



**Telefónica Europe B.V.**

*(incorporated with limited liability under  
the laws of the Netherlands)*

**EUR 1,000,000,000 Undated 8.25 Year Non-Call  
Deeply Subordinated Guaranteed Fixed Rate Reset Securities**

**unconditionally and irrevocably guaranteed on a subordinated basis by  
Telefónica, S.A.**

*(incorporated with limited liability under  
the laws of the Kingdom of Spain)*

The EUR 1,000,000,000 Undated 8.25 Year Non-Call Deeply Subordinated Guaranteed Fixed Rate Reset Securities (the "**Securities**") are issued by Telefónica Europe B.V. (the "**Issuer**") and unconditionally and irrevocably guaranteed on a subordinated basis by Telefónica, S.A. (the "**Guarantee**", and the "**Guarantor**" or "**Telefónica**", respectively).

As described in the Terms and Conditions of the Securities (the "**Conditions**"), the Securities will bear interest on their principal amount (i) at a fixed rate of 2.376 per cent. per annum from (and including) the Issue Date to (but excluding) the First Reset Date (as defined in the Conditions); and (ii) from (and including) the First Reset Date, at the applicable 8 Year Swap Rate in respect of the Reset Period, plus: (A) in respect of the period commencing on the First Reset Date to (but excluding) 12 February 2031, 2.616 per cent. per annum; (B) from (and including) 12 February 2031 to (but excluding) 12 May 2049, 2.866 per cent. per annum; and (C) from (and including) 12 May 2049, 3.616 per cent. per annum, all as determined by the Agent Bank, payable annually (except for a long first Interest Period) in arrear on 12 May in each year (each, an Interest Payment Date as defined in the Conditions), commencing on 12 May 2022.

The Issuer may, at its sole discretion, elect to defer (in whole or in part) any payment of interest on the Securities, as more particularly described in the "*Terms and Conditions of the Securities - Optional Interest Deferral*". Any amounts so deferred, together with further interest accrued thereon (at the Prevailing Interest Rate applicable from time to time), shall constitute Arrears of Interest (as defined in the Conditions). The Issuer may pay outstanding Arrears of Interest, in whole or in part, at any time in accordance with the Conditions. Notwithstanding the foregoing, the Issuer shall pay any outstanding Arrears of Interest in whole, but not in part, on the first occurring Mandatory Settlement Date following the Interest Payment Date on which any outstanding Deferred Interest Payment was first deferred, all as more particularly described in "*Terms and Conditions of the Securities - Optional Interest Deferral - Mandatory Settlement of Arrears of Interest*".

The Securities will be undated securities in respect of which there is no specific maturity date and shall be redeemable (at the option of the Issuer) in whole, but not in part, (i) on any date during the Relevant Period (as defined in the Conditions), at their principal amount or (ii) upon any Interest Payment Date (as defined in the Conditions) thereafter, at their principal amount or (iii) at any other time, at their Make-Whole Redemption Amount, in each case, together with any accrued and unpaid interest up to (but excluding) the Redemption Date (as defined in the Conditions) and any outstanding Arrears of Interest (including any Additional Amounts thereon). In addition, upon the occurrence of an Accounting Event, a Capital Event, a Tax Event, a Withholding Tax Event or a Substantial Purchase Event (each such term as defined in the Conditions), the Securities will be redeemable (at the option of the Issuer) in whole, but not in part, at the amount set out, and as more particularly described, in "*Terms and Conditions of the Securities - Redemption and Purchase*".

The Securities will constitute direct, unsecured and subordinated obligations of the Issuer and will at all times rank *pari passu* and without any preference among themselves, all as more particularly described in "*Terms and Conditions of the Securities - Status and Subordination of the Securities and Coupons*". The payment obligations of the Guarantor under the Guarantee will constitute direct, unsecured and subordinated obligations of the Guarantor and will at all times rank *pari passu* and without any preference among themselves. In the event of the Guarantor being declared in insolvency under Spanish Insolvency Law (as defined below), the rights and claims of Holders (as defined in the Conditions) against the Guarantor in respect of or arising under the Guarantee will rank, as against the other obligations of the Guarantor, in the manner more particularly described in "*Terms and Conditions of the Securities - Guarantee, Status and Subordination of the Guarantee*".

Payments in respect of the Securities will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature of the Netherlands or the Kingdom of Spain, unless such withholding or deduction is required by law. In the event that any such withholding or deduction is made, additional amounts will be payable by the Issuer or, as the case may be, the Guarantor, subject to certain customary exceptions as are more fully described in "*Terms and Conditions of the Securities - Taxation*".

This document comprises a prospectus ("**Prospectus**") for the purposes of Article 6 of Regulation (EU) 2017/1129 (as amended, the "**EU Prospectus Regulation**"). This Prospectus has been approved by the Central Bank of Ireland (the "**Central Bank**") as competent authority for the purposes of the EU Prospectus Regulation. The Central Bank only approves this Prospectus as meeting the standards of completeness, comprehensibility and consistency imposed under Irish and EU law pursuant to the EU Prospectus Regulation. Such approval by the Central Bank should not be considered as an endorsement of the Issuer or the Guarantor that are the subject of this Prospectus nor as an endorsement of the quality of the Securities. Investors should make their own assessment as to the suitability of investing in such Securities. Application has been made for the Securities to be admitted to listing on the official list (the "**Official List**") and to trading on the regulated market of The Irish Stock Exchange plc, trading as Euronext Dublin ("**Euronext Dublin**"). The regulated market of Euronext Dublin is a regulated market for the purposes of Directive 2014/65/EU on markets in financial instruments (as amended, "**EU MiFID II**"). The period of validity of this Prospectus is up to (and including) the admission to trading of the Securities. For the avoidance of doubt, the Issuer and the Guarantor shall have no obligation to supplement this Prospectus after the admission to trading of the Securities.

The Securities have not been, and will not be, registered under the United States Securities Act of 1933 (as amended, the "**Securities Act**") and are subject to United States tax law requirements. The Securities are being offered outside the United States by the Joint Bookrunners (as defined in "*Subscription and Sale*") in accordance with Regulation S under the Securities Act ("**Regulation S**"), and may not be offered, sold or delivered within the United States or to, or for the account or benefit of, US persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

The Securities will be in bearer form and in the denomination of EUR 100,000. The Securities will initially be represented by a temporary global security (the "**Temporary Global Security**"), without interest coupons or talons, which will be deposited with a common depository on behalf of Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream, Luxembourg**") on or about the Issue Date. Interests in the Temporary Global Security will be exchangeable for interests in a permanent global security (the "**Permanent Global Security**" and together with the Temporary Global Security, the "**Global Securities**") in the circumstances set out in the Temporary Global Security. The Permanent Global Security will be exchangeable for definitive Securities (the "**Definitive Securities**") in the circumstances set out in the Permanent Global Security. See "*Summary of Provisions relating to the Securities while in Global Form*".

The Securities are expected to be rated BB by S&P Global Ratings Europe Limited ("**S&P**"), Ba2 by Moody's Investors Service España S.A. ("**Moody's**") and BB+ by Fitch Ratings Ireland Limited ("**Fitch**").

**A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.**

S&P, Moody's and Fitch are established in the European Union and registered under Regulation (EC) No 1060/2009 (as amended, the "**EU CRA Regulation**"). The ratings S&P, Moody's and Fitch have given to the Securities have been endorsed by S&P Global Ratings UK Limited, Moody's Investors Service Ltd and Fitch Ratings Ltd (respectively) which are established in the United Kingdom and registered under Regulation (EU) No 1060/2009 as it forms part of domestic law of the United Kingdom by virtue of the European Union (Withdrawal) Act 2018 ("**EUWA**") (the "**UK CRA Regulation**").

The determination of the Subsequent Fixed Interest Rate in respect of the Securities is dependent upon the relevant 6-month Euro Interbank Offered Rate ("**EURIBOR**") administered by the European Money Markets Institute and the 8 Year Swap Rate appearing on the Reuters Screen Page "ICESWAP2" provided by the ICE Benchmark Administration Limited. As at the date of this Prospectus, European Money Markets Institute is included in the register of administrators and benchmarks established and maintained by the European Securities and Markets Authority ("**ESMA**") pursuant to Article 36 of Regulation (EU) No. 2016/1011 (the "**EU Benchmarks Regulation**"). ICE Benchmark Administration Limited is not included in the register of administrators and benchmarks established and maintained by ESMA. However, the EU Benchmarks Regulation provides that third country benchmarks can still be used by supervised entities until 31 December 2021 in the European Union if the benchmark is already used in the European Union as a reference for financial instruments, financial contracts, or for measuring the performance of an investment fund before that date.

**Prospective investors should have regard to the factors described under the section headed "Risk Factors" in this Prospectus.**

*Joint Bookrunners*

**BBVA**  
**CAIXABANK**  
**MIZUHO SECURITIES**

**BNP PARIBAS**  
**CRÉDIT AGRICOLE CIB**  
**MUFG**  
**UNICREDIT BANK**

**BoFA SECURITIES**  
**HSBC**  
**NATWEST MARKETS**

4 February 2021

## IMPORTANT NOTICES

Each of the Issuer and the Guarantor accepts responsibility for the information contained in this Prospectus and declares that, to the best of its knowledge, the information contained in this Prospectus is in accordance with the facts and makes no omission likely to affect its import. Information appearing in this Prospectus is only accurate as of the date on the front cover of this Prospectus. The business, financial condition, results of operations and prospects of the Issuer and the Guarantor may have changed since such date.

Certain information contained in this Prospectus was derived from third party sources. Neither the Issuer nor the Guarantor accepts any responsibility for the accuracy of such information, nor have the Issuer or the Guarantor independently verified any such information. The Issuer and the Guarantor confirm that this information has been accurately reproduced, and so far as the Issuer and the Guarantor are aware and are able to ascertain from information available from such sources, no facts have been omitted which would render the reproduced information inaccurate or misleading.

The language of this Prospectus is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law.

Each of the Issuer and the Guarantor has confirmed to the Joint Bookrunners named under "*Subscription and Sale*" below (the "**Joint Bookrunners**") that this Prospectus contains all information regarding the Issuer, the Guarantor and the Securities which is (in the context of the issue of the Securities) material; such information is true and accurate in all material respects and is not misleading in any material respect; any opinions, predictions or intentions expressed in this Prospectus on the part of the Issuer or (as the case may be) the Guarantor are honestly held or made and are not misleading in any material respect; this Prospectus does not omit to state any material fact necessary to make such information, opinions, predictions or intentions (in such context) not misleading in any material respect; and all proper enquiries have been made to ascertain and to verify the foregoing.

Neither the Issuer nor the Guarantor has authorised the making or provision of any representation or information regarding the Issuer, the Guarantor or the Securities other than as contained in this Prospectus or as approved for such purpose by the Issuer and the Guarantor. Any such representation or information should not be relied upon as having been authorised by the Issuer, the Guarantor or the Joint Bookrunners.

Neither the Joint Bookrunners nor any of their respective affiliates have authorised the whole or any part of this Prospectus and none of them makes any representation or warranty or accepts any responsibility as to the accuracy or completeness of the information contained in this Prospectus. Neither the delivery of this Prospectus nor the offering, sale or delivery of any Security shall in any circumstances create any implication that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of the Issuer or the Guarantor since the date of this Prospectus.

This Prospectus does not constitute an offer of, or an invitation to subscribe for or purchase, any Securities.

The distribution of this Prospectus and the offering, sale and delivery of Securities in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Issuer, the Guarantor and the Joint Bookrunners to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of Securities and on distribution of this Prospectus and other offering material relating to the Securities, see "*Subscription and Sale*".

In particular, the Securities have not been and will not be registered under the Securities Act and are subject to United States tax law requirements. Subject to certain exceptions, Securities may not be offered, sold or delivered within the United States or to US persons.

In this Prospectus, unless otherwise specified, references to a "**Member State**" are references to a Member State of the European Economic Area, references to "**U.S.\$**", and "**U.S. dollar**" are to United States dollars, the lawful currency of the United States of America, references to "**pound sterling**" or "**£**" are to the currency of the United Kingdom and references to "**EUR**" or "**euro**" are to the currency introduced at the start of the third stage of European economic and monetary union, and as defined in Article 2 of Council Regulation (EC) No 974/98 of 3 May 1998 on the introduction of the euro, as amended.

The Securities are securities which, because of their nature, are normally bought and traded by a limited number of investors who are particularly knowledgeable in investment matters, and may not be a suitable investment for all investors. Each potential investor in the Securities must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- (a) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Securities and the impact the Securities will have on its overall investment portfolio;
- (b) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Securities, including where the currency for principal or interest payments is different from the potential investor's currency;
- (c) understand thoroughly the terms of the Securities and be familiar with the behaviour of any relevant indices and financial markets;
- (d) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks; and
- (e) there can be no assurance that a trading market will develop for the Securities or, if one does develop, that it will be of sufficient liquidity.

Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone investments. They purchase complex financial instruments as a way to enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in the Securities unless it has the knowledge and expertise (either alone or with a financial adviser) to evaluate how the Securities will perform under changing conditions, the resulting effects on the value of the Securities, and the impact this investment will have on the potential investor's overall investment portfolio.

Prior to making an investment decision, potential investors should consider carefully, in light of their own financial circumstances and investment objectives, all the information contained in this Prospectus or incorporated by reference herein. Potential investors should not construe anything in this Prospectus as legal, tax, business or financial advice. Each investor should consult with his or her own advisers as to the legal, tax, business, financial and related aspects of a purchase of the Securities.

#### **Use of Proceeds / Eligible Projects**

As described in "*Use and Estimated Net Amount of Proceeds*" below, the Issuer's intention is to apply the net proceeds of the issue of the Securities specifically for investment in Eligible Projects (as defined in "*Use and Estimated Net Amount of Proceeds*" below). Prospective investors should have regard to the information in "*Use and Estimated Net Amount of Proceeds*" below regarding such use of proceeds and must determine for themselves the relevance of such information for the purpose of any investment in the Securities together with any other investigation such investor deems necessary.

In particular no assurance is given by the Issuer, the Guarantor or the Joint Bookrunners that the use of such proceeds for any Eligible Projects will satisfy, whether in whole or in part, any present or future investor expectations or requirements as regards any investment criteria or guidelines with which such investor or its investments are required to comply, whether by any present or future applicable law or regulations or by its own by-laws or other governing rules or investment portfolio mandates (in particular with regard to any direct or indirect environmental, sustainability or social impact of any projects or uses, the subject of or related to, the relevant Eligible Projects).

No assurance can be given that Eligible Projects will meet investor expectations or requirements regarding such "green", "sustainable", "social" or similar labels (including Regulation (EU) 2020/852 on the establishment of a framework to facilitate sustainable investment (the so called EU Taxonomy), the operative provisions of which are due to enter into force over the course of 2022 and 2023). Each prospective investor should have regard to the factors described in the SDG Framework and the relevant information contained in this Prospectus and seek advice from their independent financial adviser or other professional adviser regarding its purchase of the Securities before deciding to invest.

The Joint Bookrunners have not undertaken, nor are responsible for, any assessment of the eligibility criteria for selecting investments in Eligible Projects, any verification of whether the Eligible Projects meet such eligibility criteria, or the monitoring of the use of proceeds. Investors should refer to the Issuer's website, the SDG Framework and the Second-Party Opinion (each as defined below) for information. Sustainalytics B.V., the provider of the Second-Party Opinion has been appointed by the Issuer. No assurance or representation is given by the Issuer, the Guarantor, any of the Joint Bookrunners or any other person as to the suitability or reliability for any purpose whatsoever of the Second-Party Opinion or any other opinion or certification of any third party (whether or not solicited by the Issuer or any affiliate). For the avoidance of doubt, any such opinion or certification is not incorporated in this Prospectus. Any such opinion or certification is not a recommendation by the Issuer, the Guarantor, the Joint Bookrunners or any other person to buy, sell or hold any such Securities and is current only as of the date it was issued. As at the date of this Prospectus, the providers of such opinions and certifications are not subject to any specific regulatory or other regime or oversight. Prospective investors must determine for themselves the relevance of any such opinion or certification and/or the information contained therein.

In the event that any such Securities are listed or admitted to trading on a dedicated "green", "sustainable", "social" or other equivalently-labelled segment of a stock exchange or securities market, no representation or assurance is given by the Issuer, the Guarantor, the Joint Bookrunners or any other person that such listing or admission satisfies any present or future investment criteria or guidelines with which such investor is required, or intends, to comply. Furthermore, it should be noted that the criteria for any such listings or admission to trading may vary from one stock exchange or securities market to another. No representation or assurance is given or made by the Issuer, the Guarantor, the Joint Bookrunners or any other person that any such listing or admission to trading will be obtained in respect of any such Securities or that any such listing or admission to trading will be maintained during the life of the Securities.

While it is the intention of the Issuer to apply the proceeds of the Securities for Eligible Projects and to report on the use of proceeds or Eligible Projects as described in *"Use and Estimated Net Amount of Proceeds"* and the SDG Framework, there is no contractual obligation to do so. There can be no assurance that any such Eligible Projects will be available or capable of being implemented in the manner anticipated and, accordingly, that the Issuer will be able to use the proceeds for such Eligible Projects as intended. In addition, there can be no assurance that Eligible Projects will be completed as expected or achieve the impacts or outcomes (environmental, social or otherwise) originally expected or anticipated. None of a failure by the Issuer to allocate the proceeds of the Securities or to report on the use of proceeds or Eligible Projects as anticipated or a failure of a third party to issue (or to withdraw) an opinion or certification in connection with the Securities or the failure of the Securities to meet investors' expectations requirements regarding any "green", "sustainable", "social" or similar labels will constitute an event of default or breach of contract with respect to any of the Securities.

A failure of the Securities to meet investor expectations or requirements as to their "green", "sustainable", "social" or equivalent characteristics including the failure to apply proceeds for Eligible Projects, the failure to provide, or the withdrawal of, a third party opinion or certification, the Securities ceasing to be listed or admitted to trading on any dedicated stock exchange or securities market as aforesaid or the failure by the Issuer to report on the use of proceeds or Eligible Projects as anticipated, may have a material adverse effect on the value of such Securities and/or may have consequences for certain investors with portfolio mandates to invest in sustainable assets (which consequences may include the need to sell the Securities as a result of the Securities not falling within the investor's investment criteria or mandate).

See *"Risk Factors – Eligible Projects may not be implemented and investor expectations as to Eligible Projects may not be met"*.

**EU MiFID II product governance / Professional investors and ECPs only target market – Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the Securities has led to the conclusion that: (i) the target market for the Securities is eligible counterparties and professional clients only, each as defined in EU MiFID II; and (ii) all channels for distribution of the Securities to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Securities (a "distributor") should take into consideration the manufacturers' target market assessment; however, a distributor subject to EU MiFID II is responsible for undertaking its own target market assessment in respect of the Securities (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels, subject to the distributor's suitability and appropriateness obligations under EU MiFID II, as applicable.**

**PROHIBITION OF SALES TO EEA RETAIL INVESTORS** – The Securities are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (the "EEA"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of EU MiFID II; or (ii) a customer within the meaning of Directive (EU) 2016/97, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of EU MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the "EU PRIIPs Regulation") for offering or selling the Securities or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Securities or otherwise making them available to any retail investor in the EEA may be unlawful under the EU PRIIPs Regulation.

