TELEFONICA EUROPE B.V.

Annual Report

December 31, 2021

Contents

MANAGING DIRECTORS' REPORT

The management herewith submits the Financial Statements of Telefonica Europe B.V. ("the Company") for the financial year ended on December 31, 2021.

General Information and Principal Activities

Telefónica Europe B.V. ("the Company"), having its statutory seat, place of operations and registered office in Amsterdam, The Netherlands, and registered with the Dutch Chamber of Commerce under number 24263798 is engaged in holding and financing activities for related companies. The home member state selected by the Company is Ireland. The offices of the Company are located in Zuidplein 112, 1077XV, Amsterdam (The Netherlands). The Company was incorporated on October 31, 1996.

The Company's main activity is the financing of group companies, through bond offerings on the international capital markets. The repayment of the bonds to the investors is guaranteed by Telefonica S.A, the ultimate shareholder of the Company, as disclosed in the notes to the financial statements. We paid specific attention to the areas of focus driven by the operations of the Company.

Company's main stakeholders

The Company is a wholly owned subsidiary of Telefónica, S.A., located in Madrid, Spain. Telefónica, S.A. is the ultimate parent and controlling company. At December 31, 2021 the Company does not own, directly or indirectly, any capital stock or other equity interests in any subsidiary.

Result

During the year under review, the Company recorded a profit after taxes of EUR 2,716 thousand (2020: EUR 2,470 thousand), which is set out in detail in the enclosed Statement of Income and Expenses.

The financial margin has increased, from EUR 4,208 thousand in 2020 to EUR 4,707 thousand in 2021 mainly due to an increase in borrowed and on-lent volumes in average terms.

Operational expenses including personnel expenses are EUR 1,118 thousand in 2021 after having increased by 9.6%, when compared to the same period of 2020 (EUR 1,020 thousand at December 31, 2020) mainly due to: (i) an increase in the rating agencies fees and (ii) legal advisory fees expenses associated to the repurchase and cancelation of hybrid securities.

Financing Activity

In regular course of business, the Company continued its financing activities by entering into several financing agreements unconditionally and irrevocably guaranteed by its parent company. The most relevant financing operations formalized during 2021 are the following:

i) On February 12, 2021, the Company issued EUR 1,000,000 thousand Undated Deeply Subordinated Guaranteed Fixed Rate Reset Securities (commonly known as hybrids) 8.25 years Non-Call and carrying an interest rate of 2.376% and on February 15, 2021, the Company repurchased and cancelled EUR 757,600 thousand of its Undated Deeply Subordinated Guaranteed Fixed Rate Reset Securities issued on September 15, 2016 with an annual coupon of 3.75%. The notional amount outstanding (after the cancellation of the notes) was EUR 242,400 thousand.

ii) On July 12, 2021, the Company repurchased and cancelled EUR 114,900 thousand of its Undated Deeply Subordinated Guaranteed Fixed Rate Reset Securities issued on September 15, 2016 with an annual coupon of

3.75%. The notional amount outstanding (after the cancellation of the notes) was EUR 127,500 thousand and on September 1, 2021, the Company called (following a Substantial Purchase Event contemplated in the Terms and conditions of the instruments) and cancelled in full the total outstanding amount EUR 127,500 thousand of its Undated Deeply Subordinated Guaranteed Fixed Rate Reset Securities issued on September 15, 2016 with an annual coupon of 3.75%.

iii) On November 24, 2021, the Company issued EUR 750,000 thousand Undated Deeply Subordinated Guaranteed Fixed Rate Reset Securities (commonly known as hybrids) 6.5 years Non-Call and carrying an interest rate of 2.88% and on November 25, 2021, the Company repurchased and cancelled EUR 323,600 thousand of its Undated Deeply Subordinated Guaranteed Fixed Rate Reset Securities issued on December 7, 2017 with an annual coupon of 2.625% and repurchased and cancelled EUR 426,400 thousand of its Undated Deeply Subordinated Guaranteed Fixed Rate Reset Securities issued on March 22, 2018 with an annual coupon of 3% and

iv) In the short term, the Company continued with its issuing activity under the EUR 5,000,000 thousand Euro Commercial Paper Programme and, during 2021, placed among several international investors 59 ECPs denominated in euro for a notional amount of EUR 4,736,000 thousand. The notional outstanding at December 31, 2021 is EUR 999,000 thousand (December 31, 2020: EUR 1,248,000 thousand).

Research and development

The Company, due to its nature of business primarily being financing, does not engage in research and development activities.

Subsequent events

No material subsequent events, affecting these Annual Financial Statements, have taken place until the date of this report.

Future developments

Subject to financial market conditions, the Company will continue to seek and prospect for new markets and sources of finance for the Telefónica Group in order to extend its investor base.

Currently, there is no liquidity shortage within the Company in relation to the debts due for the coming 12 months. The Company will continue to monitor its solvency and liquidity position.

Risks and uncertainties

The main risk and uncertainties the Company will face are summarized as follows:

Liquidity and credit risk:

Liquidity and credit risks management is implemented according to the Telefonica Group policies. As of December 31, 2021, the Company has lent the funds borrowed, to Telefónica, S.A. which guarantees most of the external debt subscribed by the Company. However, from time to time the Company could invest funds in other companies within the Group. In addition, the Company holds cash balances in several financial institutions.

In summary, any substantial credit or liquidity risk would be related to credit risk of Telefónica S.A. and its Group.

Interest rate and Foreign Exchange risk:

Currently, the Company lends money to Telefónica S.A. denominated in the same currency although, from time to time the Company may also lend money to other companies within the Group. At present, all loans granted are denominated in the same currency as the funds it raises on the capital markets. Therefore, the Company is implementing a natural hedge and foreign exchange fluctuation in exchange rates have very limited impact on its financial result.

However, the Company may have a limited foreign exchange risk due to the financial margin earned in several currencies different from Euro (mainly GBP, JPY and USD) and cash positions held in foreign currencies (USD, JPY and GBP).

As of today, the Company policy is to hedge any interest rate exposure arising from funding raised, by investing on the similar terms and conditions (tenors and type of interest, whether it may be floating or fixed interest rates). Nevertheless, if that would not be eventually possible, or the management may not consider it appropriate, the Company may look to mitigate any interest rate risk in other ways (by using derivatives or any other suitable instrument), or eventually decide not to hedge it.

No significant impact regarding risks and uncertainties occurred during past financial year.

Existing or worsening conditions in the financial markets may limit the Telefónica's Group ability to finance, and consequently, the ability to carry out its business plan:

Telefónica's international presence enables the diversification of its activities across countries and regions, but it exposes Telefónica to diverse legislation, as well as to the political and economic environments of the countries in which it operates. Any adverse developments in this regard, including exchange rate or sovereign-risk fluctuations, and the growing geopolitical tensions, may adversely affect Telefónica's business, financial position, cash flows and results of operations and/or the performance of some or all of the Group's financial indicators.

In Europe, there are several risks of both an economic and health nature. Among the latter, and although the region has set an example in the advancement of vaccination, there is the possibility, as is currently the case, of a new outbreak of the COVID-19 pandemic due to the emergence of new variants of COVID-19 that are more contagious or resistant to the developed vaccines. Among the economic risks, there is the negative impact of this new health emergency situation, but also the consequences of an excessive tightening of financing conditions, both for the private and public sectors, with a negative impact on disposable income that could even lead to episodes of financial stress. The catalyst for this scenario could be either global factors stemming from the impact of the recent rise in inflation and the consequences of the normalization of U.S. monetary policy, or domestic factors such as a worsening of fiscal sustainability in a European country, which would affect the economic conditions of the countries in which Telefónica operates.

Whilst uncertainties remain, we do not believe, that the impact of the COVID-19 pandemic would have material adverse effect on the Company.

