5	7,012.7	(6.6%)
Broadband <sup>(2)</sup>	6,262.0	6,419.6	2.5%
UBB	5,535.3	5,967.7	7.8%
FTTH	4,608.7	5,482.4	19.0%
Mobile accesses <sup>(3)</sup>	83,912.3	97,973.0	16.8%
Prepay	34,287.3	39,305.9	14.6%
Contract	37,166.7	43,947.2	18.2%
IoT	12,458.3	14,719.9	18.2%
Pay TV	1,114.8	966.3	(13.3%)
IPTV	916.8	898.3	(2.0%)
Retail Accesses	98,853.2	112,423.7	13.7%
<b>Total Accesses</b>	<b>98,854.2</b>	<b>112,424.0</b>	<b>13.7%</b>

Notes:

<sup>(1)</sup> Includes "fixed wireless" and Voice over IP accesses.

In 2022, Telefónica Brazil strengthened its leadership in the mobile value segment (38.9% market share as of December 31, 2022, source: ANATEL), both due to the organic growth of its customer base and the incorporation of Oi's accesses. In the fixed business, Telefónica Brazil continued to focus on the implementation of strategic technologies, such as fiber, which offset the decline in the fixed traditional business.

Telefónica Brazil reached 112.4 million accesses as of December 31, 2022, 13.7% higher than December 31, 2021 due to the sustained growth in the organic mobile business, in addition to the incorporation of the customer base of Oi, and the growth in FTTH, which more than offset the decline in the fixed voice business due to the continuous migration from fixed to mobile, encouraged by unlimited voice offers in the market, the contraction of the lower-value fixed broadband customer base and the loss of DTH customers as a result of the company's strategic decision to discontinue legacy technologies.

In the **mobile business**, Telefónica Brazil strengthened its leadership in terms of total accesses, with an access market share of 38.9% as of December 31, 2022 (source: ANATEL) growing both in terms of contract customers (+18.2% year-on-year, +11.5% excluding Oi) and of prepaid customers (+14.6% year-on-year, -1.2% excluding Oi). Telefónica Brazil's strategy continues to be focused on strengthening the high-value customer base, reaching a 43.5% contract ex IoT market share as of December 31, 2022 (source: ANATEL). Contract commercial offers are focused on data plans, with extra data allowances subject to subscription to digital invoice, it is complete with OTT services of their choice (for example, Disney+, Netflix,

Spotify, Vivo Meditação, Vivo Pay, Babbel, GoRead, among others). The Vivo Travel roaming service for voice and data is maintained in a selection of countries of America and Europe, depending on the plan. For higher-value customers, family plans are maintained, with a greater number of available apps. Additionally, Vivo Easy Prime was launched, with flexible proposals ranging from 7GB to 20GB and allowing customers to tailor their plans according to their needs. In the prepaid segment, Telefónica Brazil offers VIVO PreTurbo, which includes WhatsApp and unlimited minutes. All of this is supported by the interaction with our customers through the AURA virtual assistant in the Meu VIVO application, transforming the service channels to improve the user experience.

In the **broadband business**, Telefónica Brazil maintained its strategic focus on the deployment of fiber, reaching 28.6 million real estate units passed with FTTx access as of December 31, 2022, of which 23.3 million correspond to FTTH. Additionally, Telefónica Brazil continued to develop alternative deployment models to accelerate the expansion of fiber with lower CapEx and a reduced time to market. Telefónica Brazil reached 6.0 million connected homes of which 5.5 million homes connected with FTTH as of December 31, 2022, increasing 7.8% and 19.0% year-on-year, respectively. This growth offset the drop in other broadband accesses (xDSL), placing retail broadband accesses at 6.4 million as of December 31, 2022, increasing by 2.5% year-on-year.



Traditional **fixed telephony accesses** decreased by 6.6% year-on-year due to the aforementioned fixed-mobile substitution.

**Pay TV customers** fell to 1.0 million as of December 31, 2022, decreasing 13.3% year-on-year due to the strategic

decision to discontinue the DTH service, whose customer base decreased 65.7% year-on-year.