**PROHIBITION OF SALES TO UK RETAIL INVESTORS** – The Securities are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the United Kingdom ("UK"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the EUWA; or (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 (the "FSMA") and any rules or regulations made under the FSMA which were relied on immediately before exit day to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA. Consequently no key information document required by Regulation (EU) No 1286/2014 as it forms part of domestic law by virtue of the EUWA (the "UK PRIIPs Regulation") for offering or selling the Securities or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Securities or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

In connection with the issue of the Securities, BNP Paribas (the "Stabilisation Manager") (or persons acting on behalf of the Stabilisation Manager) may over-allot Securities or effect transactions with a view to supporting the market price of the Securities at a level higher than that which might otherwise prevail. However, stabilisation may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Securities is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the issue date of the Securities and 60 days after the date of the allotment of the Securities. Any stabilisation action or over-allotment must be conducted by the Stabilisation Manager (or person(s) acting on behalf of the Stabilisation Manager) in accordance with all applicable laws and rules.

#### **Certain terms and conventions**

As used herein, "**Telefónica**", the "**Telefónica Group**" or the "**Group**" mean Telefónica, S.A. and its consolidated subsidiaries, unless the context requires otherwise.

Below are definitions of certain technical terms used in this Prospectus:

"**5G**", is a technology under development, succeeding the mobile technology called 4G. The aim is to make the navigation experience and Internet downloads more agile.

"**Access**" refers to a connection to any of the telecommunications services offered by Telefónica. A single fixed customer may contract for multiple services, and Telefónica believes that it is more useful to count the number of accesses a customer has contracted for, than to merely count the number of its customers. For example, a customer that has fixed line telephony service and broadband service is counted as two accesses rather than as one customer.

"**ARPU**" is total service revenues divided by average number of accesses divided by the number of months.

"**Artificial Intelligence**" is intelligent tasks carried out by machines.

"**AWS**" or Amazon Web Services refers to a service platform offering data base storage, content delivery and other functionalities that can help your business to grow. It is also more secure than a physical server.

"**B2B**" or business to business is the business segment.

"**B2C**" or business to customer is the residential segment.

"**Bundle**" refers to a combination of products that combine fixed services (wirelines, broadband and television) and mobile services.

"**CATV**" (or community antenna television) is a system of delivering television programming to consumers via radio frequency (RF) signals transmitted through coaxial cables, or in more recent systems, light pulses through fiber-optic cables.

"**Churn**" is the percentage of disconnections over the average customer base in a given period.

"**Cloud computing**" is a service, whereby shared resources, software and information are provided to computers and other devices as a utility over a network (typically, the Internet).

"**Cloud Phone**" is an application that allows to transfer files between two smartphones in a simple way.

"**Commercial activity**" includes the addition of new lines, replacement of handsets, migrations and disconnections.

"**Connected car**" is a vehicle equipped with Internet access and generally by a local wireless network or satellite.

"**Convergent**" refers to the offer of more than a single service for a single price.

"**Data ARPU**" is data revenues divided by average number of accesses divided by the number of months.

"**Data revenues**" include revenues from mobile data services such as mobile connectivity and mobile Internet, premium messaging, downloading ringtones and logos, mobile mail and SMS/MMS.

"**Data traffic**" includes all traffic from Internet access, messaging (SMS, MMS) and connectivity services over Telefónica's network.

"**DTH (Direct-To-Home)**" is a type of technology for distribution of TV service.

"**Fixed telephony accesses**" includes public switched telephone network (PSTN) lines (including public use telephony), integrated services digital network (ISDN) lines and circuits, "fixed wireless" and Voice over IP accesses.

"**FTRs**" or Fixed termination rates is an established fixed network tariff that applies when a customer makes a call to someone in a network operated by another operator.

"**FTTH**" or Fiber to Home is the installation and use of optical fiber from a central point directly to individual buildings such as apartment buildings and businesses to provide high-speed Internet access.

"**FTTx**" is a generic term for any broadband network architecture that uses optical fiber to replace all or part of the metal local loop.

"**FWA**" is a fixed broadband service using "fixed wireless" technology (fixed telephony service using mobile technology).

"**GHz**" means gigahertz.

"**ICT**" or information communication technology is the acquisition, processing, storage and dissemination of vocal, pictorial, textual and numerical information by a microelectronics-based combination of computing and telecommunications.

"**Gross adds**" is the number of new accesses in a certain period.

"**HDTV**" or high definition TV has at least twice the resolution of standard definition television (SDTV), allowing it to show much more detail than an analogue television or digital versatile disc (DVD).

"**Interconnection revenues**" means revenues received from other operators which use Telefónica's networks to connect to or finish their calls and SMS or to connect to their customers.

**"Internet and data accesses"**, "Fixed broadband accesses" or "FBB accesses" include broadband accesses (including retail asymmetrical digital subscriber line (ADSL), very high bit-rate digital subscriber line (VDSL), satellite, fiber optic and circuits over 2 Mbps), narrowband accesses (Internet service through the PSTN lines) and the remaining non-broadband final customer circuits. Internet and data accesses also include "Naked ADSL", which allows customers to subscribe for a broadband connection without a monthly fixed line fee.

**"IPTV"** or Internet Protocol Television refers to distribution systems for television subscription signals or video using broadband connections over the IP protocol.

**"ISDN"** or Integrated Services Digital Network is a format commonly used for transmitting information through a digital high speed connection.

**"ISP"** is an Internet service provider.

**"Local loop"** means the physical circuit connecting the network termination point at the subscriber's premises to the main distribution frame or equivalent facility in the fixed public telephone network.

**"LTE"** or Long-Term Evolution is a 4G mobile access technology.

**"M2M"**, or machine to machine, refers to technologies that allow both mobile and wired systems to communicate with other devices with the same capability.

**"Market share"** is the percentage ratio of the number of final accesses over the existing total market in an operating area.

**"Mb"** means megabits.

**"MHz"** means megahertz.

**"MMS"** or Multimedia Messaging Service is a standard messaging system allowing mobile phones to send and receive multimedia contents, including sound, video and photos..

**"Mobile accesses"** include accesses to the mobile network for voice and/or data services (including connectivity). Mobile accesses are categorized into contract and pre-pay accesses.

**"Mobile broadband"** includes Mobile Internet (Internet access from devices also used to make voice calls such as smartphones), and Mobile Connectivity (Internet access from devices that complement fixed broadband, such as PC Cards/dongles, which enable large amounts of data to be downloaded on the move).

**"MTR"** or mobile termination rate is an established mobile network tariff that applies when a customer makes a call to someone in a network operated by another operator.

**"MVNO"** or mobile virtual network operator is a mobile operator that provides mobile services through another mobile operator. An MVNO pays a determined tariff to such mobile network operator for using the infrastructure to facilitate coverage to its customers.

**"Net adds/Net loss"** is the difference between the customer base in a certain period compared to a different period.

**"OTT services"** or over the top services means services provided through the Internet (such as television and video streaming).

**"Pay TV"** includes cable TV, direct to home satellite TV (DTH) and IPTV.

**"PSTN"** is Public Switched Telephone Network.

**"Revenues"** means net sales and revenues from rendering of services.

**"Service revenues"** are total revenues minus mobile handset sales. Service revenues are mainly related to telecommunication services, especially voice- and data revenues (SMS and data traffic download and upload revenues) consumed by Telefónica's customers.



"**SIM**" means subscriber identity module, a removable intelligent card used in mobile handsets, USB modems, etc. to identify the user in the network.

"**Smart Wifi**" is an application in which you can control your Wifi network and the devices connected to it from your mobile.

"**SMS**" means short messaging service.

"**STB (Set-top box)**" is a device that converts a digital television signal to analogue for viewing on a conventional set, or that enables cable or satellite television to be viewed.

"**Tbps**" means terabytes per second.

"**Tracker**" is a special server which contains the information needed for users to connect with other users.

"**UBB**" or ultra-broad band is the fiber-to-the-premise broadband which is capable of giving a minimum download speed of 100 Mbps and a minimum upload speed of 50 Mbps.

"**VAS**" or "**Value added services**" are value added services such as email, Internet banking, teleconferences.

"**Voice traffic**" means voice minutes used by Telefónica's customers over a given period, both outbound and inbound.

"**VoIP**" means voice over Internet protocol.

"**VPN**" or Virtual Private Network extends a private network across a public network and enables users to send and receive data across shared or public network.

"**Wholesale accesses**" means accesses Telefónica provides to other companies, who then sell services over such accesses to their residential and corporate clients.

In this Prospectus certain comparisons are made in local currency or on a "constant Euro basis" or "excluding foreign exchange rate effects" in order to present an analysis of the development of the Group's results of operations from year-to-year without the effects of currency fluctuations. To make comparisons on a local currency basis, financial items in the relevant local currency are compared for the periods indicated as recorded in the relevant local currency for such periods. To make comparisons on a "constant Euro basis" or "excluding foreign exchange rate effects," the relevant financial item is converted into Euro using the prior year's average Euro to relevant local currency exchange rate. In addition, certain financial information is presented excluding the effects of Venezuela or Argentina as these are considered hyperinflationary economies.

### Changes in exchange rates

The change in the exchange rates against the euro of the main currencies of the countries in which the Group operates are shown below:

	<b>Closing exchange rate variation (30 September 2020 vs 31 December 2019)</b>	<b>Average exchange rate variation for the first nine months (2020 vs 2019)</b>
Brazilian real	31.5%	22.5%
Pound sterling	6.7%	0.1%
Peruvian nuevo sol	11.6%	3.6%
Argentine peso	24.6%	29.6%
Chilean peso	8.9%	14.5%
Colombian peso	18.7%	12.3%
Mexican peso	18.3%	11.0%

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## RISK FACTORS

*Any investment in the Securities is subject to a number of risks. Prior to investing in the Securities, prospective investors should carefully consider risk factors associated with any investment in the Securities, the business of the Issuer and the Guarantor and the industries in which each of them operates, together with all other information contained in this Prospectus, including, in particular the risk factors described below. Words and expressions defined in the "Terms and Conditions of the Securities" below or elsewhere in this Prospectus, have the same meanings in this section.*

*The Issuer and the Guarantor have identified in this Prospectus a number of factors which could materially adversely affect their businesses and ability to make payments due under the Securities and believes that the factors described below represent the principal risks inherent in investing in the Securities.*

*The following is not an exhaustive list or explanation of all risks which investors may face when making an investment in the Securities and should be used as guidance only. Additional risks and uncertainties relating to the Issuer and the Guarantor that are not currently known to the Issuer and the Guarantor or that either currently deems immaterial, may individually or cumulatively also have a material adverse effect on the business, prospects, results of operations and/or financial position of the Issuer and the Guarantor, and if any such risk should occur, the price of the Securities may decline and investors could lose all or part of their investment. Investors should consider carefully whether an investment in the Securities is suitable for them in light of the information in this Prospectus and their personal circumstances.*

### **Risks related to the business activities of the Telefónica Group.**

The risk factors set out below are applicable to the Issuer, as a member of the Telefónica Group, and to the Guarantor.

The Telefónica Group's business is affected by a series of risk factors that affect exclusively the Group, as well as a series of external factors that are common to businesses of the same sector. The main risks and uncertainties faced by Telefónica, which could affect its business, financial condition, results of operations and/or cash flows, are set out below and must be considered jointly with the information set out in the 2019 Consolidated Financial Statements (as defined below).

#### ***Telefónica's competitive position in some markets could be affected by the evolution of competition and market consolidation.***

The Telefónica Group operates in highly competitive markets and it is possible that the Group may not be able to market its products and services effectively or respond successfully to the different commercial actions carried out by its competitors, causing it to not meet its growth and customer retention plans, thereby jeopardising its future revenues and profitability.

In addition, market concentration, including as a result of mergers, acquisitions, alliances and collaboration agreements with third parties (e.g. the possible integration of companies in the content/entertainment sector, such as the mergers of FOX and Disney, and AT&T and Time Warner), could affect the competitive position of Telefónica, as well as the efficiency of its operations.

The reinforcement of competitors, the entry of new competitors, or the merger of operators in certain markets, may affect Telefónica's competitive position, negatively affecting the evolution of revenues and the market share. In addition, changes in competitive dynamics in the different markets in which the Telefónica Group operates, such as in Chile and Peru, with aggressive customer acquisition offers, including unlimited data and discounts on certain services, among others, can affect the competitive position and the efficiency of Telefónica's operations.

If Telefónica is not able to successfully face the challenges posed by its competitors, the Group's business, financial condition, results of operations and/or cash flows could be adversely affected.

#### ***The Telefónica Group's strategy focused on driving new digital businesses and providing data-based services increases exposure to potential risks and uncertainties arising from data privacy regulation.***

In its commercial catalogue, the Telefónica Group includes products and/or services based on the exploitation, standardisation and analysis of data, as well as on the deployment of advanced networks and the promotion of new technologies related to Big Data, Cloud computing, Cybersecurity, Artificial Intelligence and the Internet of Things.

The large amount of information and data that is processed by the Group, (approximately 60,406 petabytes of managed traffic, 345 million total accesses associated with telecommunications services, digital products and services and Pay TV and 113,819 employees as of 31 December 2019; 341 million accesses and 112,567 employees as of 30 September 2020), presupposes an enormous responsibility with regard to compliance with privacy regulations, because the Group needs to not only promote transparency, digital trust and the culture of privacy in general, but also ensure an adequate respect for proactive compliance with existing regulations that apply at all times and in all jurisdiction to such data processing activities, and it is also essential that there is an adequate balance between the requirements inherent in such regulations on the one hand and the promotion of innovation on the other.

In this regard, it is important to highlight the fact that within the European Union and the United Kingdom, Regulation (EU) 2016/679 of the European Parliament and Council of 27 April 2016, the General Data Protection Regulation ("**GDPR**") (including, as retained under United Kingdom law) is now a common standard for all countries where the Group operates. In this context, besides that, the Member States are still debating and defining the text of the Proposal for a future European Regulation on the respect for privacy and protection of personal data in electronic communications ("**e-Privacy Regulation**") and which would repeal Directive 2002/58/EC, a proposal which, if approved, could possibly establish additional and more restrictive rules than those established in the GDPR with the consequent impact that this could have.

In this context, it is relevant to highlight the risk arising from the Judgment of the Court of Justice of the EU of 16 July 2020, annulling, without granting a grace or transition period, the European Commission Decision 2016/1250 declaring the appropriate level of protection of the Privacy Shield scheme for international data transfers made from the EEA to US companies affiliated to that Privacy Shield.

As a result, such data transfers may not be in compliance with GDPR and therefore they need to be reviewed and, where appropriate, regularised. In this way, the Group, like the other European companies that carry out this type of transfer, has been forced to address this situation of legal uncertainty by establishing proactive solutions and measures aimed at analysing the lawfulness of such transfers, such as reviewing agreements reached with data importers in the US and establishing alternative secure data transfer mechanisms to the US like the signing of the standard contractual clauses approved by the European Commission and, in addition, the negotiation of appropriate supplementary measures for each case.

At a local level, it should be noted: (i) in Spain, the government has published the draft of the new Digital Rights Charter that will implement the provisions of Title X of the Organic Law 3/2018 of December 5 on the Protection of Personal Data and the Guarantee of Digital Rights opening a period of public consultation already answered by Telefónica; (ii) in the United Kingdom, its exit from the European Union, with effect from 1 January 2021, means that the Group must be very vigilant about how its O2 UK operation and business in the United Kingdom may be affected in terms of applicable privacy regulations and, specifically, the flow of personal data to and from the United Kingdom. The Trade and Cooperation Agreement between the United Kingdom and the European Union reached on 24 December 2020, still pending ratification by the authorities of the European Union, contains a Final Provision according to which, from 1 January 2021 and for a period of four months, extendable by two more months, the transmission of personal data from the EEA to the United Kingdom will not be considered as a transfer to a third country in accordance with the GDPR. This period will end if, during this period, the European Commission adopts an adequacy decision in relation to the United Kingdom. This Final Provision temporarily eliminates (for the abovementioned period) the risk that existed for the European companies that carry out transfers of personal data to the United Kingdom that they would be considered not to be in compliance with the GDPR since the exit of the United Kingdom from the European Union. However, European companies must remain vigilant, as there is a possibility that the European Commission will not adopt adequacy decisions in relation to the United Kingdom in time, which, as with the aforementioned transfers to the US, would require review and, where appropriate, regularisation of the transfers of personal data to the United Kingdom; and (iii) finally, in Latin America, and in particular Brazil, where the regulatory standard for the subject matter (Law No. 13,709) has recently come into force which imposes similar standards and obligations to the GDPR, including a sanctioning regime which will be in force from August 2021 with fines for non-compliances of up to an equivalent of approximately EUR 7.5 million or 2 per cent. of the Group's revenue in Brazil in the last financial year. Likewise, in 2019 and 2020, Uruguay

has made modifications to its data protection regulations in line with the GDPR. In addition, there are other regulatory projects on this matter in other Latin American countries where the Group operates, such as in Argentina, Ecuador and Chile, where regulators are seeking to impose similar standards to those enforced by the GDPR, which follow their legislative procedure. However, this has been slowed by the COVID-19 pandemic

Due to the complexity of its implementation, other risks of non-compliance or defective compliance derive from the need to develop products and services taking privacy into account from the design stage, as well as the importance of having robust internal procedures and rules that facilitate their adaptation to regulatory changes where necessary. These are issues that represent a growing challenge, especially with regard to maintaining adequate data security and preventing potential security breaches, which could result in the imposition of high penalties, in addition to other undesirable consequences of reputational impact and loss of trust of some customers and users.

Telefónica's reputation depends to a large extent on the digital trust it is able to generate between its customers and other stakeholders. In this regard, in addition to the media, social and political impact of this matter, it is important to note that, in the European Union, very serious breaches of the GDPR may entail the imposition of administrative fines of up to the larger amount between EUR 20 million or 4 per cent. of the overall total annual turnover of the previous financial year. In this regard, and by way of example, the maximum amount of the fine for a very serious breach of the GDPR by the Group could reach approximately EUR 1,937 million if the overall total annual turnover of the 2019 financial year were to be referred to. Furthermore, it should be noted that the proposal for the ePrivacy Regulation already mentioned also sets forth sanctions similar to those provided for in the GDPR.

Any of the foregoing could have an adverse effect on the business, financial condition, results of operations and/or cash flows of the Group.

***The Group requires government concessions and licences for the provision of a large part of its services and the use of spectrum, which are a scarce and costly resource.***

The telecommunications sector is subject to laws and sector-specific regulations. The fact that the Group's business is highly regulated affects its revenues, operating income before depreciation and amortisation ("OIBDA") and investments.

Many of the Group's activities (such as the provision of telephone services, Pay TV, the installation and operation of telecommunications networks, etc.) require licences, concessions or authorisations from governmental authorities, which typically require the Group to satisfy certain obligations, including minimum specified quality levels, service and coverage conditions. If the Telefónica Group breaches any such obligations it may suffer consequences such as fines or, in a worst-case scenario, measures that would affect the continuity of its business. Exceptionally, in certain jurisdictions, the terms of granted licences may be modified before the expiration date of such licences or, at the time of the renewal of a licence, new enforceable obligations could be imposed or the renewal of a licence could be refused.

Additionally, the Telefónica Group could be affected by the regulatory actions of antitrust authorities. These authorities could prohibit certain actions, such as new acquisitions or specific practices, create obligations or impose heavy fines. Any such measures implemented by the antitrust authorities could result in economic and/or reputational loss for the Group, in addition to a loss of market share and/or harm to the future growth of its businesses. For example, on 22 February 2019, the European Commission started an investigation of Telefónica Deutschland in respect of the Group's compliance with its commitments undertaken in the merger with E-Plus in 2014. Telefónica Deutschland has adjusted the conditions of 4G wholesale services and expects the investigation to be closed soon. Additionally, in Peru, on 19 July 2019 an investigation was launched against Telefónica before OSIPTEL (the Peruvian telecommunications regulator) in connection

with a possible breach of competition law in the distribution of the Movistar Total package. On 23 October 2020, the case was closed, as the investigation was declared unfounded.