Fraud/Bribery/Anticorruption

Telefónica Europe, B.V as a company belonging to Telefónica, S.A. falls within the control environment of the Telefónica S.A. group. In ethics and compliance management, we follow several lines of action to ensure ethical behaviour throughout our Company, based on zero tolerance of corruption and bribery. The system is based on legal compliance, employee training, and the establishment of internal mechanisms for reporting potential non-compliance. It is accompanied by principles of fair competition, political neutrality, fiscal transparency and responsible communication, and is monitored by the Company's internal control processes including processes such as the authorization of payments. Telefónica Europe, B.V has accessibility to the same whistleblower channel as Telefónica S.A. that allows employees and stakeholders to make a complaint anonymously or personally to report any alleged irregularity or act contrary to the law or internal regulations. As a new feature, since the end of 2020, it has been accessible through a form on the website to give access to all stakeholders and thus comply with the European Directive on the Protection of Persons Reporting Breaches of EU Law and also with the update of the Good Governance Code for listed companies. Management of the Complaints Channel is governed by the principles of confidentiality of the data provided, i.e. respect, substantiation and completeness. In cases where irregularities are identified, the Audit and Control Committee of Telefónica S.A. and the Board of Directors of Telefónica Europe B.V. are informed. In 2021, no instances have been reported with respect to Telefónica Europe B.V.

Climate Change

Telefónica Europe B.V.'s exposure to climate change is mainly through potential impacts on climate change from the Telefónica group. The Telefónica Group is committed to deploying the most efficient telecommunications networks (fibre and 5G) powered by 100% renewable energy. The Telefónica Group is working to become a leading supplier of solutions that help our customers to reduce their CO2 emissions and promotes the circular economy in the use of electronic devices through ecodesign, reuse and recycling. No significant direct impacts are expected for Telefonica Europe B.V.'s financial position.

Dutch Act on Management and Supervision

The Dutch Act on Management and Supervision indicated target figures for a balanced gender distribution when, of the seats occupied by individuals, at least 30% are occupied by women and at least 30% by men.

Given the law enactment the Company did not meet the above-mentioned gender balance in 2021 (25%) neither in 2020 (25%). The Company will pursue a policy to comply with the guidelines of the act and continue to strive for an adequate and balanced composition of its Board of Directors in future appointments, by considering all relevant selection criteria, including but not limited to gender balance and executive experience.

Audit Committee

The Company has not established an audit committee, as it is delegated in the parent company by using the exemption for subsidiaries as mentioned under article 3 of the legislation as announced on July 26, 2008 ("Koninklijk Besluit 323").

Average number of employees

During the period under review the Company employed 2 persons, none of them working outside The Netherlands.

Amsterdam, February 23, 2022

/s/	/s/
Mr. Carlos David Maroto Sobrado	Mr. François V. N. Decleve
/s/	/s/
Mr. Miguel Angel Contreras Contreras	Mrs. Ilaria De Lucia

Responsibility Statement

The members of the Management Board have signed these financial statements pursuant to their statutory obligations under art. 5:25c(2)(c) Financial Markets Supervision Act. to the best of their knowledge, the financial statements give a true and fair value of the assets, liabilities, financial position and profit or loss of the company in accordance with Title 9 Book 2 of the Dutch Civil Code, and the management board's report gives a true and fair view of the position and performance of the business of the company, and reflects the significant risks related to the business.

The Managing Directors of the Company wish to state:

- That the financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company;

- That the annual report gives a true and fair view of the position as per the balance sheet date, the development during the financial year of the Company, together with a description of principal risks it faces;

- That the managing director's report gives a true and fair review of the development and the performance of the business of the Company during the financial year to which the report relates.

Amsterdam, February 23, 2022

/s/	/s/
Mr. Carlos David Maroto Sobrado	Mr. François V. N. Decleve
/s/	/s/
Mr. Miguel Angel Contreras Contreras	Mrs. Ilaria De Lucia

FINANCIAL STATEMENTS

BALANCE SHEET
AS AT DECEMBER 31, 2021
(before appropriation of result)

Euros in thousands

ASSETS	Note	2021	2020
Fixed Assets			
Tangible fixed assets	1	1	1
Financial fixed assets	2	9,230,671	9,150,280
Total Fixed Assets		**9,230,672**	**9,150,281**
Current Assets			
Loans receivable	3	1,001,513	1,250,016
Interest receivable		206,315	219,473
Other current assets		640	157
Cash at bank	4	3,384	3,431
Total Current Assets		**1,211,852**	**1,473,077**
TOTAL ASSETS		**10,442,524**	**10,623,358**

SHAREHOLDER'S EQUITY AND LIABILITIES	Note	2021	2020
Shareholder's Equity	5		
Issued share capital		46	46
Retained earnings		2,350	2,640
Result for the year		2,716	2,470
Total Shareholder´s Equity		**5,112**	**5,156**
Long Term Liabilities			
Bonds and loans	6	9,230,933	9,150,479
Total Long Term Liabilities		**9,230,933**	**9,150,479**
Current Liabilities			
Short term loans and bonds	7	1,001,513	1,250,016
Interest payable		204,331	217,451
Taxes payable		154	61
Other debts and accrued liabilities		481	195
Total Current Liabilities		**1,206,479**	**1,467,723**
TOTAL EQUITY & LIABILITIES		**10,442,524**	**10,623,358**

STATEMENT OF INCOME AND EXPENSES FOR THE YEAR ENDED DECEMBER 31, 2021

Euros in thousands

	Note	2021	2020
Financial Income and Expenses			
Interest Income		478,433	464,012
Interest Expense		(473,715)	(459,800)
Currency Exchange result		(11)	(4)
Net financial result	**8**	**4,707**	**4,208**
Operational Expenses			
Personnel expenses		(169)	(167)
Administrative expenses	9	(949)	(853)
Result from ordinary activities before taxation		**3,589**	**3,188**
Taxation	10	(873)	(718)
RESULT AFTER TAXATION		**2,716**	**2,470**

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED DECEMBER 31, 2021

General Information and Principal Activities

Telefónica Europe B.V. ("the Company"), having its statutory seat, place of operations and registered office in Amsterdam, The Netherlands, and registered with the Dutch Chamber of Commerce under number 24263798 is engaged in holding and financing activities for related companies. The home member state selected by the Company is Ireland. The offices of the Company are located in Zuidplein 112, 1077XV, Amsterdam (The Netherlands). The Company was incorporated on October 31, 1996.

The Company's main activity is the financing of group companies, through bond offerings on the international capital markets. The repayment of the bonds to the investors is guaranteed by Telefonica S.A, the ultimate shareholder of the Company, as disclosed in the notes to the financial statements. We paid specific attention to the areas of focus driven by the operations of the Company, as set out below.

The authorized share capital of the Company consists of 100 shares with a par value of EUR 460 each (EUR 46,000). On December 31, 2021 and December 31, 2020, the issued capital of the Company consists of 100 shares, which have been fully paid and which represent a total paid up capital in the amount of EUR 46,000.

Group Affiliation

The Company is a wholly owned subsidiary of Telefónica, S.A., located in Madrid, Spain. Direct or indirect subsidiaries of Telefónica, S.A. are referred to as related companies.

At December 31, 2021 and December 31, 2020, the Company does not own, directly or indirectly, any capital stock or other equity interests in any subsidiary.

Basis of Presentation

The financial statements are drawn up in accordance with the provisions of Title 9, Book 2 of the Dutch Civil Code and the firm pronouncements in the Dutch Accounting Standards, as published by the Dutch Accounting Standards Board ('Raad voor de Jaarverslaggeving').

As most of its activities are carried out in the Eurozone and the Company is domiciled in the Netherlands, the functional currency is the Euro. Therefore, these financial statements are presented in Euro.