The table below shows the evolution of Telefónica Brazil's results over the past two years:

#### Millions of euros

<b>TELEFÓNICA BRAZIL</b>	<b>2021</b>	<b>2022</b>	<b>% Reported YoY</b>	<b>% Organic YoY (1)</b>
Revenues	6,910	8,870	28.4%	9.1%
<b>Mobile Business</b>	<b>4,610</b>	<b>6,106</b>	<b>32.4%</b>	<b>12.6%</b>
Handset revenues	415	573	38.2%	17.5%
<b>Fixed Business</b>	<b>2,300</b>	<b>2,764</b>	<b>20.2%</b>	<b>2.1%</b>
Other income	474	416	(12.3%)	(7.9%)
Supplies	(1,216)	(1,783)	46.7%	24.7%
Personnel expenses	(799)	(1,097)	37.3%	16.7%
Other expenses	(2,231)	(2,674)	19.8%	(2.1%)
<b>OIBDA</b>	<b>3,138</b>	<b>3,732</b>	<b>18.9%</b>	<b>7.2%</b>
Depreciation and amortization	(1,918)	(2,369)	23.6%	5.0%
Amortization of intangible assets, depreciation of property, plant and equipment	(1,488)	(1,807)	21.4%	3.2%
Amortization of rights of use	(430)	(562)	31.1%	11.4%
<b>Operating income (OI)</b>	<b>1,220</b>	<b>1,363</b>	<b>11.7%</b>	<b>11.2%</b>
CapEx	2,069	1,795	(13.2%)	9.7%
OIBDA-CapEx	1,069	1,937	81.2%	5.1%

Notes:

(1) See adjustments made to calculate organic variations below.

The table below shows 2022/2021 variations in reported and organic terms (the latter, calculated in accordance with the adjustments referred to above) of certain line items of the income statement and other measures, and the contribution of each item for which we have adjusted to our reported growth:

TELEFÓNICA BRAZIL 2022	YoY variation		Contribution to reported growth (percentage points)				
	% Reported YoY	% Organic YoY	Exchange rate effect	Judicial decision PIS/COFINS	Contingencies	Spectrum acquisition	Capital gains/losses on sale of companies
Revenues	28.4%	9.1%	19.3	—	—	—	—
Other income	(12.3%)	(7.9%)	13.2	—	—	—	(19.0)
Supplies	46.7%	24.7%	22.0	—	—	—	—
Personnel expenses	37.3%	16.7%	20.6	—	—	—	—
Other expenses	19.8%	(2.1%)	18.0	10.9	(6.9)	—	—
<b>OIBDA</b>	<b>18.9%</b>	<b>7.2%</b>	<b>17.8</b>	<b>(7.7)</b>	<b>4.9</b>	<b>—</b>	<b>(2.9)</b>
Depreciation and amortization	23.6%	5.0%	18.5	—	—	—	—
<b>Operating income (OI)</b>	<b>11.7%</b>	<b>11.2%</b>	<b>16.8</b>	<b>(19.9)</b>	<b>12.6</b>	<b>—</b>	<b>(7.4)</b>
CapEx	(13.2%)	9.7%	13.0	—	—	(32.7)	—
<b>OIBDA-CapEx</b>	<b>81.2%</b>	<b>5.1%</b>	<b>27.2</b>	<b>(22.7)</b>	<b>14.4</b>	<b>63.2</b>	<b>(8.4)</b>

### Analysis of results

In 2022, **revenues** totaled 8,870 million euros, growing by 28.4% in reported terms, mainly due to the appreciation of the Brazilian real (+19.3 p.p.). In organic terms, the year-on-year growth was 9.1%, mainly due to service revenues, leveraged on mobile business – both organic and by the incorporation of the business acquired from Oi –, by businesses associated with new technologies (FTTH, IPTV and Digital Services) and the handset sales, which offset the erosion of revenues associated with voice and traditional accesses.

- **Mobile business revenues** totaled 6,106 million euros in 2022, up 32.4% in reported terms due mainly to the appreciation of the Brazilian real (+19.9 p.p.). In organic terms, mobile business increased by 12.6%, as a result of higher commercial activity and the incorporation of Oi accesses.

- **Fixed business revenues** totaled 2,764 million euros in 2022, growing by 20.2% in reported terms due mainly to the impact of the appreciation of the Brazilian real

(+18.0 p.p.). In organic terms, fixed telephony revenues grew by 2.1% mainly as a result of higher FTTH and IT revenues.

**Mobile ARPU** increased by 12.9% year-on-year in reported terms due mainly to the appreciation of the Brazilian real. In local currency, mobile ARPU decreased by 4.1% y-o-y as a result of a customer mix with a higher participation of hybrid plans together with the inclusion of Oi accesses, with lower ARPU.