Any of the foregoing could have an adverse effect on the business, financial condition, results of operations and/or cash flows of the Group.

***Access to new concessions/ licences of spectrum.***

The Group requires sufficient spectrum to offer its services. The Group's failure to obtain sufficient or appropriate spectrum capacity in the jurisdictions in which it operates, or its inability to assume the related costs, could have an adverse impact on its ability to maintain the quality of existing services and on its ability to launch and provide new services, which may materially adversely affect Telefónica's business, financial condition, results of operations and/or cash flows.

The intention of the Group is to maintain current spectrum capacity and, if possible, to expand it, specifically through the participation of the Group in spectrum auctions which are expected to take place in the next few years, which will likely require cash outflows to obtain additional spectrum or to comply with the coverage requirements associated with some of the related licences.

In Europe, the following spectrum auctions are expected: (i) in Spain, on 23 December 2020, the Ministry of Digital Transformation published the conditions of the auction of two national 10 MHz (time division duplex) concessions in the 3.4-3.6 GHz band, which will take place before 24 February 2021. The allocation of this spectrum is a preliminary step for the refarming of the entire 3.4-3.8 GHz band in the first quarter of 2021. As for the 700 MHz band, a consultation has been launched on the conditions of an auction for a total of 75 MHz; and (ii) in the United Kingdom, an auction for the 700 MHz and the 3.6-3.8 GHz bands is expected to take place in the first quarter of 2021.

In Latin America several auction processes are expected in the near term: (i) in Brazil, on 5 February 2020, *Agência Nacional de Telecomunicações* ("**ANATEL**") published the proposal for the 5G auction, to be incorporated into a public auction. It is expected that the auction of 20 MHz of the 700 MHz band, 90 MHz of the 2.3 GHz band, 400 MHz of the 3.5 GHz band and 3,200 MHz of the 26 GHz band will take place in 2021; (ii) in Chile, the joint spectrum auction of 20 MHz spectrum in the 700 MHz band, 30 MHz in the AWS band, 150 MHz in the 3.5 GHz band and 1,600 MHz in the 26 GHz band started in November 2020, despite the request for suspension by Telefónica, which was rejected. Notwithstanding the above, Telefónica Chile submitted a proposal for spectrum only for the 3.5 GHz band. As more bidders than spectrum was available and there was a technical draw, Subtel has called for a subsequent spectrum auction in February 2021. In particular, with respect to the 3.5 GHz band pursued by Telefónica, the auction is scheduled for 16 February 2021, unless postponed as a result of Telefonica's legal actions in connection with said auction; (iii) in Colombia, the "5G Plan", as well as the 2020-2024 Spectrum Public Policy documents and the 2020-2024 Spectrum Allocation Framework Plan, were published, in which it was announced that actions will be taken to carry out auctions of the remaining spectrum in the 700 MHz, 1,900 MHz and 2,500 MHz bands, without giving information on the dates of such auctions. Additionally, there is a plan to assign spectrum in the 3.5 GHz band, in the second quarter of 2021, however, recent announcements in the media by the Minister could lead to the auction being held in 2022. On the other hand, in these documents, the *Ministerio de Tecnologías de la Información y las Comunicaciones de Colombia* set the following main objectives: (a) adapt spectrum auction processes; (b) guarantee the availability of the resources and analyse the valuation model; and (c) review the model of spectrum caps; and (iv) in Peru, auctions were announced for the bands 1,750 - 1,780 MHz, 2,150 - 2,180 MHz and 2,300 - 2,330 MHz which may take place during 2021. Likewise, the Ministry of Transportation and Communications in Peru has started a public consultation regarding 5G and an auction model for the 3.5 GHz and 26 GHz bands. Currently, it is estimated that in 2022 there could be possible additional spectrum bids in Peru, Argentina and/or Uruguay.

***Existing licences: renewal processes and modification of conditions for operating services.***

The revocation or failure to renew the Group's existing licences, authorisations or concessions, or any challenges or amendments to their terms, could materially adversely affect Telefónica's business, financial condition, results of operations and/or cash flows.

In Germany, Telefónica's appeals against Decisions III and IV adopted by the German regulator on the conditions of use of frequencies and the rules of the 2 GHz and 3.4-3.7 GHz spectrum bands auction, that

ended on 12 June 2019, are pending. As a result of the 2,100 MHz band licence's termination and the aforementioned 2019 spectrum auction, regarding the 2,100 MHz band, from 1 January 2021 to 31 December 2025, Telefónica holds two 5 MHz bands (until 2040) and two 14.85 MHz bands (until 2025), a total of two 19.85 MHz bands, and from 1 January 2026 to 31 December 2040, it will hold two 10 MHz bands.

In Brazil, (i) Telefónica could lose its right to operate spectrum in the 450 MHz band, granted in certain cities, if Telefónica's appeal against the decision adopted by the regulator in June 2019 is not successful. This decision allowed the use of a satellite solution to meet existing commitments and increase connection speed, and ordered the termination of licences relating to such frequencies in cases where relevant operators had not used them by a given date and (ii) regarding the extension of the 850 MHz band authorisations, ANATEL agreed to extend the current authorisations for the use of radio frequencies in Bands A and B, proposing their approval, on a primary basis, until 29 November 2028, if the legal and regulatory requirements are met. However, Telefónica has appealed the regulator's decision that the amount due for the extension should be calculated based on net present value parameters to reflect the real economic value (market value) of the bands.

In Peru, the renewal by the Group of concessions for the provision of fixed-line services, valid until 2027, was denied by the Ministry of Transportation and Communications ("**MTC**") after a request submitted in December 2013. Despite the company has other fixed telephone concessions, Telefonica del Perú S.A.A. has started an arbitration process in order to challenge the decision. The renewal of the 1,900 MHz band in all of Peru (except for Lima and Callao), which expired in 2018, and of other telecommunication services were requested by the Group and a decision by the MTC, is still pending. Nevertheless, the concessions are valid while the procedures are in progress.

In Colombia, the period to request the renewal of the licence to use 15 MHz in the 1,900 MHz band will expire in April 2021. Unless it is renewed, the licence will expire on 18 October 2021. The *Ministerio de Tecnologías de la Información y las Comunicaciones* must establish the renewal conditions in accordance with the new legal regulation of law 1978/19; which implies market prices conditions, extends the licence periods to a maximum of 20 years and allows paying up to 60 per cent. of the price of the spectrum through obligations to do or take action.

In Chile, as a result of the Supreme Court ruling on the 700 MHz tender, Telefónica Móviles Chile returned 50 MHz in the 3.5 GHz band to the state in two regions in the south of the country and tendered 10 MHz of the 1900 MHz band, which were assigned to Claro Chile, on 21 December 2020.

During the first nine months of 2020, no spectrum acquisitions and renewals were carried out, compared with the spectrum investment of EUR 1,465 million in the first nine months of 2019, 4.1 per cent. of the Group's consolidated revenues at that date. Investment in spectrum acquisitions during 2019 amounted to EUR 1,501 million, 3.1 per cent. of the Group's revenues for the year ended 31 December 2019. In the event that the licences mentioned above are renewed or new spectrum is acquired, it would involve additional investments by Telefónica.

Any of the foregoing could have an adverse effect on the business, financial position, results of operations and/or cash flows of the Group.

***Telefónica depends on its suppliers.***

The existence of critical suppliers in the supply chain, especially in areas such as network infrastructure, information systems or handsets with a high concentration in a small number of suppliers, poses risks that may affect Telefónica's operations. This may cause legal contingencies or damages to its image in the event that a participant in the supply chain engages in practices that do not meet acceptable standards or that otherwise fail to meet Telefónica's performance expectations. This may include delays in the completion of projects or deliveries, poor-quality execution, cost deviations and inappropriate practices.

As of 30 September 2020, the Telefónica Group depended on three handset suppliers and eight network infrastructure suppliers, which, together, accounted for 86 per cent. and 81 per cent., respectively, of the aggregate amount of the contracts awarded to handset suppliers and network infrastructure suppliers,

respectively. As of 30 September 2020, one of the handset suppliers represented 50 per cent. of the aggregate amount of the contracts awarded to handset suppliers.

These suppliers may, among other things, extend delivery times, raise prices and limit supply due to their own stock shortfalls and business requirements or for other reasons.

If suppliers cannot supply their products to the Telefónica Group within the agreed deadlines or such products and services do not meet the Group's requirements, this could hinder the deployment and expansion plans of the network. This could in certain cases affect Telefónica's compliance with the terms and conditions of the licences under which it operates, or otherwise adversely affect the business and operating results of the Telefónica Group. In addition, the possible adoption of new protectionist measures in certain parts of the world, including as a result of trade tensions between the United States and China, may have an adverse impact on certain of Telefónica's suppliers and other players in the industry. The imposition of trade restrictions could result in higher costs and lower margins and could adversely affect the Group's business, financial condition, results of operations and/or cash flows.

***Telefónica operates in a sector characterised by rapid technological changes and it may not be able to anticipate and adapt to such changes or select the right investments to make.***

The pace of innovation and Telefónica's ability to keep up with its competitors is a critical issue in a sector so affected by technology such as telecommunications. In this sense, additional investments will be needed in new high-capacity network infrastructures to enable Telefónica to offer the features that new services will demand, through the development of technologies such as 5G or fiber optic.

New products and technologies are constantly emerging that can render products and services offered by the Telefónica Group, as well as its technology, obsolete. In addition, the explosion of the digital market and the entrance of new players in the communications market, such as mobile network virtual operators ("MNVOs"), Internet companies, technology companies or device manufacturers, could result in a loss of value for certain of the Group's assets, affecting the generation of revenues, or otherwise cause Telefónica to have to update its business model. In this respect, revenues from traditional voice business are shrinking, while new sources of revenues are increasingly derived from connectivity and digital services. Examples of these services include video, IoT, security, Big Data and services using Cloud computing.

One of the technologies currently being developed by telecommunications operators, including Telefónica (in Spain and Latin America), is the new FTTx type networks which allow the offering of broadband accesses over fiber optic with high performance. However, the deployment of such networks, in which the copper of the access loop is totally or partially replaced by optical fiber, necessitates high levels of investment. As of 30 September 2020, in Spain, fiber coverage reached 24.4 million premises. There is a growing demand for the services that these new networks can offer to the end customer. However, the high levels of investment required by these networks result in the need to continuously consider the expected return on investment, and no assurance can be given that these investments will be profitable.

In addition, the ability of the Telefónica Group's IT systems (operational and backup) to adequately support and evolve to respond to Telefónica's operating requirements is a key factor to consider in the commercial development, customer satisfaction and business efficiency of the Telefónica Group. While automation and other digital processes may lead to significant cost savings and efficiency gains, there are also significant risks associated with such transformation processes. Any failure by the Telefónica Group to develop or implement IT systems that adequately support and respond to the Group's evolving operating requirements could have an adverse effect on the Group's business, financial condition, results of operations and/or cash flows.

All of this forces Telefónica to continuously invest in the development of new products, technology and services to continue to compete effectively with current or future competitors, and, for this reason, the Group's profit and margins associated with the income of the business could be reduced or such investment may not lead to the development or commercialisation of successful new products or services. To contextualise the size of the Group's investments, total research and development expenditure in the first nine months of 2020 was EUR 691 million (EUR 603 million in the first nine months of 2019 and EUR 866 million for the year ended 31 December 2019). These expenditures represented 2.1 per cent. and 1.7 per cent. of the Group's consolidated revenues in the first nine months of 2020, and 2019, respectively, and 1.8 per cent. of the Group's consolidated revenues for the year ended 31 December 2019. These figures



have been calculated using the guidelines established by the Organization for Economic Co-operation and Development ("OECD") manual.

If Telefónica is not able to anticipate and adapt to the technological changes and trends in the sector, or to properly select the investments to be made, this could negatively affect the Group's business, financial condition, results of operations and/or cash flows.

***Telefónica may not anticipate or adapt in a timely manner to changing customer demands and/or new ethical or social standards, which could adversely affect Telefónica's business and reputation.***

To maintain and improve its position in the market vis-à-vis its competitors, it is vital that Telefónica: (i) anticipates and adapts to the evolving needs and demands of its customers, and (ii) avoids commercial actions or policies that may generate a negative perception of the Group or the products and services it offers, or may have or be perceived to have a negative social impact. In addition to harming Telefónica's reputation, such actions could also result in fines and sanctions.

In order to respond to such changes and to the evolution in the needs of customers, Telefónica needs to adapt both (i) its communication networks and (ii) its offer of digital services.

The networks, which had historically focused on voice transmission, are evolving into increasingly flexible, dynamic and secure data networks, replacing, for example, old copper telecommunications networks with new technologies such as fiber optic, which facilitate the absorption of the exponential growth in the volume of data demanded by the Group's customers.

In relation to digital services, customers require an increasingly digital and personalised experience, as well as a continuous evolution of the Group's product and service offering. In this sense, new services such as "Smart WiFi" or "Connected car", which facilitate certain aspects of the Group's customers' digital lives, are being developed. Furthermore, new solutions for greater automation in commercial services and in the provision of the Group's services are being developed, through new apps and online platforms that facilitate access to services and content, such as new video platforms that offer both traditional Pay TV, video on demand or multi-device access. However, there can be no assurance that these and other efforts will be successful. For example, if streaming television services, such as Netflix or others, become the only way television is consumed to the detriment of Movistar+, the Group's revenues and margins could be affected.

The development of all these initiatives is also necessary to take into account the growing social and regulatory demand for companies to behave in a socially responsible manner. The Group's customers are increasingly reflecting this demand through online communication channels such as social networks. Therefore, Telefónica's ability to attract and retain clients depends on its perception and the risks associated with potential damage to a brand's reputation have become more relevant, especially due to the impact that the publication of news through social networks can have.

If Telefónica is not able to anticipate or adapt to the evolving needs and demands of its customers or avoid inappropriate actions, its reputation could be adversely affected, or it could otherwise have an adverse effect on the business, financial condition, results of operations and/or cash flows of the Group.

## **Operating Risks.**

***Information technology is key to the Group's business and it could be subject to cybersecurity risks.***

The risks derived from cybersecurity are among the Group's most relevant risks due to the importance of information technology for its ability to successfully conduct operations. Despite advances in the modernisation of the network and the replacement of legacy systems, the Group operates in an environment increasingly prone to cyber-threats and all of its products and services, such as mobile Internet or Pay TV services, are intrinsically dependent on information technology systems and platforms that are susceptible to cyberattacks. Therefore, it is necessary to continue to identify and remedy any technical vulnerabilities and weaknesses in the Group's operating processes, as well as to strengthen its capabilities to detect and react to incidents because successful cyberattacks that disrupt the Group's operations could prevent the effective commercialisation of products and services to customers. This includes the need to strengthen security controls in the supply chain (for example, by focusing on the security measures adopted by the Group's partners and other third parties), as well as to ensure the security of the services using Cloud computing. In recent months, due to the situation caused by the evolution of COVID-19, security measures

related to remote access and teleworking have been reviewed and strengthened to mitigate the risk of regulatory penalties.

Telecommunications companies worldwide face continuously increasing cybersecurity threats as businesses have become increasingly more digital and dependent on telecommunications, computer networks and Cloud computing technologies. Cybersecurity threats may include gaining unauthorised access to the Group's systems or propagating computer viruses or malicious software to misappropriate sensitive information such as customer data or disrupt the Group's operations. Unauthorised access may also be gained through traditional means, such as the theft of laptop computers, data devices and mobile phones. Further, the Group's employees or other persons may have unauthorised or authorised access to the Group's systems and leak data and/or take actions that affect the Group's networks or otherwise adversely affect the Group or its ability to adequately process internal information.

In particular, in 2018, 2019 and the first nine months of 2020, the Group has suffered several cybersecurity incidents, albeit without appreciable impact. Examples of how this risk has affected the Group in that period are: (i) intrusion attempts (direct or phishing) and the exploitation of vulnerabilities or corporate credentials compromised for ransomware deployment (malicious software that encrypts business data); (ii) Distributed Denial of Service (DDoS) attacks, using massive volumes of Internet traffic that saturate the service; and (iii) exploiting vulnerabilities to carry out fraud in online channels, usually subscriptions of services without paying for them.

Telefónica attempts to mitigate these risks through a number of measures, defined in its digital security strategy, including vulnerabilities checks, access control measures, backup, log review of critical systems, network segregation measures and the deployment of protective systems such as firewalls, intrusion prevention systems, virus scanners, among other physical and logical security measures. In the event that preventive and control measures do not prevent damage to systems or data, backup systems are available for the full or partial retrieval of information.

However, the application of these measures cannot guarantee the mitigation of all risks. Therefore, the Telefónica Group has insurance policies in place, which could cover, subject to the policies terms, conditions, exclusions, limits and sublimits of indemnity, and applicable deductibles, certain losses arising out of these types of incidents. To date, the insurance policies in place have covered some incidents of this nature, yet due to the potential severity and uncertainty of the aforementioned events, these policies may not be sufficient to cover all possible monetary losses arising out of an individual event.

***Unanticipated network interruptions can lead to quality loss or the interruption of the service.***

Unforeseen network interruptions can be due to system failures, natural disasters caused by natural or meteorological events or phenomena, lack of electric supply, network failures, hardware or software failures, theft of network elements or cyber-attacks. Any of the foregoing can affect the quality of, or cause interruption to, the provision of the services of the Telefónica Group.

Such events, like the one that affected the mobile data services provided by O2 UK at the end of 2018 resulting from a software failure, could cause customer dissatisfaction, a reduction in revenues and traffic, the realisation of expensive repairs, the imposition of sanctions or other measures by regulatory bodies, and damage to the image and reputation of the Telefónica Group, or could otherwise have an adverse effect on the business, financial condition, results of operations and/or cash flows of the Group.

**Financial Risks.**

***Worsening of the economic and political environment could negatively affect Telefónica's business.***

Telefónica's international presence enables the diversification of its activities across countries and regions, but it exposes Telefónica to diverse legislation, as well as to the political and economic environments of the countries in which it operates. Any adverse developments in this regard, including exchange rate or sovereign-risk fluctuations, 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.

During the first nine months of 2020, Telefónica Spain accounted for 28.6 per cent. (26.5 per cent. in the same period of 2019 and 26.5 per cent. for the year ended 31 December 2019) of the Telefónica Group's revenues (sales and services). During the first nine months of 2020, Telefónica Germany accounted for 17.1 per cent. of the Telefónica Group's revenues (15.1 per cent. in the same period of 2019 and 15.3 per cent.

for the year ended 31 December 2019). During the first nine months of 2020, Telefónica United Kingdom accounted for 15.4 per cent. of the Telefónica Group's revenues (14.4 per cent. in the same period in 2019 and 14.7 per cent. for the year ended 31 December 2019). During the first nine months of 2020, Telefónica Brazil represented 17.6 per cent. of the Telefónica Group's revenues (20.9 per cent. in the same period of 2019 and 20.7 per cent. for the year ended 31 December 2019). During the first nine months of 2020, Telefónica Hispam accounted for 18.6 per cent. of the Telefónica Group's revenues (20.0 per cent. in the same period of 2019 and 19.9 per cent. for the year ended 31 December 2019). During the first nine months of 2020, 4.3 per cent. of the Telefónica Group's revenues came from Argentina, 3.9 per cent. from Peru and 3.6 per cent. from Chile (4.4 per cent., 4.4 per cent. and 4.0 per cent., respectively, in the same period in 2019 and 4.5 per cent., 4.3 per cent. and 4.0 per cent., respectively, for the year ended 31 December 2019), all of which belong to the Telefónica Hispam segment. During the first nine months of 2020, approximately 23.8 per cent. of the Group's revenues came from countries that do not have an investment grade credit rating (in order of importance, Brazil, Argentina, Ecuador, Costa Rica, El Salvador and Venezuela), 27.3 per cent. for the year ended 31 December 2019, and other countries are just one grade away from losing this status. Likewise, Venezuela and Argentina are considered to be countries with hyperinflationary economies in 2018, 2019 and 2020.