Euro Medium Term Note Debt Programme

In 1996, the Company entered into a USD 1,500,000 thousand EMTN Debt Issuance Programme, arranged by Morgan Stanley & Co. International Limited, unconditionally and irrevocably guaranteed by Telefónica, S.A. Under the Programme, the Company may from time to time issue instruments in different currencies up to a maximum aggregate principal amount of USD 1,500,000 thousand. The total maximum aggregate principal amount was increased in 1998 to USD 2,000,000 thousand. In 2000, the total maximum aggregate principal amount was increased to EUR 8,000,000 thousand and finally, in July 2003, the maximum aggregate principal amount was increased again to EUR 10,000,000 thousand. The notes are listed on the Irish Stock Exchange. The Company has not issued any notes under this programme since 2003. The proceeds of the notes issued are lent to the parent company or to other related companies within the group of the parent company (Telefónica, S.A.).

As at December 31, 2021, the EMTN Debt Issuance Programme includes:

Euro Notes due 2033	EUR 500,000,000

Global bonds

On September 21, 2000, Telefónica Europe B.V. issued notes for the notional amounts and coupons of USD 1,250,000 thousand 7.35% and EUR 1,000,000 thousand 6.125% due and repaid in 2005, USD 2,500,000 thousand 7.75% due and repaid in 2010 and USD 1,250,000 thousand 8.25% due 2030. These bonds are fully and unconditionally guaranteed by the parent company.

As at December 31, 2021, there is only one outstanding note (USD 1,250,000 thousand carrying a semi-annual coupon of 8.25% and maturing on September 2030) and is quoted in Frankfurt and New York.

Euro Commercial Paper Programme (ECP Programme)

On June 29, 2000, the Company entered into a Euro Commercial Paper Programme with a maximum aggregate principal amount of EUR 2,000,000 thousand or its equivalent in alternative currencies. The Programme was updated in May 2005 and in May 2012, when its maximum aggregate principal amount outstanding (limit of the programme) was raised from EUR 2,000,000 thousand to EUR 3,000,000 thousand or its equivalent in alternative currencies. On April 22, 2016, the limit of the Programme was increased again by fixing this maximum outstanding principal amount into EUR 5,000,000 thousand or its equivalent in the alternative currencies. On December 17, 2019 the Company entered into an amended and restated agreement with no impact on the limit of theprogramme fixed on April 22, 2016.

The parent company guarantees in an unconditional and irrevocable basis all issues made under de ECP Programme. Notes may have any denomination, subject to compliance with any applicable legal and regulatory requirements. The minimum denominations are EUR 500,000, USD 500,000, JPY 100,000,000, and GBP 100,000. The tenor of the notes shall be not less than one or more than 365 days.

The notional outstanding amount as at December 31, 2021 is EUR 999,000 thousand. In the balance sheet the outstanding ECP issues are stated at their discounted notional amounts and were accounted for EUR 1,001,513 thousand at December 31, 2021.

JPY Dual Currency Loan

The Company borrowed JPY 15,000,000 thousand in three loans from a Japanese investor with a maturity on July 2037. Under this agreement interests are payable in USD on a semi-annual basis at a fix annual rate of 4.75%.

Undated Deeply Subordinated Guaranteed Fixed Rate Reset Securities in EUR and in GBP

On September 18, 2013, the Company issued two tranches of Undated Deeply Subordinated Guaranteed Fixed Rate Reset Securities ("Hybrids") of EUR 1,125,000 thousand and EUR 625,000 thousand respectively. A third issue of GBP 600,000 thousand was completed on November 26, 2013.

On March 31, 2014 the Company issued two tranches of Hybrids of EUR 750,000 thousand and EUR 1,000,000 thousand. On December 4, 2014 the Company issued a new tranche of Hybrids of EUR 850,000 thousand.

On September 15, 2016, the Company issued a new tranche of Hybrids of EUR 1,000,000 thousand.

On December 7, 2017, the Company issued a new tranche of Hybrids of EUR 1,000,000 thousand of Hybrids.

On March 22, 2018, the Company issued two additional tranches of Hybrids of EUR 1,250,000 thousand and EUR 1,000,000 thousand. On March 23, 2018 the company repurchased and cancelled EUR 1,287,400 thousand and GBP 428,500 thousand (equivalent to EUR 490,848 thousand) across four Euro denominated and one British Sterling denominated hybrid securities. On September 18, 2018, coinciding with the first call date, the Company cancelled EUR 473,300 thousand of the EUR 1,125,000 thousand issued on September 18, 2013 carrying an annual coupon of 6.50%. After this cancelation no amount was due from this hybrid securities, since the Company had already repurchased and cancelled EUR 651,700 thousand in a partial repurchase executed on March 23, 2018.

On March 14, 2019, the Company issued a new tranche of Hybrids of EUR 1,300,000 thousand. On March 15, 2019 the company repurchased and cancelled EUR 934,700 thousand of hybrid securities. On May 7, 2019, the Company called (following a substantial purchase event) and cancelled EUR 118,300 thousand of the EUR 850,000 thousand hybrid securities issued on December 4, 2014 that were originally issued with a first call date on December 4, 2019 and carried an annual coupon of 4.2%. After this cancelation no amount was due from this hybrid securities, since the Company had already repurchased and cancelled EUR 145,200 thousand in a partial repurchase (on March 23, 2018) and EUR 586,500 thousand in another partial repurchase (on March 15, 2019). On September 24, 2019, the Company issued a new tranche of Non-Call 8 years Hybrids of EUR 500,000 thousand and carrying an interest rate of 2.875%.

On February 5, 2020, the Company issued a new tranche of Non-Call 7.25 years Hybrids of EUR 500,000 thousand and carrying an interest rate of 2.502%. On February 6, 2020 the Company repurchased and cancelled EUR 232,000 thousand and GBP 128,200 thousand (equivalent to EUR 151,055 thousand) across one Euro denominated and one British Sterling denominated hybrid securities. After the liquidation and cancellation of the repurchased hybrids, and as agreed in the terms and conditions, the Company announced the option to exercise the clean-up call of both series (equivalent to EUR 111,719 thousand). On March 31, 2020, the Company called (following a Substantial Purchase Event contemplated in the Terms and conditions of the instruments) and cancelled in full the total outstanding amount EUR 292,700 thousand of its Hybrids issued on March 31, 2014 with an annual coupon of 5.0%.

On February 12, 2021, the Company issued a new tranche of Non-Call 8.25 years Hybrids of EUR 1,000,000 thousand and carrying an interest rate of 2.376%. On February 15, 2021 the Company repurchased and cancelled EUR 757,600 thousand of hybrid securities and on July 12, 2021 the Company repurchased and cancelled EUR 114,900 thousand of hybrid securities.

The notional amount repurchased (and cancelled) and premium paid was the following:

ISIN	Description	Repurchase Notional amount	Premium	Total amount paid*
XS1490960942	EUR 1,000,000,000 3.75% perpetual (non-call 5.5 years) Hybrid Securities	EUR 872,500	EUR 27,981	EUR 900,481
Total Euro denominated Hybrid securities		**EUR 872,500**	**EUR 27, 981**	**EUR 900,481**

*Excluding accrued interests.

After the liquidation and cancellation of the repurchased hybrids, and as agreed in the terms and conditions, the Company announced the option to exercise the clean-up call and on September 1, 2021, the Company called (following a substantial purchase event) and cancelled in full the total outstanding amount EUR 127,500 thousand of its Undated Deeply Subordinated Guaranteed Fixed Rate Reset Securities issued on September 15, 2016 with an annual coupon of 3.75%.

On November 24, 2021, the Company issued a new tranche of Non-Call 6.5 years Hybrids of EUR 750,000 thousand and carrying an interest rate of 2.88%. On November 25, 2021 the Company repurchased and cancelled EUR 750,000 thousand across two Euro denominated hybrid securities.

The notional amount repurchased (and cancelled) and premium paid was the following:

ISIN	Description	Repurchase Notional amount	Premium	Total amount paid*
XS1731823255	EUR 1,000,000,000 2.625% perpetual (non-call 5.5 years) Hybrid Securities	EUR 323,600	EUR 8,543	EUR 332,143
XS1795406658	EUR 1,250,000,000 3% perpetual (non-call 5.7 years) Hybrid Securities	EUR 426,400	EUR 16,318	EUR 442,718
Total Euro denominated Hybrid securities		**EUR 750,000**	**EUR 24,861**	**EUR 774,861**

*Excluding accrued interests.