TELEFÓNICA BRAZIL	2021	2022	% Reported YoY	% Local Currency YoY
ARPU (EUR)	4.2	4.7	12.9%	(4.1%)
Prepay	2.0	2.3	17.7%	0.0%
Contract <sup>(1)</sup>	7.4	8.3	12.3%	(4.5%)
<b>Data ARPU (EUR)</b>	<b>3.1</b>	<b>3.7</b>	<b>20.2%</b>	<b>2.1%</b>

<sup>(1)</sup> Excludes IoT.

The **total amount of supplies, personnel expenses and other expenses** (mainly external services and taxes) amounted to 5,554 million euros in 2022, growing 30.8% year-on-year in reported terms compared to 2021. In

organic terms, expenses increased by 8.9% mainly due to higher personnel expenses due to inflation, higher subsidies and commissions due to higher commercial

activity as well as the addition of the business acquired from Oi.

- **Supplies** amounted to 1,783 million euros in 2022, increasing 46.7% year-on-year in reported terms, impacted by the appreciation of the Brazilian real (+22.0 p.p.). In organic terms, supplies increased by 24.7% due to higher commercial activity.
- **Personnel expenses** amounted to 1,097 million euros in 2022, increasing 37.3% year-on-year in reported terms compared to 2021, impacted by the appreciation of the Brazilian real (+20.6 p.p.). In organic terms, personnel expenses increased by 16.7% year-on-year, affected by a higher-than-expected salary increase due to inflation and higher commercial activity in B2B.
- **Other expenses** amounted to 2,674 million euros in 2022, increasing 19.8% year-on-year in reported terms compared to 2021, impacted mainly by the appreciation of the Brazilian real (+18.0 p.p.). In organic terms, other expenses decreased by 2.1% year-on-year as a result of cost efficiencies due to digitalization.

OIBDA stood at 3,732 million euros in 2022, increasing 18.9% in reported terms. In organic terms, OIBDA increased by 7.2% year-on-year.

**Depreciation and amortization** amounted to 2,369 million euros in 2022, increasing 23.6% in reported terms affected by the appreciation of the Brazilian real (+18.5 p.p.). In organic terms, depreciation and amortization grew by 5.0% year-on-year due to the acquisition of new 5G licenses in 2021 and the consolidation of the Oi assets.

**Operating income** amounted to 1,363 million euros in 2022, increasing 11.7 % in reported terms. This variation is mainly due to the impact of the appreciation of the Brazilian real (+16,8 p.p.). In organic terms, the operating income grew by 11.2%, associated with greater commercial activity and the integration of Oi's accesses.

## TELEFÓNICA HISPAM

The table below shows the evolution of accesses of Telefónica Hispam over the past three years as of December 31 of such years:

### ACCESSES

Thousands of accesses	2021	2022	%Reported YoY
Fixed telephony accesses <sup>(1)</sup>	7,034.1	6,375.7	(9.4%)
Broadband	5,756.9	6,030.6	4.8%
UBB	4,432.2	5,155.0	16.3%
FTTH	4,259.0	5,053.9	18.7%
Mobile accesses	94,612.6	95,579.7	1.0%
Prepay	66,075.3	65,340.7	(1.1%)
Contract	23,799.6	24,771.9	4.1%
IoT	4,737.6	5,467.2	15.4%
Pay TV	2,905.3	2,899.8	(0.2%)
IPTV	913.2	1,384.7	51.6%
<b>Retail Accesses</b>	<b>110,395.5</b>	<b>110,958.9</b>	<b>0.5%</b>
<b>Total Accesses</b>	<b>110,414.7</b>	<b>110,970.7</b>	<b>0.5%</b>

Notes:

<sup>(1)</sup> Includes "fixed wireless" and Voice over IP accesses.

Telefónica Hispam's **total accesses** amounted to 111.0 million as of December 31, 2022 (+0.5% year-on-year), as a result of the increase in mobile and FTTH accesses.