The main risks are detailed below, by geography:

In Europe there is a risk of stricter financing conditions for both the private and public sectors that could arise in a scenario of financial stress with a negative impact on disposable income. The triggers for that scenario could come both from global factors derived from an economic deterioration, or domestic issues such as the worsening of the fiscal sustainability in some European countries (e.g. Italy).

- Spain: there are three other main sources of uncertainty. First, the outcome of the political situation in Catalonia and its impact on the financing conditions of the Spanish economy given the demanding maturity schedule the country is facing and its significant dependence on the international macroeconomic scenario and investors. A second source of uncertainty stems from the economic policies to be implemented from 2020 onwards, given the high level of parliamentary fragmentation and the lack of agreement on key issues. Finally, being one of the most open countries in the world, from a commercial point of view, and being amongst the top ten countries in respect of capital outflows and inflows in the world, any situation of protectionist backlash could have significant implications.
- United Kingdom: the formal exit of the United Kingdom from the European Union on 31 December 2020 ("**Brexit**") will entail an economic adjustment regardless of the latest agreement signed on the new economic and commercial relationship between the two regions in the future. The trade and bureaucracy costs of leaving the single market and the customs union (especially those related to non-tariff barriers) could weigh on the country's net trade. In addition, there are still many gaps to be closed in the area of services, (with special importance for financial and professional services), so variables such as investment, economic activity and employment could be among the most affected, as well as volatility in financial markets, which could limit or condition access to capital markets. These changes can be costly and disruptive to business relationships in the affected markets, including those of Telefónica with its suppliers and customers.

Latin America: exchange risk is particularly important. This risk is due to both external factors (global trade tensions, commodity prices abrupt movements and concerns about growth and financial imbalances in China) and the internal factors (controlling the epidemic and managing the underlying fiscal deterioration, see the following risk below "*Unexpected and uncertain events such as the emergence of the COVID-19 (coronavirus) pandemic significantly affect our operations*"):

- Brazil: fiscal sustainability remains the main risk, an aspect that the government is currently tackling through its commitment to structural reforms including pension and tax system reforms, which could not only promote sustainability but also raise Brazil's potential growth. The fact that the country's rating is below investment grade and that its internal financing needs are high, could create a greater financial risk in the event of global financial stress and increasing external and internal financial needs.
- Argentina: in the short term, macroeconomic and exchange rate risks remain high. The challenges the economy is facing, both internally (ongoing process of public deficit reduction in a context of

economic recession and high inflation) and externally (with significant refinancing needs in the medium term), make the economy vulnerable to bouts of volatility in the financial markets especially in a context of narrower room for manoeuvre. From Telefónica's view, the worsening inflation outlook as a result of the exchange rate split and the unsustainable price containment measures threaten profitability. In fact, the Decree of Need and Urgency (DNU) launched by the government in the third quarter of 2020, which controlled prices in the information, communications and technology sector between July and December 2020 and currently governs its future development, will have a clear adverse impact on Telefónica's revenue growth and the margin evolution of its businesses in the country.

- Chile, Colombia and Peru: are exposed not only to changes in the global economy, given their vulnerability and exposure to unexpected changes in commodity prices, but also to an abrupt hardening of global financial conditions. On the domestic side, both the existing political instability and the possibility of new episodes of social unrest could have a negative impact in the short and medium term.

***Unexpected and uncertain events, such as the emergence of the COVID-19 (coronavirus) pandemic, significantly affect our operations***

Such events cause delays in the supply chain, due to problems in factories or logistics services; affect employees or third parties with whom Telefónica works in case of contagion or quarantine periods, and also affect global and therefore national economic growth. The latter derives from various adverse impacts on supply chains (global value chains paralysis, immobilisation of productive resources) and demand (deterioration of confidence and expectations, negative income and wealth effects) derived from a substantial deterioration in the financial markets, unprecedented drops in commodity prices, sudden slowdown in commercial activity or strong restrictions on transportation. The specific impact of COVID-19 (coronavirus) on the Group's key figures is difficult to fully anticipate due to the uncertainty surrounding the duration of the shock and the economic resilience of the economies in which the Group operates. However, on a preliminary basis and considering the information available, a rough estimate of the impact the pandemic is having on the Group's accounts to date is included below.

Early estimates suggest that the economic effect of the pandemic is expected to be the largest drop in global GDP in recent decades. Despite continuing to project a deep recession for 2020, global growth expectations have been revised slightly upwards (-4.3 per cent. according to the European Commission), as the recovery observed in the third quarter of 2020 in countries for which information is available shows generally better than expected growth. As a result, GDP would have recovered between 50 per cent. and 80 per cent. from first half of the year losses, depending on the country.

In Spain, the decrease in GDP exceeded 22.2 per cent. (in cumulative terms) during the first half of 2020 (second quarter -17.8 per cent. ) which led to 1,359,700 people losing their jobs between March and May. However, the gradual lifting of restrictions on mobility and limitations on the activity of those considered non-essential, has allowed the Spanish economy to restart its activity, as in the rest of Europe. Specifically, *Instituto Nacional de Estadística* flash estimates point to GDP having experienced the greatest variation in real terms of its historical series in the third quarter (+16.7 per cent. ). However, the new measures adopted in the last quarter of 2020 and early 2021 to contain the advance of the pandemic suggest that GDP could experience a new contraction in the last quarter of 2020, which could result in a negative annual growth of 12.4 per cent. (according to the European Commission).

Despite the magnitude of the fiscal packages announced by the national governments of Spain and Germany, composed of both direct spending (Spain: 3.4 per cent. of GDP and Germany: 9.4 per cent. of GDP) and liquidity guarantees (Spain: 10.6 per cent. of GDP and Germany: 31.5 per cent. of GDP), concerns remain about debt sustainability in the medium and long term. However, if the shock is temporary and growth recovers in the coming years, it is less likely that high levels of debt would be problematic in a global economy where GDP growth is permanently above interest rates, allowing for the maintenance of public deficits and lowering of the public debt ratio.

Group management estimates that the negative impact of the pandemic on Group turnover in the first nine months of 2020 will be around EUR 1.397 billion, while the impact on OIBDA (excluding goodwill impairment) will be around EUR 687 million.

Additionally, the COVID-19 crisis has contributed to the depreciation of the main Latin American currencies against the euro (see "*Important Notices – Changes in exchange rates*").

Due to the changes in exchange rates, Telefónica has carried out an update of the impairment tests, with special emphasis on those cash-generating units whose value in use was closest to the book value as of 31 December 2019. The results are included in the risk factor "*Possible asset impairment (goodwill, deferred tax or other assets*".

***Possible asset impairment (goodwill, deferred tax or other assets).***

In accordance with current accounting standards, the Telefónica Group reviews on an annual basis, or more frequently when the circumstances require it, the need to introduce changes to the book value of its goodwill (representing 16.1 per cent. of the Group's total assets as of 30 September 2020), deferred tax assets (representing 5.8 per cent. of the Group's total assets as of 30 September 2020) or other assets such as intangible assets (representing 11.0 per cent. of the Group's total assets as of 30 September 2020) and property, plant and equipment (representing 23.1 per cent. of the Group's total assets as of 30 September 2020) or other assets. In the case of goodwill, the potential loss of value is determined by the analysis of the recoverable value of the cash-generating unit (or group of units) to which the goodwill is allocated to at the time it is originated. By way of example, in the first nine months of 2020, impairment losses in the goodwill and other assets of Telefónica Argentina were recognised for a total of EUR 894 million. In 2019, impairment losses in the goodwill allocated to Telefónica Argentina were recognised for a total of EUR 206 million. In 2018, impairment losses in the goodwill allocated to Telefónica Móviles Mexico were recognised for a total of EUR 350 million.

In addition, Telefónica may not be able to realise deferred tax assets on its statement of financial position to offset future taxable income. The recoverability of deferred tax assets depends on the Group's ability to generate taxable income over the period for which the deferred tax assets remain deductible. If Telefónica believes it is unable to utilise its deferred tax assets during the applicable period, it may be required to record an impairment against them resulting in a non-cash charge on the income statement. By way of example, in 2019, Telefónica Móviles México derecognised deferred tax assets amounting to EUR 454 million (in 2018, Telefónica Móviles México derecognised deferred tax assets amounting to EUR 327 million).

Further impairments of goodwill, deferred tax assets or other assets may occur in the future which may materially adversely affect the Group's business, financial condition, results of operations and/or cash flows.

***Levels of financial indebtedness, the Group's ability to finance, and ability to carry out its business plan.***

The operation, expansion and improvement of the Telefónica Group's networks, the development and distribution of the Telefónica Group's services and products, the implementation of Telefónica's strategic plan and the development of new technologies, the renewal of licences and the expansion of the Telefónica Group's business in countries where it operates, may require a substantial amount of financing.

The Telefónica Group is a relevant and frequent issuer of debt in the capital markets. As of 30 September 2020, the Group's gross financial debt amounted to EUR 52,539 million (EUR 52,364 million as of 31 December 2019), and the Group's net financial debt amounted to EUR 36,676 million (EUR 37,744 million as of 31 December 2019). As of 30 September 2020, the average maturity of the debt was 10.94 years (10.50 years as of 31 December 2019), including undrawn committed credit facilities.

A decrease in the liquidity of Telefónica, or a difficulty in refinancing maturing debt or raising new funds as debt or equity could force Telefónica to use resources allocated to investments or other commitments to pay its financial debt, which could have a negative effect on the Group's business, financial condition, results of operations and/or cash flows.

Funding could be more difficult and costly in the event of a deterioration of conditions in the international or local financial markets due, for example, to monetary policies set by central banks, including increases in interest rates and/or decreases in the supply of credit, increasing global political and commercial

uncertainty and oil price instability, or if there is an eventual deterioration in the solvency or operating performance of Telefónica.

As of 30 September 2020, the Group's gross financial debt scheduled to mature in 2020 amounted to EUR 2,483 million, and gross financial debt scheduled to mature in 2021 amounted to EUR 5,839 million.

In accordance with its liquidity policy, Telefónica has covered its gross debt maturities for the next 12 months with cash and credit lines available as of 30 September 2020. As of 30 September 2020, the Telefónica Group had undrawn committed credit facilities arranged with banks for an amount of EUR 13,277 million (EUR 12,383 million of which were due to expire in more than 12 months). As of 30 September 2020, 6.7 per cent. of the aggregate undrawn amount under credit lines was scheduled to expire prior to 30 September 2021.

In addition, given the interrelation between economic growth and financial stability, the materialisation of any of the economic, political and exchange rate risks referred to above could adversely impact the availability and cost of Telefónica's financing and its liquidity strategy. This in turn could have a negative effect on the Group's business, financial condition, results of operations and/or cash flows.

***The Group's financial condition and results of operations may be adversely affected if it does not effectively manage its exposure to foreign currency exchange rates or interest rates.***

Interest rate risk arises primarily in connection with changes in interest rates affecting: (i) financial expenses on floating-rate debt (or short-term debt likely to be renewed); and (ii) the value of long-term liabilities at fixed interest rates.

In nominal terms, as of 30 September 2020, 71.8 per cent. of the Group's net financial debt plus commitments had its interest rate set at fixed interest rates for periods of more than one year. To illustrate the sensitivity of financial expenses to variations in short-term interest rates as of 30 September 2020: (i) a 100 basis points increase in interest rates in all currencies in which Telefónica had a financial position at that date would have led to an increase in financial expenses of EUR 98 million, whereas (ii) a 100 basis points decrease in interest rates in all currencies (even if negative rates are reached), would have led to a reduction in financial expenses of EUR 96 million. For the preparation of these calculations, a constant position equivalent to the position at that date is assumed, which takes into account the financial derivatives contracted by the Group.

Exchange rate risk arises primarily from: (i) Telefónica's international presence, through its investments and businesses in countries that use currencies other than the euro (primarily in Latin America and the United Kingdom); (ii) debt denominated in currencies other than that of the country where the business is conducted or the home country of the company incurring such debt; and (iii) trade receivables or payables in a foreign currency to the currency of the company with which the transaction was registered. At the same time, 31.4 per cent. of the Group's net financial debt plus commitments was denominated in currencies other than the euro. According to the Group's calculations, the impact on results, and specifically on net exchange differences, due to a 10 per cent. depreciation of Latin American currencies against the U.S. dollar and a 10 per cent. depreciation of the rest of the currencies against the euro would result in exchange gains of EUR 30 million for the nine months ended 30 September 2020. These calculations have been made assuming a constant currency position with an impact on profit or loss for the nine months ended 30 September 2020, taking into account derivative instruments in place.

During the first nine months of 2020, Telefónica Brazil represented 24.5 per cent. (27.3 per cent. in the same period of 2019), Telefónica United Kingdom represented 15.7 per cent. (13.9 per cent. in the same period of 2019), Telefónica Hispam represented 5.3 per cent. (16.6 per cent. in the same period of 2019) of the OIBDA of the Telefónica Group.

During the first nine months of 2020, the evolution of exchange rates negatively impacted the Group's results, decreasing the year-on-year growth of the Group's consolidated revenues and OIBDA by an estimated 5.9 percentage points and 7.0 percentage points, respectively, mainly due to the depreciation of the Brazilian real (2.4 percentage points and 2.0 percentage points, respectively, in the same period of 2019). Furthermore, translation differences as of 30 September 2020 had a negative impact on the Group's

equity of EUR 6,191 million, whereas translation differences had a negative impact on the Group's equity of EUR 430 million in the same period of 2019.

The Telefónica Group uses a variety of strategies to manage this risk including, among others, the use of financial derivatives, which are also exposed to risk, including counterparty risk. The Group's risk management strategies may be ineffective, which could adversely affect the Group's business, financial condition, results of operations and/or cash flows. If the Group does not effectively manage its exposure to foreign currency exchange rates or interest rates, it may adversely affect its business, financial condition, results of operations and/or cash flows.

#### **Legal and compliance risks.**

##### ***Telefónica and Telefónica Group companies are party to lawsuits, antitrust, tax claims and other legal proceedings.***

Telefónica and Telefónica Group companies operate in highly regulated sectors and may be party to lawsuits, tax claims, antitrust and other legal proceedings in the ordinary course of their businesses in the future, the outcome of which is unpredictable.

In particular, the Telefónica Group is subject to regular reviews, tests and audits by tax authorities regarding taxes in the jurisdictions in which it operates and is a party and may be a party to certain judicial tax proceedings. Currently, litigation in Peru concerning the clearance of certain previous years' income taxes stands out, in respect of which a contentious-administrative appeal is currently pending, and to certain tax and regulatory proceedings in Brazil, primarily relating to the ICMS (a Brazilian tax on telecommunication services) and the corporate tax. Further details on these matters are provided in Notes 25 to the 2019 Consolidated Financial Statements. Additional details on provisions for litigation, tax sanctions and claims can be found in Note 24 to the 2019 Consolidated Financial Statements.

In this regard, as of 31 December 2019, Telefónica Brazil maintained provisions for tax contingencies amounting to EUR 348 million, and provisions for regulatory contingencies amounting to EUR 253 million. Although the Group considers its tax estimates to be reasonable, if a tax authority disagrees, the Group could face additional tax liability, including interest and penalties. There can be no guarantee that the payment of such additional amounts will not have a significant adverse impact on the Group's business perspectives, results of operations, financial condition and/or cash flows.

An adverse outcome or settlement in these or other proceedings, present or future, could result in significant costs and may have a material adverse effect on the Group's business, financial condition, results of operations, reputation and/or cash flows.

##### ***The Telefónica Group is exposed to risks in relation to compliance with anti-corruption laws and regulations and economic sanctions programmes.***

The Telefónica Group is required to comply with the anti-corruption laws and regulations of the jurisdictions where it conducts operations around the world, including in certain circumstances with laws and regulations having extraterritorial effect such as the US Foreign Corrupt Practices Act of 1977 and the United Kingdom Bribery Act of 2010. The anti-corruption laws generally prohibit, among other conduct, providing anything of value to government officials for the purposes of obtaining or retaining business or securing any improper business advantage or failing to keep accurate books and records and properly account for transactions.

In this sense, due to the nature of its activities, the Telefónica Group is increasing its exposure to this risk, which increases the likelihood of occurrence. In particular, it is worth noting the continuous interaction with officials and public administrations in several areas, including the institutional and regulatory fronts (as the Telefónica Group carries out a regulated activity in different jurisdictions), the operational front (in the deployment of its network, the Telefónica Group is subject to obtaining multiple activity permits) and the commercial front (the Telefónica Group provides services directly and indirectly to public administrations). Moreover, Telefónica is a multinational group subject to the authority of different regulators and compliance with various regulations, which may be domestic or extraterritorial in scope, civil or criminal, and which may lead to overlapping authority in certain cases. Therefore, it is very difficult to quantify the possible impact of any breach, bearing in mind that such quantification must consider not

only the economic amount of sanctions, but also the potential negative impact on the business, reputation and/or brand, or the ability to contract with public administrations.

Additionally, the Telefónica Group's operations may be subject to, or otherwise affected by, economic sanctions programmes and other forms of trade restrictions ("**sanctions**") including those administered by the United Nations, the European Union and the United States, including the US Treasury Department's Office of Foreign Assets Control. The sanctions regulations restrict the Group's business dealings with certain sanctioned countries, individuals and entities. In this context, the provision of services by a multinational telecommunications group, such as the Telefónica Group, directly and indirectly, and in multiple countries, requires the application of a high degree of diligence to prevent the contravention of sanctions (which take various forms, including economic sanctions programmes applicable to countries, lists of entities and persons sanctioned or export sanctions). Given the nature of its activities, the Telefónica Group's exposure to these sanctions is particularly noteworthy.

Although the Group has internal policies and procedures designed to ensure compliance with the abovementioned applicable anti-corruption laws and sanctions regulations, there can be no assurance that such policies and procedures will be sufficient or that the Group's employees, directors, officers, partners, agents and service providers will not take actions in violation of the Group's policies and procedures (or, otherwise in violation of the relevant anti-corruption laws and sanctions regulations) for which the Group, its subsidiaries or they may be ultimately held responsible. In this regard, the Group is currently cooperating with governmental authorities (and, where appropriate, conducting the relevant internal investigations) regarding requests for information potentially related, directly or indirectly to possible violations of applicable anti-corruption laws. Telefónica believes that, considering the size of the Group, any potential penalty as a result of matters relating to those specific information requests would not materially affect the Group's financial condition.

Notwithstanding the above, violations of anti-corruption laws and sanctions regulations could lead not only to financial penalties, but also to exclusion from government contracts, licences and authorisations revocation, and could have a material adverse effect on the Group's reputation, or otherwise adversely affect the Group's business, financial condition, results of operations and/or cash flows.

#### **Risks related to withholding.**

##### ***Risks in relation to Spanish taxation***

With respect to any payment of interest under the Guarantee, the Guarantor is required to receive certain information relating to the Securities. If such information is not received by the Guarantor in a timely manner, the Guarantor will be required to apply Spanish withholding tax to any payment of interest (as this term is defined under "*Taxation - Spanish Tax - Payments made by the Guarantor*") in respect of the Securities.