The hybrid securities outstanding at December 31, 2021, amounted a total notional amount equivalent to EUR 7,550,000 thousand. At December 31, 2021 all hybrid securities issued by the Company are listed for trading on the Irish Stock Exchange.

The main terms of the tranches currently outstanding at December 31, 2021 are the following:

i. EUR 1,000,000 thousand issued on March 31, 2014 and with a first call date on March 31, 2024 with an annual coupon of 5.875% (ISIN: XS1050461034);

ii. EUR 1,000,000 thousand issued on December 7, 2017 and with a first call on June 7, 2023 with an annual coupon of 2.625% (ISIN: XS1731823255). The notional outstanding amount as of December 31, 2021 is EUR 676,400 thousand;

iii. EUR 1,250,000 thousand issued on March 22, 2018 and with a first call on December 4, 2023 with an annual coupon of 3.000% (ISIN: XS1795406575). The notional outstanding amount as of December 31, 2021 is EUR 823,600 thousand;

iv. EUR 1,000,000 thousand issued on March 22, 2018 and with a first call on September 22, 2026 with an annual coupon of 3.875% (ISIN: XS1795406658);

v. EUR 1,300,000 thousand issued on March 14, 2019 and with a first call on March 14, 2025 with an annual coupon of 4.375% (ISIN: XS1933828433);

vi. EUR 500,000 thousand issued on September 24, 2019 and with a first call on September 24, 2027 with an annual coupon of 2.875% (ISIN: XS2056371334);

vii. EUR 500,000 thousand issued on February 5, 2020 and with a first call on May 5, 2027 with an annual coupon of 2.502% (ISIN: XS2109819859) and

viii. EUR 1,000,000 thousand issued on February 12, 2021 and with a first call on May 12, 2029 with an annual coupon of 2.376% (ISIN: XS2293060658).

ix. EUR 750,000 thousand issued on November 24, 2021 and with a first call on May 24, 2028 with an annual coupon of 2.880% (ISIN: XS2410367747).

The annual coupon included for all the securities is until the first call date. After that, they will be reset depending on the swap rates as disclosed in each security listed documentation. The securities are listed on the Irish Stock Exchange.

Investments of the Company

Substantially all the net proceeds from the principal or notional amounts obtained or borrowed by the Company under its financing activities have been lent on to the parent company.

Cash flow statement

A cashflow statement has not been included in this financial statement as the Company's cash flows are included in the consolidated cash flow statement in the financial statements of the ultimate parent company Telefónica, S.A., which can be obtained from its website www.telefonica.com. This exemption is provided in DAS 360.104.

ACCOUNTING POLICIES

General

The accounting principles of the Company are summarized below. These accounting principles have all been applied consistently throughout the year and the preceding year unless otherwise indicated.

Going concern

The Company has analyzed the impact that COVID-19 could have in the going concern of the Company and has conclude that there is not a risk of going concern for the next 12 months.

Inherent to the company's activities, the going concern of the Company is dependent upon the performance of the financial performance of the counterparties of the loans issued to Telefonica S.A. Group companies. The Company's Managing Directors evaluated the financial position of the counterparties of loans to group companies and their ability to repay the notional and interest to the Company. The Company has not identified events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

The Company will continue to monitor its solvency and liquidity position. Whilst uncertainty remains, we do not believe, that the impact of the COVID-19 pandemic would have material adverse effect on the Company's liquidity position.

Management believes that there is no going concern risk as there isn't a material uncertainty for the Company.

Foreign currencies

Assets and liabilities denominated in foreign currencies are translated into the presentation currency at exchange rates prevailing at the Balance Sheet date. Any resulting exchange differences are recorded in the Statement of Income and Expenses.

Revenues and expenses in the year under review, which are denominated in foreign currencies, are translated into the reporting currency at the Exchange rate of the transaction date.

Accounting policies in respect of the Balance Sheet

Tangible fixed assets

Tangible fixed assets are stated at their historical cost less accumulated depreciation. Depreciation is provided over the expected useful life of the related asset under the straight-line depreciation method. The estimated useful lives are:

Furniture and office equipment: 3 to 5 years

Long term receivables from related companies

At its initial recognition in the Balance Sheet, long term receivables from related companies are measured at its fair value, which is the transaction price plus the transaction costs that are directly attributable to the issue of the financial asset.

Subsequently, long term receivables from related companies are carried at amortized cost using the effective interest rate method, except where otherwise stated in these notes. Gains and losses are recognized in the income statement when the loans are derecognized or impaired, as well as through the amortization process.

Transactions with related parties

Transactions with related parties are disclosed in the notes insofar as they are not transacted under normal market conditions. The nature, extent and other information is disclosed if this is necessary in order to provide the required insight.

Currently the Company doesn’t have any subsidiary. All legal entities that can be controlled, jointly controlled or significantly influenced would be considered to be a related party. Also, entities which can control the Company are considered to be a related party. In addition, statutory directors, other key management of the Company or the ultimate parent company and close relatives are regarded as related parties.

Impairment of financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, or indications that a debtor or issuer will enter bankruptcy.

The Company considers evidence of impairment for receivables at both a specific and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired, together with receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against receivables. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Current loans receivables and other payables

As from its initial recognition current loans receivables and payables are carried at amortized cost using the effective interest rate method, except where otherwise stated in these notes.

Interest receivables and interest payables

The Company accrues interest income and expenses in the balance sheet current assets or current liabilities, as it is applicable, when such interests are receivable/due according to the terms and conditions of the instruments subscribed. Following an interest payment, the accrual of interest is derecognized (in the same amount) in balance sheet.

Cash at banks

Cash at banks represent cash in bank balances and deposits with terms of less than twelve months. Overdrafts at banks are recognized as part of debts to lending institutions under current liabilities. Cash at banks is carried at nominal value.

Bonds and loans

At its initially recognition in the Balance Sheet, bonds and loans are measured at its fair value, which is the price of the transaction minus the transaction costs that are directly attributable to the issue of the financial liability.

Subsequently, bonds and loans are carried at amortized cost using the effective interest rate method, except where otherwise stated in these notes. Gains and losses are recognized in the Statement of Income and Expense when the liabilities are derecognized as well as through the amortization process.

Estimates

In applying the principles and policies for drawing up the financial statements, the directors of Telefonica Europe B.V. make different estimates and judgments that may be essential to the amounts disclosed in the financial statements. If it is necessary in order to provide the true and fair view required under Book 2, article 362, paragraph 1, the nature of these estimates and judgments, including related assumptions, is disclosed in the fair value note of the to the relevant financial statement item.

Accounting policies in respect of result determination

Interest incomes and expenses

Interest income and expense are recognized in profit or loss using the effective interest rate method. The effective interest rate includes all fees and basis points paid or received that are an integral part of the effective interest rate. This includes transaction costs that are directly attributable to the acquisition or issue of financial assets or liabilities.

Costs and revenues are recognized in the year to which they refer regardless of when paid or received, in accordance with the accrual basis. Differences between amounts received and paid and the corresponding revenue and costs are recognized under the correspondent caption of financial assets or financial liabilities.

Operational income and expenses are based on the historical cost convention and attributed to the financial year to which they pertain.

Taxation

Taxation is calculated on the reported pre tax result, at the prevailing tax rates, taking account of any losses carried forward from previous financial years and tax exempt items and non deductible expenses and using tax facilities.

Temporary differences between taxation on the result as shown in the Statement of Income and Expense and the taxation on the fiscal result are added or deducted from the provision for deferred taxation.