**Mobile accesses** amounted to 95.6 million, increasing by 1.0% y-o-y mainly due to the higher postpay customer base.

- **Contract accesses** increased by 4.1% year-on-year due to the increase in accesses in Mexico (+14.7%), Colombia (+8.4%) and Ecuador (+6.3%), partially offset by the decrease in Venezuela (-6.3%). This evolution was mainly driven by the commercial activity recovery and the attractive commercial offers.
- **Prepay accesses** decreased by 1.1% year-on-year, with a net loss of 735 thousand accesses as of December 31, 2022. The year-on-year accesses evolution was greatly impacted by the loss of accesses in Mexico (-921 thousand accesses) due to a higher number of disconnected non-active customers. In addition, accesses in Argentina decreased by 696 thousand. The year-on-year decrease was partially offset by an increase in accesses in Colombia (+1.3 million accesses), and to a lesser extent Ecuador (+155 thousand accesses).

**Fixed accesses** stood at 6.4 million as of December 31, 2022 (-9.4% year-on-year) with a net loss of 658 thousand accesses due to the continued erosion of the traditional fixed business.

**Fixed broadband accesses** amounted to 6.0 million as of December 31, 2022 (+4.8% year-on-year). The penetration of FBB accesses over fixed accesses stood at 94.6% (+12.7 p.p. y-o-y), as a result of the focus on Ultra Broadband (UBB) deployment in the region reaching 5.2 million connected accesses (+16.3% y-o-y) and 18.8 million premises. The penetration of UBB accesses over fixed broadband accesses stood at 85.5% (+8.5 p.p. y-o-y).

**Pay TV accesses** stood at 2.9 million as of December 31, 2022, with a decrease of 0.2% y-o-y as a result of the net loss of 5.5 thousand customers, mainly as a result of the lower Direct-To-Home (DTH) technology accesses (-366 thousand accesses) due to the change in commercial strategy as well as the lower cable access base (-111.5 thousand accesses), partially offset by the increase in IPTV accesses (+471.5 thousand accesses), in which the Company is placing strategic focus.

The table below shows the evolution of Telefónica Hispam's results over the past two years:

Millions of euros				
<b>TELEFÓNICA HISPAM</b>	<b>2021</b>	<b>2022</b>	<b>% Reported YoY</b>	<b>% Organic YoY <sup>(1)</sup></b>
Revenues	8,362	9,141	9.3%	3.7%
<b>Mobile Business</b>	<b>5,444</b>	<b>6,003</b>	<b>10.3%</b>	<b>3.8%</b>
Handset revenues	1,398	1,541	10.2%	5.7%
<b>Fixed Business</b>	<b>2,907</b>	<b>3,138</b>	<b>7.9%</b>	<b>3.9%</b>
Other income	582	448	(23.0%)	51.1%
Supplies	(2,856)	(3,384)	18.5%	13.5%
Personnel expenses	(1,174)	(1,201)	2.3%	2.8%
Other expenses	(3,196)	(3,046)	(4.7%)	(2.1%)
<b>OIBDA</b>	<b>1,718</b>	<b>1,958</b>	<b>14.0%</b>	<b>2.7%</b>
Depreciation and amortization	(1,873)	(1,799)	(3.9%)	(9.0%)
Amortization of intangible assets, depreciation of property, plant and equipment	(1,451)	(1,345)	(7.3%)	(13.0%)
Amortization of rights of use	(422)	(454)	7.6%	5.8%
<b>Operating loss</b>	<b>(155)</b>	<b>159</b>	<b>c.s.</b>	<b>n.m.</b>
CapEx	978	1,058	8.1%	3.6%
OIBDA-CapEx	740	900	21.6%	2.0%

Notes:

<sup>(1)</sup> See adjustments made to calculate organic variations below.

c.s.: change of sign

n.m.: not meaningful

The table below shows 2022/2021 variations in reported and organic terms (the latter, calculated in accordance with the adjustments referred to above) of certain line

items of the income statement and other measures, and the contribution of each item for which we have adjusted to our reported growth:

TELEFÓNICA HISPAM 2022	YoY variation		Contribution to reported growth (percentage points)							
	% Reported YoY	% Organic YoY	Exchange rate effect	Perimeter changes	Capital gains/losses on sale of companies	Reported var. in hyperinflationary countries	Restructuring cost	Spectrum acquisition	Transformation T. Mexico	Impairment of goodwill and other assets
Revenues	9.3%	3.7%	4.7	0.6	—	0.3	—	—	—	—
Other income	(23.0%)	51.1%	1.1	—	(42.2)	2.8	—	—	—	—
Supplies	18.5%	13.5%	5.1	—	—	(0.1)	—	—	—	—
Personnel expenses	2.3%	2.8%	2.7	—	—	3.6	(6.4)	—	—	—
Other expenses	(4.7%)	(2.1%)	4.5	2.3	—	0.3	—	—	—	(9.9)
<b>OIBDA</b>	<b>14.0%</b>	<b>2.7%</b>	<b>4.6</b>	<b>(1.5)</b>	<b>(14.3)</b>	<b>(0.6)</b>	<b>4.4</b>	<b>—</b>	<b>—</b>	<b>18.4</b>
Depreciation and amortization	(3.9%)	(9.0%)	4.4	—	—	3.8	—	—	(3.5)	—
<b>Operating loss</b>	<b>c.s.</b>	<b>n.m.</b>	<b>2.1</b>	<b>17.1</b>	<b>158.4</b>	<b>51.7</b>	<b>(49.2)</b>	<b>—</b>	<b>(42.9)</b>	<b>(203.8)</b>
CapEx	8.1%	3.6%	3.2	(0.5)	—	2.4	—	(0.1)	—	—
OIBDA-CapEx	21.6%	2.0%	6.4	(3.0)	(33.2)	(4.5)	10.3	0.1	—	42.7

c.s.: change of sign

n.m.: not meaningful

## Analysis of results

**Revenues** amounted to 9,141 million euros in 2022, increasing 9.3% year-on-year in reported terms. This increase was attributable in part to the foreign exchange effects (+4.7 p.p.), impact of changes in the scope of consolidation (+0.6 p.p.), and the reported variation of companies in hyperinflationary countries (+0.3 p.p.). In organic terms, revenues increased by 3.7% year-on-year, mainly driven by revenue growth due to handset sales, the B2C (Business to Customer) specially postpaid and B2B (Business to Business) service revenue evolution, as well as higher fixed voice revenues, broadband and new services.

**Mobile business revenues** amounted to 6,003 million euros in 2022, increasing 10.3% year-on-year in reported terms. This increase was due to foreign exchange effects (+5.5 p.p.) and the reported variation of companies in hyperinflationary countries (+1.0 p.p.). In organic terms, mobile business revenues increased by 3.8% year-on-year, mainly driven by revenues growth in handset sales as a result of commercial activity recovery and higher postpaid revenues in B2C (Business to Customer). The performance by country was:

- In Argentina, mobile revenues amounted to 1,378 million euros in 2022, increasing 2.7% year-on-year in reported terms. Excluding the impact of foreign exchange effects (-43.9 p.p.), mobile revenues increased 46.5% mainly due to higher service revenues as a result of the increase in accesses and continued tariff upgrades.
- In Chile, mobile revenues amounted to 969 million euros in 2022, decreasing 3.3% year-on-year in reported terms. Excluding the impact of foreign exchange effects, which reduced growth by 2.2 percentage points, mobile revenues decreased by 1.1% year-on-year, mainly due to the lower handset revenues and prepaid mobile revenues, partially offset by higher postpaid revenues.
- In Peru, mobile revenues amounted to 923 million euros in 2022, increasing 21.3% year-on-year in reported terms, benefited from the foreign exchange effects which increased growth by 14.7 percentage points. Excluding this impact, mobile revenues increased by 6.7% year-on-year, mainly driven by higher service revenues, as a result of the higher postpaid client base, and the price increase carried out in 2022, and to a lesser extent due to higher handset revenues, as a result of the higher commercial activity.
- In Colombia, mobile revenues amounted to 891 million euros in 2022, increasing 11.8% year-on-year in reported terms. Excluding the impact of the foreign exchange effects (-0.7 p.p.), mobile revenues increased by 12.5% driven by the higher handset revenues, postpaid revenues and prepaid B2C (Business to Customer) revenues due to higher commercial activity and favourable churn evolution. The higher revenues were

also impacted by higher interconnection and international roaming revenues.

- In Mexico, mobile revenues amounted to 1,172 million euros in 2022, increasing 16.1% year-on-year in reported terms. Excluding the impact of the foreign exchange effects (+13.8 p.p.), these revenues increased by 2.3% due to higher service revenues as a result of the good performance in postpaid B2C (Business to Customer) revenues and to a lesser extent due to higher handset revenues.