Under Spanish Law 10/2014 and Royal Decree 1065/2007, as amended, payments of interest in respect of the Securities will be made without withholding tax in Spain provided that the Fiscal Agent provides the Issuer (that is, the Guarantor with respect to any payments of interest under the Guarantee) in a timely manner with a certificate containing certain information in accordance with section 44 paragraph 5 of the Royal Decree 1065/2007 relating to the Securities.

This information must be provided by the Fiscal Agent to the Issuer (that is, the Guarantor with respect to any payments of interest under the Guarantee) before the close of business on the Business Day (as defined in the Conditions) immediately preceding the date on which any payment of interest, principal, or of any amounts in respect of the early redemption of the Securities (each a "**Payment Date**"), is due.

The Issuer, the Guarantor and the Fiscal Agent have arranged certain procedures to facilitate the collection of information concerning the Securities. If, despite these procedures, the relevant information is not received by the Guarantor on each Payment Date, the Guarantor will withhold tax at the then-applicable rate (as at the date of this Prospectus, 19 per cent.) from any payment of interest in respect of the Securities. Neither the Issuer nor the Guarantor will pay any additional amounts with respect to any such withholding.

The Fiscal Agency Agreement provides that the Fiscal Agent will, to the extent applicable, comply with the relevant procedures to deliver the required information concerning the Securities to the Guarantor in a timely manner.



These procedures may be modified, amended or supplemented, among other reasons, to reflect a change in applicable Spanish law, regulation, ruling or an administrative interpretation thereof. None of the Issuer, the Guarantor or the Joint Bookrunners assumes any responsibility, therefor.

Royal Decree 1145/2011, of 29 July which amends Royal Decree 1065/2007, of 27 July, provides that any payment of interest made under securities originally registered in a non-Spanish clearing and settlement entity recognised by Spanish legislation or by the legislation of another OECD country will be made with no withholding or deduction from Spanish taxes provided that the relevant paying agent submits in a timely manner certain information about the Securities to the Issuer (that is, the Guarantor with respect to any payments of interest under the Guarantee). In the opinion of the Guarantor, any payment of interest under the Guarantee will be made without deduction or withholding of taxes in Spain provided that the relevant information about the Securities is submitted in a timely manner by the Fiscal Agent to the Guarantor, notwithstanding the information obligations of the Guarantor under general provisions of Spanish tax legislation, by virtue of which identification of Spanish tax resident investors may be provided to the Spanish tax authorities (see "*Taxation - Spanish Tax - Payments made by the Guarantor*").

### ***Risks related to Dutch taxation***

With respect to payments under the Securities, pursuant to the Withholding Tax Act 2021 (*Wet bronbelasting 2021*) which entered into force in the Netherlands on 1 January 2021, as of the date of this Prospectus, Dutch withholding tax may be imposed on certain (deemed) payments of interest made to an affiliated (*gelieerde*) entity of the Issuer, if such entity (i) is considered to be resident (*gevestigd*) in a jurisdiction that is listed in the annually updated Dutch Regulation on low taxing states and non-cooperative jurisdictions for tax purposes (*Regeling laagbelastende staten en niet coöperatieve rechtsgebieden voor belastingdoeleinden*), or (ii) has a permanent establishment located in such jurisdiction to which the interest is attributable, or (iii) is entitled to the interest payable for the main purpose or one of the main purposes to avoid taxation for another person, or (iv) is not considered to be the recipient of the interest in its jurisdiction of residence because such jurisdiction treats another (lower tier) entity as the recipient of the interest (a hybrid mismatch), or (v) is not treated as resident anywhere (also a hybrid mismatch), all within the meaning of the Withholding Tax Act 2021.

Generally, an entity is considered an affiliated (*gelieerde*) entity if (i) it has a qualifying interest in the Issuer, (ii) the Issuer has a qualifying interest in the entity, or (iii) a third party has qualifying interest in both the Issuer and the entity. Generally, the term "qualifying interest" means a directly or indirectly held interest, individually or jointly as part of a collaborating group (*samenwerkende groep*), that gives the holder of such interest definite influence over the decisions of the entity in which the interest is held and allows determination of its activities.

If any withholding or deduction is made for or on account of withholding tax imposed by the Netherlands due to the application of the Withholding Tax Act 2021, payments by the Issuer to certain holders of Securities may be affected given that the Issuer does not have to pay any additional amounts in respect hereof, pursuant to the application of the exclusion in Condition 8(a)(viii) (*Taxation*) of the Securities. Consequently, in such event the affected holders of Securities will only be entitled to receive interest payments net under the Securities; meaning that the amount of the payment due from the Issuer will be made after any withholding or deduction is made for or on account of withholding tax imposed by the Netherlands due to the application of the Withholding Tax Act 2021 and will not be increased to an amount which after the withholding or deduction leaves an amount equal to the payment which would have been due if no such withholding or deduction had been required. Potential investors should consult their professional advisers as to the tax consequences of the introduction of the Withholding Tax Act 2021 in Dutch law in relation to their investment in the Securities.

### ***Risks related to the structure of the Securities.***

#### ***The Issuer's obligations under the Securities and the Coupons are subordinated***

The Issuer's obligations under the Securities will be unsecured and subordinated obligations of the Issuer and will rank junior to the claims of unsubordinated and other subordinated creditors of the Issuer, except for subordinated creditors whose claims are expressed to rank *pari passu* with the Securities. See Condition 2 (*Status and Subordination of the Securities and Coupons*) of the Securities. By virtue of such subordination, payments to a Holder of Securities will, in the event of an Issuer Winding-up (as described in the Conditions) only be made after, and any set-off by a Holder of Securities shall be excluded until, all

obligations of the Issuer resulting from higher ranking claims have been satisfied. A Holder of Securities may therefore recover less than the holders of unsubordinated or other subordinated liabilities of the Issuer. Subject to applicable law, no Holder may exercise or claim any right of set-off in respect of any amount owed to it by the Issuer arising under, or in connection with, the Securities and each Holder shall, by virtue of being the Holder of any Security, be deemed to have waived all such rights of set-off. Although subordinated debt securities may pay a higher rate of interest than comparable debt securities which are not subordinated, there is a real risk that an investor in subordinated securities such as the Securities will lose all or some of his investment should the Issuer become insolvent.

***The Guarantee is a subordinated obligation***

The Guarantor's obligations under the Guarantee will be unsecured and subordinated obligations of the Guarantor. In the event of the Guarantor being declared in insolvency (*concurso*) under Spanish Insolvency Law (as defined below), the Guarantor's obligations under the Guarantee will be subordinated in right of payment to the prior payment in full of all other liabilities of the Guarantor, except for obligations which rank equally with or junior to the Guarantee. See Condition 3 (*Guarantee, Status and Subordination of the Guarantee*) of the Securities.

Holders of the Securities are advised that unsubordinated liabilities of the Guarantor may also arise out of events that are not reflected on the balance sheet of the Guarantor including, without limitation, the issuance of guarantees on an unsubordinated basis. Claims made under such guarantees will become unsubordinated liabilities of the Guarantor that in the insolvency of the Guarantor will need to be paid in full before the obligations under the Guarantee may be satisfied.

***There are no events of default under the Securities***

The Conditions do not provide for events of default (including by reason of any cross-defaults) allowing acceleration of the Securities if certain events occur. Accordingly, if the Issuer or the Guarantor fails to meet any obligations under the Securities or the Guarantee, as the case may be, including the payment of any interest, Holders of the Securities will not have the right to require the early redemption of the Securities. Upon a payment default, the sole remedy available to the Holders for recovery of amounts owing in respect of any payment of principal or interest on the Securities will be the institution of proceedings to enforce such payment. Notwithstanding the foregoing, in no event shall the Issuer or the Guarantor, by virtue of the institution of any such proceedings, be obliged to pay any sum or sums sooner than the same would otherwise have been payable by it.

***The Securities are undated securities***

The Securities are undated securities, with no specified maturity date. The Issuer is under no obligation to redeem or repurchase the Securities at any time and the Holders have no right to require redemption of the Securities. Therefore, prospective investors should be aware that they may be required to bear the financial risks of an investment in the Securities for an indefinite period of time and may not recover their investment in the foreseeable future.

***The Issuer may redeem the Securities under certain circumstances***

Holders should be aware that the Securities may be redeemed at the option of the Issuer in whole, but not in part, (a) at their principal amount (plus any accrued and outstanding interest and any outstanding Arrears of Interest) on any date during the Relevant Period and on any Interest Payment Date thereafter or (b) at their Make-Whole Redemption Amount (plus any accrued and outstanding interest and any outstanding Arrears of Interest) at any other time.

The redemption at the option of the Issuer may affect the market value of the Securities. During any period when the Issuer may elect to redeem the Securities, the market value of the Securities generally will not rise substantially above the price at which they can be redeemed.

The Issuer may be expected to redeem the Securities when its cost of borrowing is lower than the interest rate on the Securities. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Securities being redeemed and may only be able to do so at a significantly lower rate of return. Potential investors should consider reinvestment risk in light of other investments available at that time.

The Securities are also subject to redemption in whole, but not in part, at the Issuer's option upon the occurrence of an Accounting Event, a Capital Event, a Tax Event, a Withholding Tax Event or a Substantial Purchase Event. The relevant redemption amount may be less than the then current market value of the Securities.

***The Issuer may redeem the Securities after a Tax Event relating to the intra-group loan***

The net proceeds of the issue of the Securities will be on-lent by the Issuer to the Guarantor pursuant to a Subordinated Loan (as defined in the Conditions). The Issuer may redeem the Securities in certain circumstances, including if, as a result of a Tax Law Change, in respect of (i) the Issuer's obligation to make any payment under the Securities (including any Interest Payment) on the next following Interest Payment Date or (ii) the obligation of the Guarantor to make any payment in favour of the Issuer under the Subordinated Loan on the next following due date for such payment, the Issuer or the Guarantor (as the case may be) would no longer be entitled to claim a deduction in respect of computing its tax liabilities in the Netherlands or in Spain (as the case may be), or such entitlement is materially reduced.

The direct connection between a Tax Event and the Subordinated Loan may limit the Issuer's ability to prevent the occurrence of a Tax Event, and may increase the possibility of the Issuer exercising its option to redeem the Securities upon the occurrence thereof. See Condition 6(d) (*Redemption for Taxation Reasons*).

***The current IFRS accounting classification of financial instruments such as the Securities as equity instruments may change which may result in the occurrence of an Accounting Event***

In June 2018, the IASB (International Accounting Standards Board) published the discussion paper DP/2018/1 on "Financial Instruments with Characteristics of Equity" (the "**DP/2018/1 Paper**") and in December 2020 the IASB decided to add the project to its standard setting programme. While the final timing and outcome are uncertain, if the proposals set out in the DP/2018/1 Paper are implemented in their current form, the IFRS equity classification of financial instruments such as the Securities may change. If such a change leads to an Accounting Event, the Issuer will have the option to redeem, in whole but not in part, the Securities pursuant to Condition 6(e) (*Redemption for Accounting Reasons*) of the Securities or substitute or vary the terms of the Securities pursuant to Condition 12(c) (*Substitution and Variation*) of the Securities. The period during which the Issuer may notify the redemption of the Securities as a result of the occurrence of an Accounting Event shall start on (and include) the Accounting Event Adoption Date, which is the earlier of such date that a change is officially announced by the IASB or the equivalent body in respect of IFRS-EU or officially adopted or put into practice.

The implementation of any of the proposals set out in the DP/2018/1 Paper or any other similar such proposals that may be made in the future, including the extent and timing of any such implementation, if at all, is uncertain. Accordingly, no assurance can be given as to the future classification of the Securities from an accounting perspective or whether any such change may result in the occurrence of an Accounting Event.

***The Issuer has the right to defer interest payments on the Securities***

The Issuer may, at its discretion, elect to defer (in whole or in part) any payment of interest on the Securities. Any such deferral of interest payment shall not constitute a default for any purpose. See Condition 5 (*Optional Interest Deferral*) of the Securities. Any interest in respect of the Securities the payment of which is deferred will, so long as the same remains outstanding, constitute Arrears of Interest. Arrears of Interest will be payable as outlined in Conditions 5(b) (*Optional Interest Deferral - Optional Settlement of Arrears of Interest*) and 5(c) (*Optional Interest Deferral - Mandatory Settlement of Arrears of Interest*) of the Securities. While the deferral of payment of interest continues, the Issuer is not prohibited from making payments on any instrument ranking senior to the Securities and in such event, the Holders are not entitled to claim immediate payment of interest so deferred.

As a result of the interest deferral provision of the Securities, the market price of the Securities may be more volatile than the market prices of other debt securities on which interest payments are not subject to such deferrals and may be more sensitive generally to adverse changes in the Issuer's and/or the Guarantor's financial condition. Investors should be aware that any deferral of interest payments may have an adverse effect on the market price of the Securities.

### ***Substitution or variation of the Securities***

There is a risk that, after the issue of the Securities, a Tax Event, a Withholding Tax Event, an Accounting Event or a Capital Event may occur which would entitle the Issuer, without any requirement for the consent or approval of the Holders, to substitute or vary the Securities (including the substitution of the Securities for securities issued by a wholly-owned finance subsidiary of the Guarantor resident in a taxing jurisdiction other than the Netherlands or Spain), subject to certain conditions intended to protect the interests of the Holders, so that after such substitution or variation the Securities remain or become, as the case may be, eligible for the same or (from the perspective of the Issuer or the Guarantor) more favourable tax, accounting or ratings treatment than the treatment to which they were entitled prior to the relevant event occurring.

Furthermore, there is a risk that if at any time after the Issue Date, the Issuer is required to withhold on account of Taxes levied in the Netherlands on any payment under the Securities, the Issuer may, without any requirement for the consent of the Holders, substitute or vary the Securities.

Any such substitution or variation may have an adverse impact on the price of, and/or the market for, the Securities.

### ***Eligible Projects may not be implemented and investor expectations as to Eligible Projects may not be met***

As described in "Use and Estimated Net Amount of Proceeds" below, the Issuer's intention is to apply the net proceeds of the issue of the Securities specifically for investment in Eligible Projects (as defined below). Eligible Projects may not satisfy, whether in whole or in part, any present or future investor expectations or requirements as regards any investment criteria or guidelines with which such investor or its investments are required to comply, whether by any present or future applicable law or regulations or by its own by-laws or other governing rules or investment portfolio mandates (in particular with regard to any direct or indirect environmental, sustainability or social impact of any projects or uses, the subject of or related to, the relevant Eligible Projects) and may not meet investor expectations or requirements regarding such "green", "sustainable", "social" or similar labels (including Regulation (EU) 2020/852 on the establishment of a framework to facilitate sustainable investment (the so called EU Taxonomy), the operative provisions of which are due to enter into force over the course of 2022 and 2023).

A failure of the Securities to meet investor expectations or requirements as to their "green", "sustainable", "social" or equivalent characteristics including the failure to apply proceeds for Eligible Projects, the failure to provide, or the withdrawal of, a third party opinion or certification, the Securities ceasing to be listed or admitted to trading on any dedicated stock exchange or securities market as aforesaid or the failure by the Issuer to report on the use of proceeds or Eligible Projects as anticipated, may have a material adverse effect on the value of such Securities and/or may have consequences for certain investors with portfolio mandates to invest in sustainable assets (which consequences may include the need to sell the Securities as a result of the Securities not falling within the investor's investment criteria or mandate).

### ***Changes in rating methodologies may lead to the early redemption of the Securities***

S&P, Moody's and Fitch may change, amend or clarify their rating methodology or change their interpretation thereof, and as a result the Securities may no longer be eligible for the same or a higher amount of "equity credit" attributable to the Securities at the date of their issue, in which case the Issuer may redeem all of the Securities (but not some only), as provided in Condition 6(e) (*Redemption and Purchase - Redemption for Rating Reasons*) of the Securities. The relevant redemption amount may be less than the then current market value of the Securities which would impact the return Holders would receive from investing in the Securities.

### ***No limitation on issuing senior or pari passu securities or other liabilities***

There is no restriction on the amount of securities or other liabilities which the Issuer or the Guarantor may issue, incur or guarantee and which rank senior to, or *pari passu* with, the Securities or the Guarantee (as the case may be). The issue of any such securities, the granting of any such guarantees or the incurrence of any such other liabilities may reduce the amount (if any) recoverable by Holders on the insolvency, winding-up, liquidation or dissolution of the Issuer or the Guarantor (as the case may be) and/or may increase the likelihood of a deferral of Interest Payments under the Securities.

If the Issuer's and/or the Guarantor's financial condition were to deteriorate, the Holders could suffer direct and materially adverse consequences, including loss of interest and, if the Issuer and/or the Guarantor were liquidated (whether voluntarily or not), the Holders could suffer loss of their entire investment.

***Interest rate reset may result in a decline of yield***

The Securities pay interest at a fixed interest rate that will be reset during the term of the Securities and therefore the Holders are exposed to the risk of fluctuating interest rate levels and uncertain interest income. Fluctuating interest rate levels make it impossible to determine the yield of the Securities in advance. Therefore, the actual yield of the Securities may fall below the yield anticipated by Holders at the time of purchase of the Securities and could impact the ability of Holders to trade the Securities on the secondary market.

***Any decline in the credit ratings of the Issuer and/or the Guarantor or change in the status of the rating agencies may affect the market value of the Securities***

The Securities have been assigned a rating by S&P, Moody's and Fitch. The rating granted by each of S&P, Moody's and Fitch or any other rating assigned to the Securities may not reflect the potential impact of all risks related to structure, market and other factors that may affect the value of the Securities. A credit rating is not a statement as to the likelihood of deferral of interest on the Securities. Holders have a greater risk of deferral of interest payments than persons holding other securities with similar credit ratings but no, or more limited, interest deferral provisions.

In addition, each of S&P, Moody's and Fitch, or any other rating agency may change its methodologies for rating securities with features similar to the Securities in the future. If the rating agencies were to change their practices for rating such securities in the future and the ratings of the Securities were to be subsequently lowered, this may have a negative impact on the trading price of the Securities.

Furthermore, as a result of the EU CRA Regulation, if the status of a rating agency rating the Securities changes or the rating is not endorsed by a credit rating agency registered under the EU CRA Regulation, European regulated investors may no longer be able to use the rating for regulatory purposes. Similarly, as a result of the UK CRA Regulation, if the status of a rating agency rating the Securities changes or the rating is not endorsed by a credit rating agency registered under the UK CRA Regulation, UK regulated investors may no longer be able to use the rating for regulatory purposes. In both cases, any such change could cause the Securities to be subject to different regulatory treatment. This may result in such UK or European regulated investors, as applicable, selling the Securities, which may impact the value of the Securities and any secondary market trading.

***Risks relating to EURIBOR***

The determination of the Subsequent Fixed Interest Rate in respect of the Securities is dependent upon the relevant 6-month EURIBOR administered by the European Money Markets Institute at the relevant time (as specified in the Conditions) and the 8 Year Swap Rate appearing on the Reuters Screen Page "ICESWAP2" provided by the ICE Benchmark Administration Limited.

EURIBOR and other interest rate or other types of rates and indices which are deemed to be benchmarks ("**benchmarks**") are the subject of ongoing national and international regulatory reform. Following the implementation of any such potential reforms, the manner of administration of benchmarks may change, with the result that they may perform differently than in the past, or benchmarks could be eliminated entirely, or there could be other consequences which cannot be predicted. Any such consequence could affect the manner in which interest determinations are required to be made pursuant to the Conditions, and have a material adverse effect on the value of and return on the Securities.