Financial Risks

General

The information included in the notes for financial instruments is useful to estimate the extent of risks relating to on-balance sheet financial instruments. The Company's primary financial instruments, not being derivatives, serve to finance the Telefonica's Group operating activities. The principal risks, arising from the Company's financing operations are, liquidity, credit, interest and foreign exchange risks. These risks are set out in detail below:

i. Liquidity and credit risk

Liquidity and credit risk management is implemented according to the Telefonica Group policies. As of December 31, 2021, the Company has invested the funds borrowed, in Telefónica, S.A. which guarantees most of the external debt subscribed by the Company. However, from time to time the Company could also invest the funds in other companies within the Group. In addition, the Company holds cash balances in several financial institutions. In summary, as any substantial credit or liquidity risk would be related to credit risk of Telefónica, S.A. and its Group.

As of December 31, 2021, and Telefónica, S.A. and Telefónica Europe B.V. have been granted the same company credit ratings. These ratings are the following:

- Moody's Investors Services: Baa3 for the long term rating and P-3 for the short term rating. Outlook stable and last review November 7, 2016.

- Fitch Ratings: BBB for the long term rating and F-2 for the short term rating. Outlook stable and last review September 5, 2016.

- Standard and Poor's: BBB- for the long term rating and A-3 for the short term rating. Outlook stable and last review November 20, 2020.

ii. Interest rate and Foreign Exchange risk

Currently, the Company lends money to Telefónica S.A. although, from time to time, the Company may also lend money to other companies within the Telefonica Group. At present, all loans granted are denominated in the same currency as the funds it raises on the capital markets. Therefore, the Company is implementing a natural hedge. Consequently, foreign exchange fluctuation in exchange rates have a limited impact on its financial result.

However, the Company may have a limited foreign exchange risk due to the financial margin earned in several currencies different from Euro (mainly US Dollar and British Pound) and also due to some cash positions held in foreign currencies (US Dollar and British Pound).

Currently, the Company's policy is to hedge any interest rate exposure coming from funding raised by investing on similar terms and conditions (tenors and type of interest, whether it may be floating or fixed interest rates). Nevertheless, if that would not eventually be possible, or the management may not consider it appropriate, the Company may look to mitigate any interest rate risk in other ways (by using derivatives or any other suitable instrument) or eventually may decide not to hedge it.

1. *Tangible Fixed Assets*

The tangible fixed assets are comprised as follows:

Euros in thousands

	2021	2020
Tangible fixed assets	1	1

The movement in the tangible fixed assets is as follows:

Euros in thousands

	2021	2020
Carrying value		
Balance January 1	95	94
Additions	-	1
Balance	**95**	**95**
Accumulated depreciation		
Balance January 1	(94)	(93)
Change for the period	-	(1)
Balance	**(94)**	**(94)**
Net book value	**1**	**1**

2. *Financial fixed assets*

Euros in thousands

	2021	2020
Long term receivables from related companies	9,230,671	9,150,280
Financial Fixed assets	**9,230,671**	**9,150,280**

The movement in the financial fixed assets is as follows:

Euros in thousands

	2021	2020
Balance January 1	9,150,280	9,480,891
Deferred Commissions amortization	9,883	8,359
Repayments	(1,750,000)	(736,244)
New Loans	1,739,800	496,950
Foreign Exchange result	80,708	(99,676)
Balance as at December 31, 2021	**9,230,671**	**9,150,280**

On February 12, 2021, the Company lent to Telefónica, S.A. an amount equal to EUR 1,000,000,000 which corresponds to the principal amount of the issuance of the securities by the Lender. On February 15, 2021 the Company cancelled in advance a EUR 757,600 thousand loan with Telefónica, S.A.

Then, on July 12, 2021 the Company cancelled another EUR 114,900 thousand loan with Telefónica, S.A. After this cancelation the Company decided to execute its Issuer call option and therefore the remaining amount of the loan (EUR 127,500 thousand) was fully cancelled on September 1, 2021.

On November 24, 2021, the Company lent once again to Telefónica, S.A. an amount equal to EUR 750,000,000 which corresponds to the principal amount of the issuance of the securities by the Lender. The following day, on November 25, 2021, the Company cancelled in advance a EUR 323,600 thousand and a EUR 426,400 thousand loan with Telefónica, S.A. being the remaining amount of both of them EUR 676,400 thousand and EUR 823,600 thousand, respectively.

Long-term receivables from related companies

The long-term receivables from related companies represent loans to Telefónica, S.A. and total EUR 9,230,671 thousand on December 31, 2021 (EUR 9,150,280 thousand at December 31, 2020). The average interest rate for the long-term receivables is 4.28% for financial year 2021 and 4.48% for financial year 2020.

Euros in thousands

Description	2021	2020
USD 1,250,000,000, maturity September 15, 2030	1,098,153	1,013,471
EUR 500,000,000, maturity February 14, 2033	494,615	494,290
JPY 5,000,000,000/USD 42,640,287, maturity July 27, 2037	38,194	39,384
JPY 5,000,000,000/USD 42,640,287, maturity July 27, 2037	38,194	39,384
JPY 5,000,000,000/USD 42,640,287, maturity July 27, 2037	38,194	39,384
EUR 1,000,000,000, maturity March 31, 2054	998,113	997,350
EUR 1,000,000,000 maturity March 15, 2056	-	998,554
EUR 1,000,000,000 maturity June 7, 2058	675,377	997,466
EUR 1,000,000,000 maturity September 22, 2058	996,284	995,583
EUR 1,250,000,000 maturity December 04, 2058	821,917	1,246,176
EUR 1,300,000,000 maturity March 14, 2060	1,295,723	1,294,508
EUR 500,000,000 maturity September 24, 2060	497,780	497,430
EUR 500,000,000 maturity February 05, 2060	497,696	497,300
EUR 1,000,000,000 maturity May 12, 2061	994,767	-
EUR 750,000,000 maturity May 24, 2062	745,664	-
Total Long-term receivable from related companies	**9,230,671**	**9,150,280**

The fair value for the long term receivables from the related companies are not substantially different to the fair value of the long term bonds and loans (disclosed at in note 6), since the terms and conditions of these long term receivables are almost equal to the terms and conditions of the bonds and loans issued.

The calculation of the fair value for the long term receivables from the related companies has been calculated by applying level 2 (of the hierarchy disclosed in note 6) after discounting the cash flows of the loans using an estimated credit spread curve for each applicable currency.

The Company has not and has not been asked to grant any payment holidays on their loans to group companies.

3. Loans receivable

The loans receivable comprises short-term loans due by the shareholder (granted by means of loan agreement dated May 10, 2012) and other related companies (if any) and amounted EUR 1,001,513 thousand on December

31, 2021 (EUR 1,250,016 thousand on December 31, 2020). The average interest rate is -0.46% for financial year 2021 and -0.28% for financial year 2020.

Euros in thousands

	2021	2020
Loans Receivable	1,001,513	1,250,016
Total loans receivable	**1,001,513**	**1,250,016**

The fair value of the short term loans to Telefónica does not substantially differ from the book value. Given the short term nature, the impact of the discount is not significant.

4. Cash at bank

The cash at bank is freely disposable and there are not interests obtained from the bank accounts. All the external banks we work with, have BBB+ credit rating or higher. The balances on December 31, 2021 and December 31, 2020 are comprised as follows:

Euros in thousands

	2021	2020
Current bank account balances	**3,384**	**3,431**

5. Shareholder's equity

The movements in the Shareholder's Equity are comprised as follows:

Euros in thousands

	Issued share capital	Retained earnings	Result for the period	Total Shareholder's Equity
Balance as at January 1, 2020	46	4,700	2,356	7,102
Allocation of result	-	2,356	(2,356)	-
Result for the period	-	-	2,470	2,470
Dividend payment	-	(4,416)	-	(4,416)
Balance as at December 31, 2020	**46**	**2,640**	**2,470**	**5,156**
Balance as at January 1, 2021	46	2,640	2,470	5,156
Allocation of result	-	2,470	(2,470)	-
Result for the period	-	-	2,716	2,716
Dividend payment	-	(2,760)	-	(2,760)
Balance as at December 31, 2021	**46**	**2,350**	**2,716**	**5,112**

The distribution of dividend for the year 2021 corresponds to the result of the period November 2020 to October 2021. The profit from November and December 2021 will be accumulated to retained earnings.