**Fixed business revenues** amounted to 3,138 million euros in 2022, increasing 7.9% year-on-year in reported terms. This growth was due to foreign exchange effects (+3.2 p.p.), the impact of changes in the scope of consolidation (+1.7 p.p.), partially offset by reported variation of companies in hyperinflationary countries (-0.9 p.p.). Excluding these impacts, these revenues increased by 3.9%, driven by higher broadband, new services, access and voice revenues in Colombia, Chile and Peru that more than offset the decrease in TV revenues in Peru.

The **total amount of supplies, personnel expenses and other expenses** (mainly external services and taxes) were 7,631 million euros in 2022, up 5.6% year-on-year in reported terms compared to 2021. This increase was mainly attributable to foreign exchange effects, the reported variation of companies in hyperinflationary countries and higher network costs. In organic terms, expenses increased by 5.2%.

- **Supplies** amounted to 3,384 million euros in 2022, up 18.5% year-on-year in reported terms compared to 2021. This increase was mainly attributable to foreign exchange effects (+5.1 p.p.). In organic terms, supplies increased by 13.5% due to direct costs associated to our network.
- **Personnel expenses** amounted to 1,201 million euros in 2022, up 2.3% year-on-year in reported terms compared to 2021. This increase was mainly attributable to the reported variation of companies in hyperinflationary countries (+3.6 p.p.) and foreign exchange effects (+2.7 p.p.), partially offset by the year-on-year decrease in restructuring costs in the region (-6.4 p.p.). In organic terms, personnel expenses increased by 2.8%, although below inflation due to operational efficiencies.
- **Other expenses** amounted to 3,046 million euros in 2022, down 4.7% year-on-year in reported terms compared to 2021. This decrease was mainly attributable to higher goodwill impairment in Peru in 2021 compared to the asset impairment in Argentina in 2022 (-9.9 p.p.). In organic terms, other expenses decreased by 2.1% due to efficiency projects.



OIBDA reached 1,958 million euros in 2022, increasing 14.0% year-on-year in reported terms (+2.7% in organic terms).

**Depreciation and amortization** amounted to 1,799 million euros in 2022, decreasing 3.9% year-on-year in reported terms mainly attributable to the transformation of the operational model in Telefónica Mexico (-3.5 p.p.), partially offset by the foreign exchange effects (+4.4 p.p.) and the reported variation of companies in hyperinflationary countries (+3.8 p.p.). In organic terms, depreciation and amortization decreased by 9.0% y-o-y due to lower depreciation and amortization base in Telefónica Mexico and to a lesser extent in Telefónica Chile.

**Operating Income (OI)** was 159 million euros in 2022 (compared to a loss of 155 million euros in 2021). This result is mainly explained by the lower depreciation and amortization base in Telefónica Mexico due to the transformation of the operational model, the recording of goodwill impairment in 2021 (relating to Telefónica del Perú) in a greater amount than the other assets impairment recorded in 2022 (relating to Telefónica Argentina), the higher restructuring costs in the region in 2021 than in 2022 and the reported variation of companies in hyperinflationary countries, partially offset by higher capital gains on sales of fiber optic assets in 2021 than in 2022. In organic terms, the year-on-year change was positively affected by higher revenues and lower depreciation and amortization.

Below is additional information by country:

- In Argentina, operating loss was 270 million euros in 2022 (operating loss of 116 million euros in 2021). The y-o-y evolution in the operating loss was impacted by the other assets impairment and the higher depreciation and amortization recorded in 2022, which more than offset the higher revenues.
- In Chile, operating income was 179 million euros in 2022, decreasing by 69.4% year-on-year in reported terms from 583 million of operating income in 2021, which was mainly due to the capital gain on the sales of fiber optic assets in 2021, despite the positive impact of the capital gain on the sale of the data center in 2022, higher revenues and lower amortizations.
- In Peru, operating income was 60 million euros in 2022 (compared to an operating loss of 56 million euros in 2021). This performance is mainly due to higher revenues and expenses efficiencies, offset in part by the increase in depreciation and amortization.
- In Colombia, operating income reached 261 million euros in 2022 (compared to 99 million euros in 2021), as a result of the higher revenues and non-commercial cost efficiencies and lower depreciation and amortization.

- In Mexico, operating loss was 176 million euros in 2022 (compared to an operating loss of 339 million euros in 2021). The better performance was due in part to the lower amortization base, due to the transformation of the operational model in Mexico.