If the Issuer (in consultation with the Agent Bank) determines that a Benchmark Event (as defined in the Conditions) has occurred, then the Issuer may elect to apply provisions in the Conditions that permit the rate of interest to alternatively be set by the Issuer and an Independent Adviser (without a requirement for the consent or approval of the Holders), by reference to a successor rate or an alternative reference rate and that such successor rate or alternative reference rate may be adjusted (if required). The use of a successor rate or an alternative reference rate may, however, result in interest payments that are lower than, or otherwise do not correlate over time with, the payments that could have been made on the Securities if the relevant benchmark continued to be available in its current form. Furthermore, if the Issuer is unable to

appoint an Independent Adviser or the Independent Adviser and the Issuer fail to agree on a successor rate or an alternative reference rate or any adjustments thereto in accordance with the Conditions, the ultimate fallback of interest for a particular Reset Period may result in the rate of interest for the last preceding Reset Period being used (or, in the case of the Reset Period commencing on the First Reset Date, -0.255 per cent. per annum). Any such consequence could have a material adverse effect on the value of and return on the Securities.

No consent of the Holders shall be required in connection with effecting any relevant successor rate or alternative reference rate (as applicable) or any other related adjustments and/or amendments described above. Any such adjustment could have unexpected commercial consequences and there can be no assurance that, due to the particular circumstances of each Holder, any such adjustment will be favourable to each Holder.

Moreover, any of the above matters or any other significant change to the setting or existence of any relevant reference rate could affect the ability of the Issuer to meet its obligations under the Securities or could have a material adverse effect on the value or liquidity of, and the amount payable under the Securities. Investors should consider these matters when making their investment decision with respect to the Securities.

### **Risks related to insolvency law.**

#### ***Risks arising in connection with EU insolvency law***

From 26 June 2017, Regulation 2015/848 on insolvency proceedings (recast) (the "**EU Insolvency Regulation**") is applicable to all the EU countries except for Denmark. This means that this regulation shall be applicable to all those insolvency proceedings that are initiated in an EU country (except for Denmark), when the centre of main interest of the debtor is located in such countries.

If the centre of main interests of a company is in one Member State (other than Denmark) under Article 3(2) of the EU Insolvency Regulation, the courts of another Member State (other than Denmark) have jurisdiction to open insolvency proceedings against that company only if such company has an "establishment" in the territory of such other Member State. An "establishment" is defined as any place of operations where a debtor carries out or has carried out in the 3-month period prior to the request to open main insolvency proceedings a non-transitory economic activity with human means and assets. The effects of those insolvency proceedings opened in that other Member State are restricted to the assets of the company situated in such other Member State and so may impact the ability of holders of the Securities to commence insolvency proceedings against the Issuer or the Guarantor outside the centre of main interest of such companies.

#### ***Risks arising in connection with the Dutch insolvency law***

Where a company (incorporated in the Netherlands or elsewhere) has its "centre of main interest" or an "establishment" in the Netherlands, it may be subjected to insolvency proceedings in this jurisdiction. This is particularly relevant for the Issuer, which has its corporate seat (*statutaire zetel*) in Amsterdam, the Netherlands, and is therefore presumed (subject to proof to the contrary) to have its "centre of main interests" in the Netherlands.

There are two primary insolvency regimes under Dutch law applicable to legal entities. The first, suspension of payments (*surseance van betaling*), is intended to facilitate the reorganisation of a debtor's indebtedness and enable the debtor to continue as a going concern. The second, bankruptcy (*faillissement*), is primarily designed to liquidate and distribute the proceeds of the assets of a debtor to its creditors. Both insolvency regimes are set forth in the Dutch Bankruptcy Act. The consequences of both proceedings are roughly equal from the perspective of a creditor, with creditors being treated on a *pari passu* basis subject to exceptions. A general description of the principles of both insolvency regimes is set forth below.

Under Dutch law secured creditors (and in case of suspension of payment also preferential creditors (including tax and social security authorities)) may enforce their rights against assets of the company to satisfy their claims as if there were no insolvency proceedings. A recovery under Dutch law could, therefore, involve a sale of assets that does not reflect the going concern value of the Issuer. Consequently, a holder's potential recovery could be reduced in Dutch insolvency proceedings.

Any pending executions of judgments against the Issuer would be suspended by operation of law when suspension of payments is granted and terminate by operation of law when bankruptcy is declared. In addition, any attachment by a holder of the Securities on the Issuer's assets will cease to have effect upon the suspension of payments having become definitive, a composition having been ratified by the court or the declaration of bankruptcy (as the case may be) subject to the ability of the court to set an earlier date for such termination.

In a suspension of payments or a bankruptcy, a composition (*akkoord*) may be offered to creditors (including the holders of the Securities). A composition will be binding on all unsecured and non-preferential creditors (including the holders of the Securities) if it is (i) approved by a simple majority of the creditors being present or represented at the creditors' meeting, representing at least 50 per cent. of the amount of the claims that are admitted for voting purposes; and (ii) subsequently ratified (*gehomologeerd*) by the competent Dutch court. Consequently, Dutch insolvency laws could preclude or inhibit the ability of the holders of the Securities to effect a restructuring and could reduce the recovery of a holder of Securities.

The existence, value and ranking of any claims submitted by the holders of the Securities may be challenged in the Dutch insolvency proceedings. Generally, in a creditors' meeting (*verificatievergadering*), the receiver in bankruptcy, the administrator in suspension of payments proceedings, the insolvent debtor and all verified creditors may dispute the verification of claims of other creditors. Creditors whose claims or value thereof are disputed in the creditors' meeting may be referred to separate court proceedings (*renvooiprocedure*) in bankruptcy, while in suspension of payments the court will decide how a disputed claim will be treated for voting purposes. These situations could cause holders of Securities to recover less than the principal amount of their Securities. *Renvooi* procedures could also cause payments to the holders of Securities to be delayed compared to holders of undisputed claims.

The Dutch Bankruptcy Act does not in itself recognise the concept of classes of creditors. Remaining amounts, if any, after satisfaction of the secured and the preferential creditors are distributed among the unsecured non-preferential creditors, who will be satisfied on a *pro rata* basis. Contractual subordination may to a certain extent be given effect in Dutch insolvency proceedings, with the actual effect largely depending on the way such subordination is construed.

As a result of the above risks, payments to holders of the Securities if the Issuer entered Dutch insolvency proceedings could be subject to delay and the recovery by holders in respect of the Securities could be impacted.

#### *The Dutch Scheme*

On 1 January 2021, a bill entered into force in the Netherlands for the implementation of a composition outside bankruptcy or moratorium of payments proceedings, which is referred to as the Act on Confirmation of Extrajudicial Restructuring Plans (*Wet homologatie onderhands akkoord* ("**CERP**")). Under the CERP, a proceeding is available to restructure debts of companies in financial distress outside insolvency proceedings (the "**Dutch Scheme**"). The CERP provides that a debtor or a court-appointed restructuring expert may offer creditors (including secured creditors) and shareholders a composition plan. Upon confirmation by the court, such plan is binding on the creditors and shareholders to whom it has been offered and changes their rights. A composition plan under the CERP can also extend to claims against group companies of the debtor on the account of guarantees for the debtor's obligations, if *inter alia* (i) the relevant group companies are reasonably expected to be unable to continue to pay their debts as they fall due and (ii) the Dutch courts would have jurisdiction if the relevant group company would offer its creditors and shareholders a composition plan under the CERP. Jurisdiction of the Dutch courts under the CERP may extend to entities incorporated or residing outside the Netherlands on the basis that there is a connection with the jurisdiction of the Netherlands.

Under the CERP, voting on a composition plan is done in classes. Approval by a class requires a decision adopted with a majority of two-third of the claims of that class that have voted on the plan or, in the case of a class of shareholders, two-thirds of the shares of that class that have voted on the plan. The CERP provides for the possibility for a composition plan to be binding on a non-consenting class (cross-class cram down). Under the CERP, the court will confirm a composition plan if at least one class of creditors (other than a class of shareholders) that can be expected to receive a distribution in case of a bankruptcy of the debtor approves the plan, unless there is a ground for refusal. The court can, *inter alia*, refuse confirmation of a composition plan on the basis of (i) a request by an affected creditor of a consenting class if the value

of the distribution that such creditor receives under the plan is lower than the distribution it can be expected to receive in case of a bankruptcy of the debtor or (ii) a request of an affected creditor of a non-consenting class, if the plan provides for a distribution of value that deviates from the statutory or contractual ranking and priority to the detriment of that class.

Under the CERP, the court may grant a stay on enforcement of a maximum of four months, with a possible extension of four months. During such period, inter alia, all enforcement action against the assets of (or in the possession of) the debtor is suspended, including action to enforce security over the assets of the debtor. Accordingly, during such stay a pledgee of claims may not collect nor notify the debtors of such pledged claims of its rights of pledge.

Claims of creditors against the Issuer can be compromised as a result of a composition plan adopted and confirmed in accordance with the CERP. Accordingly, the CERP can affect the rights of the holders of Securities.

#### *Emergency Legislation to Protect Enterprises in Financial Distress due to the COVID-19 Pandemic*

The Temporary Act COVID-19 Ministry of Social Affairs and Ministry of Justice (*Tijdelijke wet COVID-19 SZW en JV*) entered into force on 17 December 2020. The emergency legislation provides for a court-ordered moratorium and several related protections which applies until 1 April 2021 and can, if and when necessary, be extended beyond that date for two-month periods at a time. Under this temporary act, a debtor is (amongst others) entitled to request the court for suspension of enforcement measures and/or any court decisions regarding bankruptcy requests. The court will grant such request of the debtor under specific circumstances, such as: (i) suspension is necessary for continuation of the company's activities; (ii) it is summarily evidenced that the current financial situation is mainly (or completely) caused by the measurements imposed as from 16 March 2020 as a result of the COVID-19 outbreak, and as a result the company is temporarily unable to pay its debts; and it is evidenced that the financial situation of the company before the COVID-19 outbreak was normal and it is expected that the financial situation will be better in the (near) future. If approved, suspension will be initially granted for two months and can be extended two times for again a period of two months.

#### *Risks arising in connection with the Spanish insolvency law*

The consolidated text of the Spanish Insolvency Law approved by Legislative Royal Decree 1/2020, of 5 May (*Real Decreto Legislativo 1/2020, de 5 de mayo, por el que se aprueba el texto refundido de la Ley Concursal*) (the "**Spanish Insolvency Law**") regulates pre-insolvency and court insolvency proceedings, as opposed to out-of-court liquidation, which is only available when the debtor has sufficient assets to meet its liabilities.

A debtor (and in the case of a company, its directors) is required to apply for insolvency proceedings when it is not able to meet its current obligations (*insolvencia actual*) within the term of two months as from the moment that it knows that it is insolvent or as from the moment it should have known it is insolvent. The debtor is also entitled to apply for such insolvency proceedings when it expects that it will shortly be unable to do so (*insolvencia inminente*). Insolvency proceedings are available as a type of legal protection that the debtor may request in order to avoid the attachment of its assets by its creditors.

Notwithstanding the foregoing, pursuant to Law 3/2020 of 18 September, which introduces a new set of measures within the Spanish judicial system to deal with the effects caused by COVID-19 pandemic, until 14 March 2021 (inclusive) debtors that are insolvent will not have the duty to file for insolvency proceedings, whether or not they have notified the judge that negotiations have been opened with creditors to reach a refinancing agreement, to reach an out-of-court payment agreement (*acuerdo extrajudicial de pagos*) or acceptances of a company voluntary arrangement (*propuesta anticipada de convenio*). Additionally, until 14 March 2021 (inclusive), judges will not agree to process petitions for compulsory insolvency proceedings filed by creditors after the state of emergency was declared in Spain (i.e. 14 March 2020). However, if a debtor voluntarily files for insolvency on or before 14 March 2021, this petition will be processed as a priority even if it comes after creditors petition for compulsory insolvency proceedings.

The court resolution declaring the insolvency proceedings (*auto de declaración de concurso*) contains an express request for the creditors to declare debts owed to them, within a one-month period as from the day after the publication of the insolvency proceeding in the Spanish Official Gazette (*Boletín Oficial del Estado*), providing documentation to justify such credits. Based on the documentation provided by the



creditors and that is held by the debtor, the court receivers draw up an inventory and a list of acknowledged creditors and classify them according to the categories established under law: (i) debts against the insolvency estate; (ii) debt benefiting from special privileges; (iii) debt benefiting from general privileges; (iv) ordinary debt; and (v) subordinated debt.

As a general rule, insolvency proceedings are not compatible with other enforcement proceedings. When compatible, in order to protect the interests of the debtor and creditors, the law extends the jurisdiction of the court dealing with insolvency proceedings, which is, then, legally authorised to handle any enforcement proceedings or interim measures affecting the debtor's assets (whether based upon civil, labour or administrative law).

Holders should be aware (i) of the effects of a declaration of insolvency (*declaración de concurso*) of the Guarantor set out above; (ii) that their claims against the Guarantor would therefore be subordinated behind other classes of creditor set out above; and (iii) subordinated creditors may not vote on an arrangement and have very limited chances of collection, according to the ranking established by the Spanish Insolvency Law.

### **Risks related to the Securities generally**

Set out below is a brief description of certain risks relating to the Securities generally:

#### ***Majority decisions bind all Holders***

The Conditions contain provisions for calling meetings of Holders of the Securities to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Holders of the Securities including Holders of the Securities who did not attend and vote at the relevant meeting and Holders who voted in a manner contrary to the majority.

#### ***There is no active trading market for the Securities***

The Securities are new securities which may not be widely distributed and for which there is currently no active trading market. If the Securities are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Issuer and the Guarantor. Although applications have been made for the Securities to be admitted to listing on the Official List and to trading on the regulated market of Euronext Dublin, there is no assurance that such applications will be accepted or that an active trading market will develop. Accordingly, there can be no assurance that a trading market will develop for the Securities or, if one does develop, that it will be of sufficient liquidity.

#### ***Because the Global Securities are held by or on behalf of Euroclear and Clearstream, Luxembourg, investors will have to rely on their procedures for transfer, payment and communication with the Issuer and/or the Guarantor***

The Securities will be represented by the Global Securities except in certain limited circumstances described in the Permanent Global Security. While the Securities are represented by the Global Securities, investors will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg.

The Issuer and the Guarantor will discharge their payment obligations under the Securities by making payments to or to the order of the common depositary for Euroclear and Clearstream, Luxembourg for distribution to their account holders. A holder of a beneficial interest in a Global Security must rely on the procedures of Euroclear and Clearstream, Luxembourg to receive payments under the Securities. The Issuer and the Guarantor have no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Securities and Holders may be adversely affected should such records be incorrect or such payments not be made or be paid incorrectly.

Holders of beneficial interests in the Global Securities will not have a direct right to vote in respect of the Securities. Instead, such holders will be permitted to act only to the extent that they are enabled by Euroclear and Clearstream, Luxembourg to appoint appropriate proxies and such holders may be adversely affected should it not be possible for them to vote in respect of the Securities as a result.

***Exchange rate fluctuations may affect the value of the Securities***

The Issuer will pay principal and interest on the Securities in euro. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than euro. These include the risk that exchange rates may significantly change (including changes due to devaluation of euro or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to euro would decrease (i) the Investor's Currency-equivalent yield on the Securities, (ii) the Investor's Currency-equivalent value of the principal payable on the Securities, and (iii) the Investor's Currency equivalent market value of the Securities.

Government and monetary authorities may impose exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal. Any of the foregoing events could adversely affect the price of the Securities.

## OVERVIEW OF THE SECURITIES

*This overview must be read as an introduction to this Prospectus and any decision to invest in the Securities should be based on a consideration of the Prospectus as a whole, including the documents incorporated by reference.*

*Words and expressions defined in the "Terms and Conditions of the Securities" below or elsewhere in this Prospectus, have the same meanings in this overview.*

<b>Issuer:</b>	Telefónica Europe B.V.
<b>Guarantor:</b>	Telefónica, S.A.
<b>Description of Securities:</b>	EUR 1,000,000,000 Undated 8.25 Year Non-Call Deeply Subordinated Guaranteed Fixed Rate Reset Securities (the " <b>Securities</b> ").
<b>Joint Bookrunners:</b>	Banco Bilbao Vizcaya Argentaria, S.A., BNP Paribas, BofA Securities Europe SA, Caixabank, S.A., Crédit Agricole Corporate and Investment Bank, HSBC Continental Europe, Mizuho Securities Europe GmbH, MUFG Securities (Europe) N.V., NatWest Markets N.V. and UniCredit Bank AG.
<b>Fiscal Agent:</b>	The Bank of New York Mellon, London Branch.
<b>Listing Agent:</b>	The Bank of New York Mellon SA/NV, Dublin Branch.
<b>Issue Price:</b>	100 per cent. of the principal amount.
<b>Issue Date:</b>	12 February 2021.
<b>Maturity Date:</b>	Undated.
<b>Interest:</b>	<p>The Securities will bear interest on their principal amount:</p> <ul style="list-style-type: none"> <li>(i) from (and including) the Issue Date to (but excluding) the First Reset Date at a rate of 2.376 per cent. per annum; and</li> <li>(ii) from (and including) the First Reset Date, at the applicable 8 Year Swap Rate in respect of the relevant Reset Period plus: <ul style="list-style-type: none"> <li>(A) in respect of the period commencing on the First Reset Date to (but excluding) 12 February 2031, 2.616 per cent. per annum;</li> <li>(B) from (and including) 12 February 2031 to (but excluding) 12 May 2049, 2.866 per cent. per annum; and</li> <li>(C) from (and including) 12 May 2049, 3.616 per cent. per annum,</li> </ul> </li> </ul> <p>all as determined by the Agent Bank, payable annually (except for a long first Interest Period) in arrear on each Interest Payment Date, commencing on 12 May 2022, subject to Condition 5 (<i>Optional Interest Deferral</i>), all as more particularly described in Condition 4 (<i>Interest Payments</i>) of the Conditions.</p>
<b>Interest Payment Dates:</b>	Interest payments in respect of the Securities will be payable annually (except for a long first Interest Period) in arrear on 12 May in each year, commencing on 12 May 2022.
<b>Status of the Securities:</b>	The Securities and the Coupons constitute direct, unsecured and subordinated obligations of the Issuer (senior only to Junior Obligations of the Issuer) and will at all times rank <i>pari passu</i> and without any preference among themselves.