6. Bonds and loans

The long term bonds and loans balance is the following:

Euros in thousands

	2021	2020
Long term bonds and loans	**9,230,933**	**9,150,479**

The movement in long term liabilities is as follows:

Euros in thousands

	2021	2020
Balance January 1	9,150,479	9,480,899
Prepaid Commissions amortization	9,371	8,251
Repayments	(1,750,000)	(736,244)
New Issuances	1,740,375	497,250
Foreign Exchange result	80,708	(99,677)
Balance as at December 31, 2021	**9,230,933**	**9,150,479**

On February 12, 2021, the Company issued a new tranche of Hybrids of EUR 1,000,000 thousand. On February 15, 2021 the Company repurchased and cancelled EUR 757,600 thousand of hybrid securities and on July 12, 2021 the Company repurchased and cancelled EUR 114,900 thousand of hybrid securities. After the liquidation and cancellation of the repurchased hybrids the Company announced the option to exercise the clean-up call and on September 1, 2021, the Company called (following a substantial purchase event) and cancelled in full the total outstanding amount EUR 127,500 thousand. On November 24, 2021, the Company issued a new tranche of EUR 750,000 thousand and on November 25, 2021 the Company repurchased and cancelled EUR 750,000 thousand across two Euro denominated hybrid securities.

The average interest rate for the long-term liabilities is 4.25% for financial year 2021 and 4.44% for financial year 2020.

Long-term bonds and loans are comprised as follows:

Euros in thousands

Description	2021	2020
Global USD 1,250,000,000, 8.250%, maturity September 15, 2030 (ISIN: US879385AD49)	1,098,159	1,013,477
EMTN EUR 500,000,000, 5.875%, maturity February 14, 2033 (ISIN: XS0162869076)	494,625	494,300
JPY/USD Dual Currency Loan A JPY 5,000,000,000/USD 42,640,287, 4.750% on USD basis, maturity July 27, 2037	38,194	39,384
JPY/USD Dual Currency Loan B JPY 5,000,000,000/USD 42,640,287, 4.750% on USD basis, maturity July 27, 2037	38,194	39,384
JPY/USD Dual Currency Loan C JPY 5,000,000,000/USD 42,640,287, 4.750% on USD basis, maturity July 27, 2037	38,194	39,384
EUR 1,000,000,000 5.875% perpetual (non-call 10 years) Hybrid Securities (ISIN: XS1050461034)	998,061	997,277
EUR 1,000,000,000 3.750% perpetual (non-call 5.5 years) Hybrid Securities (ISIN: XS1490960942)	-	998,579
EUR 1,000,000,000 2.625% perpetual (non-call 5.5 years) Hybrid Securities (ISIN: XS1731823255)	675,401	997,524

EUR 1,000,000,000 3.875% perpetual (non-call 8.5 years) Hybrid Securities (ISIN: XS1795406658)	996,295	995,595
EUR 1,250,000,000 3.000% perpetual (non-call 5.7 years) Hybrid Securities (ISIN: XS1795406575)	821,920	1,246,184
EUR 1,300,000,000 4.375% perpetual (non-call 6 years) Hybrid Securities (ISIN: XS1933828433)	1,295,760	1,294,555
EUR 500,000,000 2.875% perpetual (non-call 8 years) Hybrid Securities (ISIN: XS2056371334)	497,801	497,454
EUR 500,000,000 2.502% perpetual (non-call 7.25 years) Hybrid Securities (ISIN: XS2109819859)	497,767	497,382
EUR 1000,000,000 2.376% perpetual (non-call 8.25 years) Hybrid Securities (ISIN: XS2293060658)	994,814	-
EUR 750,000,000 2.88% perpetual (non-call 6.25 years) Hybrid Securities (ISIN: XS2410367747)	745,748	-
Total long-term bond and loans	**9,230,933**	**9,150,479**

The fair value of the long term loans and bonds subscribed by the Company at December 31, 2021 totals EUR 10,271,668 thousand (EUR 10,473,684 thousand at 31 December, 2020).

The Company calculates the fair value of the long term loans and bonds using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

- Level 1: Inputs that are quoted market prices (unadjusted) in active markets for either: (i) the instruments issued by the Company or (ii) identical instruments to those issued by the company.

- Level 2: Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

- Level 3: Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments but for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The Company has calculated the fair value for the bonds issued by applying level 1 of the above hierarchy. The bonds fair value has been calculated using the market price at balance sheet date as published at the stock exchange where the bonds are admitted for trading.

The fair value of the Loans subscribed by the Company has been calculated by applying level 2 of the above hierarchy, after discounting the cash flows of the Loans using an estimated credit spread curve for each applicable currency.

7. Short term loans and bonds

As at December 31, 2021, the short term loans and bonds payable comprises the amount due under the Company's EUR 5,000,000 thousand Euro Commercial Paper Program. The balance on December 31, 2021 totals EUR

1,001,513 thousand (EUR 1,250,016 thousand at December 31, 2020). The average interest rate is -0.51% for financial year 2021 and -0.33% for financial year 2020.

Euros in thousands

	2021	2020
EUR 5,000,000,000 ST European Commercial Paper Programme	1,001,513	1,250,016
Balance	**1,001,513**	**1,250,016**

The fair value of the short term bonds and loans does not substantially differ from the book value. Given the short term nature of the loans and bonds, the impact of discount is not relevant.

8. Net Financial Result

The Net Financial Result is comprised as follows:

Euros in thousands

	2021	2020
Interest income	478,433	464,012
Interest expense	(473,715)	(459,800)
Currency exchange result	(11)	(4)
Net Financial Result	**4,707**	**4,208**

Interest income fully derives from related companies as all loans receivable have been granted to related companies. During both years it also includes the one-off impacts to P&L for the repurchase and cancellation of hybrid securities that took place on February 6, 2020, February 15, 2021 and November 25, 2021.

9. Administrative expenses

For the year ended December 31, 2021 the administrative expenses total EUR 949 thousand (EUR 853 thousand for the year ended December 31, 2020). The increase in administrative expenses (when compared to last year) is mainly due to: (i) an increase in the rating agencies fees and (ii) legal advisory fees expenses associated to the repurchase and cancelation of hybrid securities.

Euros in thousands

	2021	2020
Administrative expenses	(949)	(853)
Total	**(949)**	**(853)**

10. Taxation

The tax charge on the profit can be broken down as follows:

Euros in thousands

	2021	2020
Corporate income tax 2021	873	-
Corporate income tax 2020	-	787

Corporate income tax 2019	-	27
Corporate income tax 2018	-	(96)
Total	**873**	**718**

The Company is subject to Dutch taxation and tax calculations are made in accordance with a Transfer Pricing report prepared by Ernst & Young.

The main features of this report are the establishment of a minimum financial margin for the transactions registered between Telefónica, S.A. and the Company as well as a capped yearly amount of operational expenses.

The effective and applicable tax rates do not differ significantly from those of previous fiscal year.

The applicable tax rate for the current financial statements is 25% (2020: 25%) and the effective tax rate is 24% (2020: 23%). The difference is caused by a lower tax rate considered for the first EUR 245 thousand (15%) in 2021 (in 2020 was the 16.5% for the first EUR 200 thousand).

Average number of employees

During the period under review the Company employed on average 2 persons, (2020:2) none of them working outside The Netherlands.

Independent auditor's fees

The independent auditor's fees for the financial year 2021 audit come up to EUR 47 thousand (EUR 40 thousand in 2020). However, during 2021 the Company has not paid yet any of these fees.

The amount paid in respect of fees for other audit services rendered by PricewaterhouseCoopers Accountants N.V., amounted to EUR 72 thousand in 2021 (EUR 36 thousand in 2020).

There were no fees other than audit and other audit services (hence no consultancy and no tax fees).