<b>Subordination of the Securities:</b>	<p>In the event of an Issuer Winding-up, the rights and claims of the Holders against the Issuer in respect of or arising under the Securities and the Coupons will rank (i) junior to the claims of all holders of Senior Obligations of the Issuer, (ii) <i>pari passu</i> with the claims of holders of all Parity Obligations of the Issuer and (iii) senior to the claims of holders of all Junior Obligations of the Issuer.</p> <p>Subject to applicable law, no Holder may exercise or claim any right of set-off in respect of any amount owed to it by the Issuer arising under or in connection with the Securities or the Coupons and each Holder shall, by virtue of being the Holder, be deemed to have waived all such rights of set-off. Condition 2(b) (<i>Status and Subordination of the Securities and Coupons - Subordination of the Securities</i>) of the Securities is an irrevocable stipulation (<i>derdenbeding</i>) for the benefit of the creditors of Senior Obligations of the Issuer and each such creditor may rely on and enforce Condition 2(b) (<i>Status and Subordination of the Securities and Coupons - Subordination of the Securities</i>) of the Securities under Section 6:253 of the Dutch Civil Code.</p>
<b>Guarantee and Status of Guarantee:</b>	<p>Payment of all sums expressed to be payable by the Issuer under the Securities and the Coupons will be unconditionally and irrevocably guaranteed by the Guarantor on a subordinated basis.</p> <p>The payment obligations of the Guarantor under the Guarantee constitute direct, unsecured and subordinated obligations of the Guarantor (senior only to Junior Obligations of the Guarantor) and will at all times rank <i>pari passu</i> and without preference among themselves.</p>
<b>Subordination of the Guarantee:</b>	<p>Subject to mandatory provisions of Spanish applicable law, in the event of the Guarantor being declared in insolvency (<i>concurso</i>) under Spanish Insolvency Law, the rights and claims of Holders against the Guarantor in respect of or arising under the Guarantee will rank (i) junior to the claims of the holders of all Senior Obligations of the Guarantor, (ii) <i>pari passu</i> with the claims of the holders of all Parity Obligations of the Guarantor, and (iii) senior to the claims of the holders of all Junior Obligations of the Guarantor.</p>
<b>Optional Interest Deferral:</b>	<p>The Issuer may, at its sole discretion, elect to defer (in whole or in part) any payment of interest on the Securities, as more particularly described in "<i>Terms and Conditions of the Securities - Optional Interest Deferral</i>". Non-payment of interest so deferred shall not constitute a default by the Issuer or Guarantor under the Securities or the Guarantee or for any other purpose. Any amounts so deferred, together with further interest accrued thereon (at the Prevailing Interest Rate applicable from time to time), shall constitute Arrears of Interest.</p>
<b>Optional Settlement of Arrears of Interest:</b>	<p>Arrears of Interest may be satisfied at the option of the Issuer, in whole or in part, at any given time upon giving not more than 14 and no less than seven Business Days' notice to the Holders, the Fiscal Agent and the Paying Agents prior to the relevant Optional Deferred Interest Settlement Date informing them of its election so to satisfy such Arrears of Interest (or part thereof) and specifying the relevant Optional Deferred Interest Settlement Date. See Condition 5(b) (<i>Optional Interest Deferral - Optional Settlement of Arrears of Interest</i>) of the Securities.</p>
<b>Mandatory Settlement of Arrears of Interest:</b>	<p>The Issuer shall pay any outstanding Arrears of Interest in whole, but not in part, on the first occurring Mandatory Settlement Date following the Interest Payment Date on which any outstanding Deferred Interest Payment was first deferred.</p> <p><b>"Mandatory Settlement Date"</b> means the earliest of:</p>

- (i) as soon as reasonably practicable (but no later than the fifth business day) following the date on which a Compulsory Arrears of Interest Settlement Event occurs;
- (ii) following any Deferred Interest Payment, on the next scheduled Interest Payment Date on which the Issuer does not elect to defer in whole the interest accrued in respect of the Interest Period; and
- (iii) the date on which the Securities are redeemed or repaid in accordance with Condition 6 (*Redemption and Purchase*) of the Securities or become due and payable in accordance with Condition 9 (*Enforcement Events and No Events of Default*) of the Securities.

Subject to certain exceptions, as more particularly described in Condition 5 (*Optional Interest Deferral*) of the Securities, a "Compulsory Arrears of Interest Settlement Event" shall have occurred if:

- (i) a Dividend Declaration is made in respect of any Junior Obligations or any Parity Obligations (other than in respect of any such dividend, distribution or payment paid or made exclusively in Ordinary Shares of the Guarantor); or
- (ii) the Guarantor or any of its subsidiaries has repurchased, redeemed or otherwise acquired any Junior Obligations or any Parity Obligations,

all as more particularly described in Condition 5 (*Optional Interest Deferral*) of the Securities.

**Optional Redemption:**

The Issuer may redeem the Securities in whole, but not in part, on (i) any date during the Relevant Period, at their principal amount or (ii) on any Interest Payment Date thereafter, at their principal amount or (iii) at any other time at their Make-Whole Redemption Amount, in each case, together with any accrued and unpaid interest up to (but excluding) the Redemption Date and any outstanding Arrears of Interest.

In addition, upon the occurrence of an Accounting Event, a Capital Event, a Tax Event, a Withholding Tax Event or a Substantial Purchase Event, the Securities will be redeemable (at the option of the Issuer) in whole, but not in part, at the prices set out, and as more particularly described, in Condition 6 (*Redemption and Purchase*) of the Securities.

**Events of Default:**

There are no events of default in respect of the Securities. However, if an Issuer Winding-up occurs, or an order is made or an effective resolution passed for the winding-up, dissolution or liquidation of the Guarantor, or the Guarantor becomes insolvent (*en estado de insolvencia*) pursuant to article 2 of the Spanish Insolvency Law, any Holder of a Security, in respect of such Security and provided that such Holder does not contravene an Extraordinary Resolution (if any) may, by written notice to the Issuer and the Guarantor, declare that such Security and all interest then accrued but unpaid on such Security shall be forthwith due and payable, whereupon the same shall become immediately due and payable, together with all interest accrued thereon.

In such case the Holder of a Security may, at its sole discretion, institute steps in order to obtain a judgment against the Issuer and/or the Guarantor for any amounts due in respect of the Securities, including the institution of proceedings for the declaration of insolvency (*declaración de concurso*) under Spanish Insolvency Law of the Guarantor and/or proving and/or claiming in an Issuer Winding-up or in the winding-up, dissolution, liquidation or insolvency proceeding of the Guarantor for such amount.

<b>Additional Amounts:</b>	Payments in respect of the Securities and the Coupons by the Issuer or (as the case may be) the Guarantor under the Guarantee will be made without withholding or deduction for, or on account of, taxes of the Netherlands or the Kingdom of Spain, unless such withholding or deduction is required by law. In the event that any such withholding or deduction is made, additional amounts will be payable by the Issuer or, as the case may be, the Guarantor, subject to certain exceptions as are more fully described in Condition 8(a) ( <i>Taxation - Additional Amounts</i> ) of the Securities.
<b>Form:</b>	The Securities will be in bearer form and will initially be represented by the Temporary Global Security, without interest coupons or talons, which will be deposited with a common depositary on behalf of Euroclear and Clearstream, Luxembourg on or about the Issue Date. Interests in the Temporary Global Security will be exchangeable for interests in the Permanent Global Security as set out in the Temporary Global Security. The Permanent Global Security will be exchangeable for Definitive Securities in the circumstances set out in the Permanent Global Security. See " <i>Summary of Provisions relating to the Securities while in Global Form</i> ".
<b>Substitution or Variation:</b>	<p>If at any time after the Issue Date, the Issuer and/or the Guarantor determines that a Tax Event, a Withholding Tax Event, an Accounting Event or a Capital Event has occurred, then the Issuer may, subject to Condition 12(c) (<i>Meetings of Holders of Securities and Modification, Substitution and Variation - Substitution and Variation</i>) of the Securities (without any requirement for the consent or approval of the Holders) and having given not less than 10 nor more than 60 days' notice to the Fiscal Agent and, in accordance with Condition 14 (<i>Notices</i>) of the Securities, the Holders (which notice shall be irrevocable), on any applicable Interest Payment Date either (i) exchange the Securities for new securities of the Issuer, the Guarantor or any wholly-owned direct or indirect finance subsidiary of the Guarantor with a guarantee of the Guarantor or (ii) vary the terms of the Securities, so that after such substitution or variation the Securities remain or become, as the case may be, eligible for the same or (from the perspective of the Issuer or the Guarantor) more favourable tax, accounting or ratings treatment than the treatment to which they were entitled prior to the relevant event occurring.</p> <p>If at any time after the Issue Date, the Issuer is required to withhold on account of Taxes levied in the Netherlands on any payment under the Securities, the Issuer may, subject to Condition 12(c) (<i>Meetings of Holders of Securities and Modification, Substitution and Variation - Substitution and Variation</i>) of the Securities (without any requirement for the consent of the Holders), on any applicable Interest Payment Date, without the consent of the Holders, (i) exchange the Securities into new securities of the Issuer, the Guarantor or any wholly-owned direct or indirect finance subsidiary of the Guarantor with a guarantee of the Guarantor, or (ii) vary the terms of the Securities.</p>
<b>Denominations:</b>	The Securities will be issued in the denomination of EUR 100,000.
<b>Governing Law:</b>	The Fiscal Agency Agreement, the Securities, the Coupons and the Guarantee and any non-contractual obligations arising out of or in connection with them are governed by and shall be construed in accordance with English law, other than the provisions of Condition 2(b) ( <i>Status and Subordination of the Securities and Coupons - Subordination of the Securities</i> ) of the Securities relating to the subordination of the Securities which are governed by and construed in accordance with the laws of the Netherlands, and the provisions of Conditions 3(b) ( <i>Guarantee, Status and Subordination of the Guarantee - Status of the Guarantee</i> ) of the Securities and Condition 3(c) ( <i>Guarantee, Status and Subordination of the Guarantee - Subordination of the Guarantee</i> ) of the Securities relating to the subordination of the Guarantee and the corresponding provisions of the Guarantee which are governed by and

construed in accordance with the laws of the Kingdom of Spain. See Condition 16 (*Governing Law*) of the Securities.

**Replacement  
Intention:**

The Guarantor intends (without thereby assuming any obligation) at any time that it or the Issuer will redeem or repurchase the Securities only to the extent that the aggregate principal amount of the Securities to be redeemed or repurchased does not exceed such part of the net proceeds received by the Guarantor or any subsidiary of the Guarantor on or prior to the date of such redemption or repurchase from the sale or issuance by the Guarantor or such subsidiary to third party purchasers (other than group entities of the Guarantor) of securities which are assigned by S&P, at the time of sale or issuance, an aggregate "equity credit" (or such similar nomenclature used by S&P from time to time) that is equal to or greater than the "equity credit" assigned to the Securities to be redeemed or repurchased at the time of their issuance (but taking into account any changes in hybrid capital methodology or another relevant methodology or the interpretation thereof since the issuance of the Securities), unless:

- (i) the rating assigned by S&P to the Guarantor is the same as or higher than the long-term corporate credit rating assigned to the Guarantor on the date when the most recent additional hybrid security was issued (excluding refinancings without net new issuance) and the Guarantor is of the view that such rating would not fall below this level as a result of such redemption or repurchase; or
- (ii) in the case of a repurchase, such repurchase is of less than (a) 10 per cent. of the aggregate principal amount of the outstanding hybrid securities of the Group in any period of 12 consecutive months or (b) 25 per cent. of the aggregate principal amount of the outstanding hybrid securities of the Group in any period of 10 consecutive years; or
- (iii) if the Securities are not assigned an "equity credit" by S&P (or such similar nomenclature then used by S&P at the time of such redemption or repurchase); or
- (iv) in the case of a repurchase, such repurchase relates to an aggregate principal amount of Securities which is less than or equal to the excess (if any) above the maximum aggregate principal amount of the Guarantor's hybrid capital to which S&P then assigns equity content under its prevailing methodology; or
- (v) the Securities are redeemed pursuant to a Tax Event, a Capital Event, a Substantial Purchase Event, an Accounting Event or a Withholding Tax Event; or
- (vi) such redemption or repurchase occurs on or after the Reset Date falling on 12 May 2049.

<b>Rating:</b>	<p>The Securities are expected to be rated BB by S&amp;P, Ba2 by Moody's and BB+ by Fitch.</p> <p>S&amp;P, Moody's and Fitch are established in the European Union and registered under the EU CRA Regulation. The ratings S&amp;P, Moody's and Fitch have given to the Securities have been endorsed by S&amp;P Global Ratings UK Limited, Moody's Investors Service Ltd and Fitch Ratings Ltd (respectively) which are established in the United Kingdom and registered under the UK CRA Regulation.</p> <p>A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.</p>
<b>Listing and Admission to Trading:</b>	<p>This Prospectus has been approved by the Central Bank, which is the competent authority for the purposes of the EU Prospectus Regulation as a prospectus issued for the purpose of giving information with regard to the issue of the Securities. Application has been made for the Securities to be admitted to listing on the Official List and to trading on the regulated market of Euronext Dublin. The regulated market is a regulated market for the purposes of EU MiFID II.</p>
<b>Selling Restrictions:</b>	<p>The United States, the United Kingdom and the EEA (including the Kingdom of Spain and the Republic of Italy). See "<i>Subscription and Sale</i>".</p> <p>Category 2 selling restrictions will apply for the purposes of Regulation S under the Securities Act.</p>
<b>Use and Estimated Net Amount of Proceeds:</b>	<p>The aggregate net proceeds of the issue of the Securities, expected to amount to EUR 994,500,000, will be allocated towards Eligible Projects (as described in "<i>Use and Estimated Net Amount of Proceeds</i>" below).</p>
<b>Risk Factors:</b>	<p>Prospective investors should carefully consider the information set out in "<i>Risk Factors</i>" in conjunction with the other information contained or incorporated by reference in this Prospectus.</p>
<b>ISIN:</b>	XS2293060658.
<b>Common Code:</b>	229306065.



## INFORMATION INCORPORATED BY REFERENCE

The information set out in the table below shall be deemed to be incorporated in, and to form part of, this Prospectus **provided however that** any statement contained in any document incorporated by reference in, and forming part of, this Prospectus shall be deemed to be modified or superseded for the purpose of this Prospectus to the extent that a statement contained herein modifies or supersedes such statement.

Such documents will be made available, free of charge, during usual business hours at the specified offices of the Fiscal Agent, unless such documents have been modified or superseded. In addition the audited unconsolidated financial statements of Telefónica Europe B.V. for the year ended 31 December 2019 are available on [https://www.rns-pdf.londonstockexchange.com/rns/1884H\\_1-2020-3-23.pdf](https://www.rns-pdf.londonstockexchange.com/rns/1884H_1-2020-3-23.pdf); the audited unconsolidated financial statements of Telefónica Europe B.V. for the year ended 31 December 2018 are available on [https://www.rns-pdf.londonstockexchange.com/rns/8900Q\\_1-2019-2-22.pdf](https://www.rns-pdf.londonstockexchange.com/rns/8900Q_1-2019-2-22.pdf); the unaudited and unreviewed interim unconsolidated financial statements of Telefónica Europe B.V. for the six months ended 30 June 2020 are available on [https://www.rns-pdf.londonstockexchange.com/rns/8428U\\_1-2020-7-31.pdf](https://www.rns-pdf.londonstockexchange.com/rns/8428U_1-2020-7-31.pdf); the audited consolidated financial statements of Telefónica, S.A. for the year ended 31 December 2019 (the "2019 Consolidated Financial Statements") are available on <https://www.telefonica.com/documents/162467/141705152/Consolidated-Annual-Accounts-2019.pdf/2532d380-3cfd-5d90-d0d8-a475f7a4251f>; the audited consolidated financial statements of Telefónica, S.A. for the year ended 31 December 2018 are available on [https://www.rns-pdf.londonstockexchange.com/rns/7202Q\\_2-2019-2-21.pdf](https://www.rns-pdf.londonstockexchange.com/rns/7202Q_2-2019-2-21.pdf); the unaudited condensed consolidated interim financial statements of Telefónica, S.A. for the six months ended 30 June 2020 subject to limited review are available on <https://www.telefonica.com/documents/162467/145816197/rdos19t2-ipp-cuentas-resumidas-eng.pdf/7685238c-946b-e2c3-fc2c-8e794c3b836c>; and the unaudited consolidated interim management statement of Telefónica, S.A. for the nine months ended 30 September 2020 is available on <https://www.telefonica.com/documents/162467/145816197/rdos20t3-interim-management-statement.pdf/1ae6df8f-a105-f9eb-f1a5-5511f2613bd6>.

For ease of reference, the tables below set out:

- (a) the relevant page references for the financial statements, the notes to the financial statements and the auditor's reports for the years ended 31 December 2019 and 2018 and the unaudited and unreviewed interim unconsolidated financial statements for the six months ended 30 June 2020, for the Issuer; and
- (b) the relevant page references for the consolidated financial statements and, as applicable, the notes to the consolidated financial statements and the auditor's reports for the years ended 31 December 2019 and 2018, the unaudited condensed consolidated interim financial statements, the limited review report and the notes to the financial statements for the six months ended 30 June 2020 and the unaudited consolidated interim management statement for the nine months ended 30 September 2020, for the Guarantor.

### **Telefónica Europe B.V.**

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#### ***Financial Statements for the year ended 31 December 2018***

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***Unaudited Interim Financial Statements for the six months ended 30 June 2020***

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**Telefónica, S.A.**

***Consolidated Financial Statements for the year ended 31 December 2019***

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***Consolidated Financial Statements for the year ended 31 December 2018***

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***Unaudited Condensed Consolidated Interim Financial Statements for the six months ended 30 June 2020***

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***Unaudited Consolidated Interim Management Statement for the nine months ended 30 September 2020***

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Where only certain parts of a document are incorporated by reference, the non-incorporated parts of the document are either not relevant to investors or are covered elsewhere in this Prospectus.

Any documents which are themselves incorporated by reference in the information incorporated by reference in this Prospectus will not form part of this Prospectus.

All documents incorporated by reference have been filed with the Central Bank.

For the avoidance of doubt, unless specifically incorporated by reference into this Prospectus, information contained on any website does not form part of this Prospectus.

## TERMS AND CONDITIONS OF THE SECURITIES

*The following are the terms and conditions in the form in which they will be endorsed on the Securities. Sentences in italics shall not form part of these terms and conditions.*

The issue of the EUR 1,000,000,000 Undated 8.25 Year Non-Call Deeply Subordinated Guaranteed Fixed Rate Reset Securities (the "**Securities**") was authorised by a resolution of the Board of Managing Directors of the Issuer dated 21 January 2021 and the guarantee of the Securities was authorised by a resolution of the Delegated Committee of the Board of Directors of the Guarantor dated 15 January 2021, acting upon a resolution of the shareholders acting through the General Shareholders' Meeting of the Guarantor dated 12 June 2020 and a resolution of the Board of Directors of the Guarantor dated 12 June 2020. A fiscal agency agreement dated 12 February 2021 (the "**Fiscal Agency Agreement**") has been entered into in relation to the Securities between the Issuer, the Guarantor, The Bank of New York Mellon, London Branch as fiscal agent, The Bank of New York Mellon, London Branch as agent bank and the paying agents named therein. The fiscal agent, the agent bank and the paying agents for the time being are referred to below respectively as the "**Fiscal Agent**", the "**Agent Bank**" and the "**Paying Agents**" (which expression shall include the Fiscal Agent). The Fiscal Agency Agreement includes the form of the Securities and the coupons relating to them (the "**Coupons**", which expression includes, where the context so permits, talons for further coupons (the "**Talons**")). Copies of the Fiscal Agency Agreement are available for inspection during normal business hours at the specified offices of the Paying Agents or via electronic means at the relevant Paying Agent's discretion. The Holders of the Securities and the Holders of the Coupons (each as defined in Condition 1(b) (*Form Denomination and Title - Title*) below) (whether or not attached to the Securities) are deemed to have notice of all the provisions of the Fiscal Agency Agreement applicable to them.

### 1. **Form, Denomination and Title**

- (a) **Form and denomination:** The Securities are serially numbered and in bearer form in the denomination of EUR 100,000, each with Coupons attached on issue.
- (b) **Title:** Title to the Securities and Coupons passes by delivery. The holder of any Security or Coupon (a "**Holder**") will (except as otherwise required by applicable law or regulatory requirement) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it, any writing on it, or its theft or loss) and no person shall be liable for so treating the Holder.

### 2. **Status and Subordination of the Securities and Coupons**

- (a) **Status of the Securities and Coupons:** The Securities and the Coupons constitute direct, unsecured and subordinated obligations of the Issuer (senior only to Junior Obligations of the Issuer) and shall at all times rank *pari passu* and without any preference among themselves.
- (b) **Subordination of the Securities:** In the event of an Issuer Winding-up, the rights and claims of the Holders against the Issuer in respect of or arising under the Securities and the Coupons will rank (i) junior to the claims of all holders of Senior Obligations of the Issuer, (ii) *pari passu* with the claims of holders of all Parity Obligations of the Issuer and (iii) senior to the claims of holders of all Junior Obligations of the Issuer.