Subsequent events

No material subsequent events, affecting these Annual Financial Statements, have taken place until the date of this report.

Appropriation of Result

The management proposal is to accumulate to the retained earnings the difference from the net result of year ended December 2021 and the accumulated result until October 2021 already declared and distributed.

Board of directors

The Company's board of directors consists of 4 directors (2020: 4), who received a total remuneration of EUR 0 thousand (2020: EUR 6 thousand).

Amsterdam, February 23, 2022

/s/	/s/
Mr. Carlos David Maroto Sobrado	Mr. François V. N. Decleve
/s/	/s/
Mr. Miguel Angel Contreras Contreras	Mrs. Ilaria De Lucia

OTHER INFORMATION

Independent Auditor's report

The independent auditor's report is set out on the next pages.

Statutory provision regarding appropriation of Result

In accordance with Article 14 of the Articles of Association, profit shall be at the disposal of the Annual General Meeting of Shareholders. Profit distribution can only be made to the extent that Shareholder's Equity exceeds the issued and paid up share capital and legal reserves.

A resolution to distribute profits or reserves is subject to the approval of the managing board. The managing board shall only withhold its approval if it knows or should reasonably expect that following the distribution the Company cannot continue to pay its debts due.

www.telefonica.com

Independent auditor's report

To: the general meeting of Telefonica Europe B.V.

Report on the financial statements 2021

Our opinion

In our opinion, the financial statements of Telefonica Europe B.V. ('the Company') give a true and fair view of the financial position of the Company as at 31 December 2021, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

What we have audited

We have audited the accompanying financial statements 2021 of Telefonica Europe B.V., Amsterdam.

The financial statements comprise:

- the balance sheet as at 31 December 2021;
- the statement of income and expenses for the year then ended; and
- the notes, comprising the accounting policies and other explanatory information.

The financial reporting framework applied in the preparation of the financial statements is Part 9 of Book 2 of the Dutch Civil Code.

The basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. We have further described our responsibilities under those standards in the section 'Our responsibilities for the audit of the financial statements' of our report.

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

Independence

We are independent of Telefonica Europe B.V. in accordance with the European Union Regulation on specific requirements regarding statutory audit of public-interest entities, the 'Wet toezicht accountantsorganisaties' (Wta, Audit firms supervision act), the 'Verordening inzake de onafhankelijkheid van accountants bij assuranceopdrachten' (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA, Dutch Code of Ethics).

PricewaterhouseCoopers Accountants N.V., Fascinatio Boulevard 350, 3065 WB Rotterdam, P.O. Box 8800, 3009 AV Rotterdam, the Netherlands
T: +31 (0) 88 792 00 10, F: +31 (0) 88 792 95 33, www.pwc.nl

Our audit approach

We designed our audit procedures with respect to the key audit matters, fraud and going concern, and the matters resulting from that, in the context of our audit of the financial statements as a whole and in forming our opinion thereon. The information in support of our opinion, like our findings and observations related to individual key audit matters, the audit approach, fraud risk and the audit approach going concern was addressed in this context, and we do not provide a separate opinion or conclusion on these matters.

Overview and context

The Company's main activity is the financing of group companies, through bond offerings on the international capital markets. The repayment of the bonds to the investors is guaranteed by Telefonica S.A, the ultimate shareholder of the Company, as disclosed in the notes to the financial statements. We paid specific attention to the areas of focus driven by the operations of the Company, as set out below.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where the managing directors made important judgements, for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We also paid attention to the assumptions underlying the physical and transition climate-related risks. In the accounting policies section of the financial statements, the Company describes the areas of judgement in applying accounting policies and the key sources of estimation uncertainty. Given the significant estimation uncertainty and the related higher inherent risks of material misstatement in the valuation of the loans issued to group companies, we considered these matters as key audit matters as set out in the section 'Key audit matters' of this report. Furthermore, we identified the existence of the loans issued as key audit matter because the importance of existence for users of the financial statements.

The Company assessed the possible effects of climate change on its financial position. We discussed their assessment and governance thereof with the managing directors and evaluated the potential impact on the Company including underlying assumptions and estimates as included in the financial statements. Given the nature of the Company's activities, the impact of climate change is not considered a key audit matter.

Other areas of focus, that were not considered as key audit matters, are areas such as the impact of COVID-19, impairment triggers under Dutch GAAP and taxation.

We ensured that the audit team included the appropriate skills and competences, which are needed for the audit of a finance company.

Materiality

The scope of our audit was influenced by the application of materiality, which is further explained in the section 'Our responsibilities for the audit of the financial statements'.

Based on our professional judgement we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out below. These, together with qualitative considerations, helped us to determine the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and to evaluate the effect of identified misstatements, both individually and in aggregate, on the financial statements as a whole and on our opinion.

Based on our professional judgement, we determined the materiality for the financial statements as a whole at €104,401,000 (2020: €106,000,000). As a basis for our judgement, we used 1% of total assets. We used total assets as the primary benchmark, a generally accepted auditing practice, based on our analysis of the common information needs of stakeholders. Inherent to the nature of the Company's business, the amounts in the balance sheet are large in proportion to statement of income and expenses line items personnel expenses, administrative expenses and taxation. Based on qualitative considerations we performed audit procedures on those statement of income and expenses line items, applying a benchmark of 10% of the total of those expenses.

We also take misstatements and/or possible misstatements into account that, in our judgement, are material for qualitative reasons.

We agreed with the managing directors that we would report to them any misstatements identified during our audit above €5,220,050 (2020: €5,300,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Audit approach fraud risks

We identified and assessed the risks of material misstatements of the financial statements due to fraud. During our audit we obtained an understanding of the entity and its environment and the components of the system of internal controls, including the risk assessment process and the managing directors' process for responding to the risks of fraud and monitoring the system of internal controls, as well as the outcomes. We refer to section *'Fraud/Bribery/Anticorruption'* of the managing directors' report.

We inquired with the managing director's regarding their fraud risk assessment, evaluated the design and relevant aspects of the system of internal controls as well as among others the code of conduct and whistle blower procedures. We evaluated the design and the implementation and, where considered appropriate, tested the operating effectiveness, of internal controls designed to mitigate fraud risks, i.e. authorisation of payments.

As part of our process of identifying fraud risks, we evaluated fraud risk factors with respect to financial reporting fraud, misappropriation of assets and bribery and corruption. We evaluated whether these factors indicate that a risk of material misstatement due to fraud is present. We identified the following fraud risk and performed the following specific procedures:

Identified fraud risk	***Audit work and observations***
The risk of management override of control In all of our audits, we need to perform procedures over the risk of management override of control. This includes the evaluation of a potential misstatement due to fraud based on the potential interest of the managing directors including processes for generating and processing journal entries and	To the extent relevant to our audit, we have reviewed the design and effectiveness of the internal control measures, i.e. authorisation of payments, that are intended to mitigate the risk of management override of control and tested the design and implementation of the controls in the processes for generating and processing journal entries and making of estimates. We have selected journal entries based on risk criteria and performed specific audit procedures on these, also paying attention to significant transactions outside normal business operations. We also performed specific audit procedures on significant management estimates, with specific attention to the valuation of loans issued to group

Identified fraud risk	*Audit work and observations*
making of estimates (including potential management bias) and significant transactions outside normal business operations.	companies. We refer to the section 'Key audit matters' for the performed audit procedures. Our work did not reveal any material misstatements in the information provided by the managing directors in the financial statements. Our work did not lead to specific indications of fraud or suspicions of fraud regarding the risk of management override of control by the managing directors.

We incorporated elements of unpredictability in our audit. We also considered the outcome of our audit procedures and evaluated whether any findings were indicative of fraud or noncompliance.

We considered available information and made enquiries of relevant senior members of staff and managing directors.

Audit approach Going Concern

As disclosed in section 'Going concern' on page 15 in the financial statement the managing directors performed their assessment of the entity's ability to continue as a going concern for the foreseeable future and have not identified events or conditions that may cast significant doubt on the entity's ability to continue as a going concern (hereafter: going concern risks). Our procedures to evaluate the managing directors going concern assessment include, amongst others:

- Considering whether the managing directors' going concern assessment includes all relevant information of which we are aware as a result of our audit, inquire with the managing directors regarding the managing directors' most important assumptions underlying their going concern assessment;
- Analysing the financial position per balance sheet date in relation to the financial position per prior year balance sheet date to assess whether events or circumstances exist that may lead to a going concern risk;
- We evaluated the financial position of the Company, the counterparties of loans to group companies (including the financial position of the guarantor to the bonds issued on capital markets) and their ability to repay the notional and interest to the Company, by assessing observable data from rating agencies, developments in credit spreads, current financial data (such as recent financial information and cash flows) and other publicly available data and by discussing and obtaining information from the group auditor;
- Performing inquiries of the managing directors as to their knowledge of going concern risks beyond the period of the managing directors' assessment.

Our procedures did not result in outcomes contrary to the managing directors' assumptions and judgments used in the application of the going concern assumption.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements. We have communicated the key audit matters to the managing directors. The key audit matters are not a comprehensive reflection of all matters identified by our audit and that we discussed. In this section, we described the key audit matters and included a summary of the audit procedures we performed on those matters.

We addressed the key audit matters in the context of our audit of the financial statements as a whole, and in forming our opinion thereon. We do not provide separate opinions on these matters or on specific elements of the financial statements. Any comment or observation we made on the results of our procedures should be read in this context.

Due to the nature of the Company, key audit matters do not change significantly year over year. Compared to last year there have been no changes in key audit matters.

Key audit matter	*How our audit addressed the matter*
Valuation of the loans to group companies *Notes 2 and 3* We consider the valuation of the loans to group companies, as disclosed in notes 2 and 3 to the financial statements for a total amount of €10,232,184,000, to be a key audit matter. This is because the managing directors have to identify objective evidence of impairment, which is very important and judgemental, and because of the possible material effect an impairment may have on the financial statements (including potential management bias). The managing directors monitor the need for changes in the methods, significant assumptions or the data used in making the accounting estimate by monitoring key performance indicators that may indicate unexpected or inconsistent performance. The managing directors did not identify any objective evidence that a loan is impaired. As stated in the note ‘Going concern’ to the financial statements, the managing directors of the Company have assessed that the impact of Covid-19 has been limited on the Company, due to the sector in which the group operates (telecommunications). As disclosed in note 2 to the financial statements, the Company has not and has not been asked to grant any payment holidays on their loans to group companies.	We performed the following procedures to test the managing directors’ assessment of possible loss events to support the valuation of the loans to Telefonica S.A. group companies: • We assessed integrally data input used to calculate the initial fair value of the loans, including cash flows, based on underlying contracts, credit spread and market interest. • For the initial fair value calculation, we determined that the valuation methodology and model applied by the Company are in accordance with the requirements of RJ 290. • We recalculated the amortised cost value based on the effective interest method. • We evaluated the financial position of the counterparties of loans to group companies and their ability to repay the notional and interest to the Company, by assessing observable data from rating agencies, developments in credit spreads, current financial data (such as recent financial information and cash flows) and other publicly available data and by discussing and obtaining information from the group auditor. • We have assessed the managing directors’ position on the impact of the COVID-19 on the financial position of the counterparties of the loans to group companies as part of our procedures. We found the managing directors’ assessment to be adequate. Our procedures as set out above did not indicate material differences.

Key audit matter	*How our audit addressed the matter*
Existence of the loans to group companies *Note 2 and 3* We considered the existence of the loans to group companies, as disclosed in notes 2 and 3 to the financial statements for a total amount of €10,232,184,000, to be a key audit matter. Significant auditor's attention is necessary because of the size of the loan portfolio and the importance of existence for users of the financial statements.	We performed the following procedures to support the existence of the loans to Telefonica S.A. group companies: • We confirmed the existence of the loans with the counterparties on a sample basis. • We compared interest receipts with bank statements Based on the procedures as set out above, we found no material differences.

Report on the other information included in the annual report

The annual report contains other information. This includes all information in the annual report in addition to the financial statements and our auditor's report thereon.

Based on the procedures performed as set out below, we conclude that the other information:

- is consistent with the financial statements and does not contain material misstatements;
- contains all the information regarding the managing directors' report and the other information that is required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and the understanding obtained in our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing our procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of such procedures was substantially less than the scope of those procedures performed in our audit of the financial statements.

The managing directors are responsible for the preparation of the other information, including the managing directors' report and the other information in accordance with Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements and ESEF

Our appointment

We were appointed as auditors of Telefonica Europe B.V. This followed the passing of a resolution by the shareholders at the annual general meeting held on 28 February 2017. Our appointment has been renewed annually by shareholders and now represents a total period of uninterrupted engagement of five years.

European Single Electronic Format (ESEF)

Telefonica Europe B.V. has prepared the annual report, including the financial statements, in ESEF. The requirements for this format are set out in the Commission Delegated Regulation (EU) 2019/815 with regard to regulatory technical standards on the specification of a single electronic reporting format (these requirements are hereinafter referred to as: the RTS on ESEF).

In our opinion, the annual report prepared in XHTML format, including the financial statements of Telefonica Europe B.V., complies, in all material, respects with the RTS on ESEF.

The managing directors are responsible for preparing the annual report, including the financial statements, in accordance with the RTS on ESEF. Our responsibility is to obtain reasonable assurance for our opinion on whether the annual report complies with the RTS on ESEF.

Our procedures, taking into account Alert 43 of the NBA (Royal Netherlands Institute of Chartered Accountants), included amongst others:

- Obtaining an understanding of the entity's financial reporting process, including the preparation of the annual report in XHTML format; and
- examining whether the annual report in XHTML format is in accordance with the RTS on ESEF.

No prohibited non-audit services

To the best of our knowledge and belief, we have not provided prohibited non-audit services as referred to in article 5(1) of the European Regulation on specific requirements regarding statutory audit of public-interest entities.

Services rendered

The services, in addition to the audit, that we have provided to the Company, for the period to which our statutory audit relates, are disclosed in note '*Independent auditor's fees*' to the financial statements.

Responsibilities for the financial statements and the audit

Responsibilities of the managing directors

The managing directors are responsible for:

- the preparation and fair presentation of the financial statements in accordance with Part 9 of Book 2 of the Dutch Civil Code; and for
- such internal control as the managing directors determine is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, the managing directors are responsible for assessing the Company's ability to continue as a going-concern. Based on the financial reporting framework mentioned, the managing directors should prepare the financial statements using the going-concern basis of accounting unless the managing directors either intend to liquidate the Company or to cease operations or have no realistic alternative but to do so. The managing directors should disclose in the financial statements any event and circumstances that may cast significant doubt on the Company's ability to continue as a going concern.

Our responsibilities for the audit of the financial statements

Our responsibility is to plan and perform an audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence to provide a basis for our opinion. Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error and to issue an auditor's report that includes our opinion. Reasonable assurance is a high but not absolute level of assurance, which makes it possible that we may not detect all material misstatements. Misstatements may arise due to fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

A more detailed description of our responsibilities is set out in the appendix to our report.

Rotterdam, 23 February 2022
PricewaterhouseCoopers Accountants N.V.

Originally signed by M.P.A. Corver RA

Appendix to our auditor’s report on the financial statements 2021 of Telefonica Europe B.V.

In addition to what is included in our auditor’s report, we have further set out in this appendix our responsibilities for the audit of the financial statements and explained what an audit involves.

The auditor’s responsibilities for the audit of the financial statements

We have exercised professional judgement and have maintained professional scepticism throughout the audit in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit consisted, among other things of the following:

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

We communicate with the managing directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. In this respect, we also issue an additional report to the audit committee in accordance with article 11 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor’s report.

We provide the managing directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related actions taken to eliminate threats or safeguards applied.

From the matters communicated with the managing directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.