Subject to applicable law, no Holder may exercise or claim any right of set-off in respect of any amount owed to it by the Issuer arising under or in connection with the Securities or the Coupons and each Holder shall, by virtue of being the Holder, be deemed to have waived all such rights of set-off. This Condition 2(b) is an irrevocable stipulation (*derdenbeding*) for the benefit of the creditors of Senior Obligations of the Issuer and each such creditor may rely on and enforce this Condition 2(b) under Section 6:253 of the Dutch Civil Code.

### 3. **Guarantee, Status and Subordination of the Guarantee**

- (a) **Guarantee:** The Guarantor has unconditionally and irrevocably guaranteed the due payment of all sums expressed to be payable by the Issuer under the Securities and the Coupons on a subordinated basis. Its obligations in that respect (the "**Guarantee**") are set

out in the deed of guarantee dated the Issue Date and made by the Guarantor for the benefit of the Holders.

- (b) **Status of the Guarantee:** The payment obligations of the Guarantor under the Guarantee constitute direct, unsecured and subordinated obligations of the Guarantor (senior only to Junior Obligations of the Guarantor) and shall at all times rank *pari passu* and without any preference among themselves.
- (c) **Subordination of the Guarantee:** Subject to mandatory provisions of Spanish applicable law, in the event of the Guarantor being declared in insolvency (*concurso*) under Spanish insolvency law, the rights and claims of Holders against the Guarantor in respect of or arising under the Guarantee will rank (i) junior to the claims of the holders of all Senior Obligations of the Guarantor, (ii) *pari passu* with the claims of the holders of all Parity Obligations of the Guarantor and (iii) senior to the claims of the holders of all Junior Obligations of the Guarantor.

#### 4. Interest Payments

- (a) **General**

The Securities bear interest at the Prevailing Interest Rate from (and including) 12 February 2021 (the "**Issue Date**") in accordance with the provisions of this Condition 4.

Subject to Condition 5 (*Optional Interest Deferral*), interest shall be payable on the Securities with respect to any Interest Period annually (except for a long first Interest Period) in arrear on each Interest Payment Date in each case as provided in this Condition 4.

- (b) **Interest Accrual**

The Securities will cease to bear interest from (and including) the date of redemption thereof pursuant to Condition 6 (*Redemption and Purchase*) or the date of any substitution thereof pursuant to Condition 12(c) (*Meetings of Holders of Securities and Modification, Substitution and Variation - Substitution and Variation*) unless, upon due presentation, payment of all amounts due in respect of the Securities is not made, in which event interest shall continue to accrue in respect of unpaid amounts on the Securities, both before and after judgment, and shall be payable, as provided in these Conditions up to (but excluding) the Relevant Date.

Interest in respect of any Security shall be calculated per EUR 100,000 in principal amount thereof (the "**Calculation Amount**"). The interest payable on each Security on any Interest Payment Date shall be calculated by multiplying the Prevailing Interest Rate for the Interest Period ending immediately prior to such Interest Payment Date by the Calculation Amount and rounding the resulting figure to the nearest cent (half a cent being rounded upwards). Interest in respect of any Security for any Interest Period and where it is necessary to compute an amount of interest in respect of any Security for a period which is less than a complete year, shall be calculated on the basis of the actual number of days in the relevant period from (and including) the first day of such period to (but excluding) the last day of such period divided by the actual number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Issue Date) to (but excluding) the next succeeding Interest Payment Date. Notwithstanding the above, the interest in respect of any Security for the long first Interest Period shall be EUR 2,955.35 per Calculation Amount, calculated on the basis of the actual number of days in the period from (and including) the Issue Date to (but excluding) 12 May 2022 divided by 365 days.

(c) ***Prevailing Interest Rate***

Unless previously redeemed or repurchased and cancelled in accordance with these Conditions and subject to the further provisions of this Condition 4, the Securities will bear interest on their principal amount as follows:

- (i) from (and including) the Issue Date to (but excluding) the First Reset Date, at the rate of 2.376 per cent. per annum; and
- (ii) from (and including) the First Reset Date, at the applicable 8 Year Swap Rate in respect of the relevant Reset Period plus:
  - (A) in respect of the period commencing on the First Reset Date to (but excluding) 12 February 2031, 2.616 per cent. per annum;
  - (B) from (and including) 12 February 2031 to (but excluding) 12 May 2049, 2.866 per cent. per annum; and
  - (C) from (and including) 12 May 2049, 3.616 per cent. per annum,(each a "**Subsequent Fixed Interest Rate**"),

all as determined by the Agent Bank, payable annually (except for a long first Interest Period) in arrear on each Interest Payment Date, commencing on 12 May 2022, subject to Condition 5 (*Optional Interest Deferral*),

and where:

**"8 Year Swap Rate"** means, in respect of any Reset Period, the mid-swap rate as displayed on Reuters screen "ICESWAP2" or, if such rate is not displayed on such screen as at the relevant time, the mid-swap rate as displayed on a successor page (in each case, the **"Reset Screen Page"**) as at 11:00 a.m. (Central European time) on the relevant Reset Interest Determination Date.

Subject to the operation of Condition 4(d) (*Interest Payments - Benchmark Replacement*), in the event that the relevant 8 Year Swap Rate does not appear on the Reset Screen Page on the relevant Reset Interest Determination Date, the 8 Year Swap Rate will be the Reset Reference Bank Rate on such Reset Interest Determination Date. **"Reset Reference Bank Rate"** means the percentage rate calculated by the Agent Bank on the basis of the 8 Year Swap Rate Quotations provided by five leading swap dealers in the interbank market (the **"Reset Reference Banks"**) to the Issuer and the Agent Bank at approximately 11:00 a.m. (Central European time) on the relevant Reset Interest Determination Date. If (a) at least three quotations are provided, the 8 Year Swap Rate will be calculated by the Agent Bank on the basis of the arithmetic mean (or, if only three quotations are provided, the median) of the quotations provided, eliminating the highest quotation (or, in the event of equality one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest); (b) only two quotations are provided, the Reset Reference Bank Rate will be the arithmetic mean of the quotations provided; (c) only one quotation is provided, the Reset Reference Bank Rate will be the quotation provided; and (d) no quotations are provided, the Reset Reference Bank Rate for the relevant period will be: (i) in the case of each Reset Period other than the Reset Period commencing on the First Reset Date, the 8 Year Swap Rate in respect of the immediately preceding reset period, or (ii) in the case of the Reset Period commencing on the First Reset Date, -0.255 per cent. per annum.

The **"8 Year Swap Rate Quotations"** means, in relation to any Reset Period, the arithmetic mean of the bid and offered rates for the annual fixed leg (calculated on a 30/360 Day Count basis) of a fixed-for-floating euro interest rate swap which (i) has a term of 8 Years commencing on the relevant Reset Date, (ii) is in an amount that is representative of a single transaction in the relevant market at the relevant time with an acknowledged dealer of good credit in the swap market, and (iii) has a floating leg based on the 6-month EURIBOR rate (calculated on the basis of the actual number of days elapsed and a year of 360 days).

(d) **Benchmark Replacement**

Notwithstanding the provisions above in this Condition 4, if the Issuer determines that a Benchmark Event has occurred in relation to the Original Reference Rate when a component part of the 8 Year Swap Rate remains to be determined by reference to the Original Reference Rate, then the Issuer may elect to apply the following provisions:

- (i) The Issuer shall use its reasonable endeavours to appoint an Independent Adviser, as soon as reasonably practicable, with a view to the Issuer and the Independent Adviser determining, no later than three Business Days prior to the relevant Reset Interest Determination Date, a Successor Rate, failing which an Alternative Rate (in accordance with paragraph (ii) below) and, in either case, an Adjustment Spread if any (in accordance with paragraph (iii) below) and any Benchmark Amendments (in accordance with paragraph (iv) below).
- (ii) If the Issuer and the Independent Adviser:
  - (A) agree that there is a Successor Rate, then such Successor Rate shall (subject to adjustment as provided in paragraph (iii) below) subsequently be used in place of the Original Reference Rate as a component part of determining the 8 Year Swap Rate for all future payments of interest on the Securities (subject to the subsequent operation of this Condition 4(d)); or
  - (B) agree that there is no Successor Rate but that there is an Alternative Rate, then such Alternative Rate shall (subject to adjustment as provided in paragraph (iii) below) subsequently be used in place of the Original Reference Rate as a component part of determining the 8 Year Swap Rate for all future payments of interest on the Securities (subject to the subsequent operation of this Condition 4(d)); or
  - (C) the Issuer and the Independent Adviser do not agree on the selection of a Successor Rate or an Alternative Rate, the fallback provisions set out in Condition 4(c) (*Interest Payments - Prevailing Interest Rate*) continue to apply.
- (iii) If the Issuer and the Independent Adviser agree (i) that an Adjustment Spread is required to be applied to the Successor Rate or the Alternative Rate (as the case may be) and (ii) the quantum of, or a formula or methodology for determining, such Adjustment Spread, then such Adjustment Spread shall be applied to the Successor Rate or the Alternative Rate (as the case may be).
- (iv) If any Successor Rate, Alternative Rate or Adjustment Spread is determined in accordance with this Condition 4(d) and the Issuer and the Independent Adviser agree: (i) that amendments to these Conditions and/or the Fiscal Agency Agreement are necessary to ensure the proper operation of such Successor Rate, Alternative Rate and/or Adjustment Spread (such amendments, the "**Benchmark Amendments**") and (ii) the terms of the Benchmark Amendments, then the Issuer shall, subject to giving notice thereof in accordance with paragraph (v) below, without any requirement for the consent or approval of the Holders, vary these Conditions and/or the Fiscal Agency Agreement to give effect to such Benchmark Amendments with effect from the date specified in such notice. In connection with any such variation in accordance with this paragraph, the Issuer shall comply with the rules of any stock exchange on which the Securities are for the time being listed or admitted to trading.
- (v) Any Successor Rate, Alternative Rate, Adjustment Spread and the specific terms of any Benchmark Amendments, determined under this Condition 4(d) will be notified promptly by the Issuer to the Fiscal Agent, the Agent Bank, the Paying Agents and, in accordance with Condition 14 (*Notices*), the Holders. Such notice shall be irrevocable and shall specify the effective date of the Benchmark

Amendments, if any and will be binding on the Issuer, the Guarantor, the Fiscal Agent, the Agent Bank, the Paying Agents and the Holders.

- (vi) Without prejudice to the obligations of the Issuer under paragraphs (i) to (v) above, the Original Reference Rate and the fallback provisions provided for in Condition 4(c) (*Interest Payments - Prevailing Interest Rate*) will continue to apply unless and until the Agent Bank has been notified of the Successor Rate or the Alternative Rate (as the case may be), and any Adjustment Spread and Benchmark Amendments, in accordance with this Condition 4(d).
- (vii) Notwithstanding any other provision of this Condition 4(d), no Successor Rate or Alternative Rate will be adopted, nor will the applicable Adjustment Spread be applied, nor will any Benchmark Amendments be made, if and to the extent that, in the determination of the Issuer, the same could reasonably be expected to cause a Capital Event to occur.

(e) ***Publication of Subsequent Fixed Interest Rates***

The Issuer shall cause notice of each Subsequent Fixed Interest Rate and the corresponding amount payable per Calculation Amount determined in accordance with this Condition 4 and the relevant dates scheduled for payment to be given to the Fiscal Agent, the Paying Agents, any stock exchange on which the Securities are for the time being listed or admitted to trading and, in accordance with Condition 14 (*Notices*), the Holders of the Securities and the Coupons, in each case as soon as practicable after its determination but in any event not later than the fourth Business Day thereafter.

The relevant Subsequent Fixed Interest Rate and the dates scheduled for payment so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of any extension or shortening of the relevant period in accordance with these Conditions.

(f) ***Agent Bank and Reset Reference Banks***

With effect from the first Reset Interest Determination Date, the Issuer will maintain an Agent Bank and the number of Reset Reference Banks provided above where the Prevailing Interest Rate is to be calculated by reference to them. The name of the initial Agent Bank is The Bank of New York Mellon, London Branch and its initial specified office is One Canada Square, London E14 5AL, United Kingdom.

The Issuer may from time to time replace the Agent Bank or any Reset Reference Bank with another leading financial institution. If the Agent Bank is unable or unwilling to continue to act as the Agent Bank or fails duly to determine the Prevailing Interest Rate in respect of any Reset Period as provided in Condition 4(c) (*Interest Payments - Prevailing Interest Rate*), the Issuer shall forthwith appoint another leading financial institution to act as such in its place. The Agent Bank may not resign its duties or be removed without a successor having been appointed as aforesaid.

(g) ***Determinations of Agent Bank Binding***

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 4 by the Agent Bank shall (in the absence of wilful default, fraud or manifest error) be binding on the Issuer, the Agent Bank, the Fiscal Agent, the Paying Agents and all Holders and (in the absence of negligence, wilful default or fraud) no liability to the Holders or the Issuer shall attach to the Agent Bank in connection with the exercise or non-exercise by it of any of its powers, duties and discretions.

5. **Optional Interest Deferral**

- (a) ***Deferral of Interest Payments:*** The Issuer may, subject as provided in Conditions 5(b) (*Optional Interest Deferral - Optional Settlement of Arrears of Interest*) and 5(c) (*Optional Interest Deferral - Mandatory Settlement of Arrears of Interest*) below, elect in its sole



discretion to defer (in whole or in part) any Interest Payment that is otherwise scheduled to be paid on an Interest Payment Date by giving notice (a "**Deferral Notice**") of such election to the Holders in accordance with Condition 14 (*Notices*), the Fiscal Agent and the Paying Agents not more than 14 and not less than 7 Business Days prior to the relevant Interest Payment Date. Any Interest Payment that the Issuer has elected to defer pursuant to this Condition 5(a) and that has not been satisfied is referred to as a "**Deferred Interest Payment**".

If any Interest Payment is deferred pursuant to this Condition 5(a) then such Deferred Interest Payment shall itself bear interest (such further interest together with the Deferred Interest Payment, being "**Arrears of Interest**"), at the relevant Prevailing Interest Rate applicable from time to time, from (and including) the date on which (but for such deferral) the Deferred Interest Payment would otherwise have been due to be made to (but excluding) the date on which such Deferred Interest Payment is paid in accordance with Condition 5(b) (*Optional Interest Deferral - Optional Settlement of Arrears of Interest*) or Condition 5(c) (*Optional Interest Deferral - Mandatory Settlement of Arrears of Interest*) (as applicable), in each case such further interest being compounded on each Interest Payment Date.

Non-payment of interest deferred pursuant to this Condition 5(a) shall not constitute a default by the Issuer or the Guarantor under the Securities or the Guarantee or for any other purpose.

- (b) **Optional Settlement of Arrears of Interest:** Arrears of Interest may be satisfied at the option of the Issuer, in whole or in part, at any given time (the "**Optional Deferred Interest Settlement Date**") following delivery of a notice to such effect given by the Issuer to the Holders in accordance with Condition 14 (*Notices*), the Fiscal Agent and the Paying Agents not more than 14 and no less than 7 Business Days prior to the relevant Optional Deferred Interest Settlement Date informing them of its election so to satisfy such Arrears of Interest (or part thereof) and specifying the relevant Optional Deferred Interest Settlement Date.
- (c) **Mandatory Settlement of Arrears of Interest:** Notwithstanding the provisions of Condition 5(b) (*Optional Interest Deferral - Optional Settlement of Arrears of Interest*), the Issuer shall pay any outstanding Arrears of Interest in whole, but not in part, on the first occurring Mandatory Settlement Date following the Interest Payment Date on which any outstanding Deferred Interest Payment was first deferred.

Notice of the occurrence of any Mandatory Settlement Date shall be given to the Holders in accordance with Condition 14 (*Notices*), the Fiscal Agent and the Paying Agents not more than 14 and no less than 7 Business Days prior to the relevant Mandatory Settlement Date.

"**Mandatory Settlement Date**" means the earliest of:

- (i) as soon as reasonably practicable (but not later than the fifth business day) following the date on which a Compulsory Arrears of Interest Settlement Event occurs;
- (ii) following any Deferred Interest Payment, on the next scheduled Interest Payment Date on which the Issuer does not elect to defer in whole the interest accrued in respect of the relevant Interest Period; and
- (iii) the date on which the Securities are redeemed or repaid in accordance with Condition 6 (*Redemption and Purchases*) or become due and payable in accordance with Condition 9 (*Enforcement Events and No Events of Defaults*).

A "**Compulsory Arrears of Interest Settlement Event**" shall have occurred if:

- (i) a Dividend Declaration is made in respect of any Junior Obligations or any Parity Obligations (other than in respect of any such dividend, distribution or payment paid or made exclusively in Ordinary Shares of the Guarantor); or

- (ii) the Guarantor or any of its subsidiaries has repurchased, redeemed or otherwise acquired any Junior Obligations or any Parity Obligations,

save, in the case of (a) any such Dividend Declaration or such redemption, repurchase or acquisition that is mandatory under the terms of any such Parity Obligations; (b) any Dividend Declaration in respect of any such dividend, distribution or payment by the Issuer to the Guarantor, (c) any Dividend Declaration or repurchase which is required to be validly resolved on, declared, paid or made in respect of, share option, or free share allocation plan in each case reserved for directors, officers and/or employees of the Guarantor or any of its Affiliates or any associated liquidity agreements or any associated hedging transactions; (d) any purchase of Ordinary Shares of the Guarantor by or on behalf of the Guarantor as part of an intra-day transaction that does not result in an increase in the aggregate number of Ordinary Shares of the Guarantor held by or on behalf of the Guarantor as treasury shares at 8:30 a.m. Madrid time on the Interest Payment Date on which any outstanding Deferred Interest Payment was first deferred; (e) any repurchase or acquisition of Parity Obligations that is made for a consideration less than the aggregate nominal or par value of such Parity Obligations that are purchased or acquired; (f) any repurchase or acquisition of Ordinary Shares of the Guarantor resulting from mandatory obligations or hedging of any convertible securities issued by the Issuer or the Guarantor; (g) any repurchase or acquisition of Ordinary Shares of the Guarantor resulting from the settlement of existing equity derivatives after the Interest Payment Date on which any outstanding Deferred Interest Payment was first deferred; or (h) any repurchase or acquisition of Junior Obligations was undertaken in connection with the satisfaction by the Guarantor or any Subsidiary of the Guarantor of its respective obligations under any share buyback programme in force and duly approved by its shareholders' general meeting.

**"Dividend Declaration"** means the authorisation by resolution of the general meeting of shareholders or the board of directors or other competent corporate body (as the case may be) of the Issuer or the Guarantor (as applicable) of the payment, or the making of, a dividend or other distribution or payment (or, if no such authorisation is required, the payment, or the making of, a dividend or other distribution or payment).

## 6. Redemption and Purchase

- (a) **Final redemption:** Subject to any early redemption described below, the Securities are undated securities with no specified maturity date. The Securities may not be redeemed at the option of the Issuer other than in accordance with Conditions 6(b) (*Redemption and Purchase - Issuer's Call Option*), 6(c) (*Redemption and Purchase - Issuer's Make-Whole Call Option*), 6(d) (*Redemption and Purchase - Redemption for Taxation Reasons*), 6(e) (*Redemption and Purchase - Redemption for Accounting Reasons*), 6(f) (*Redemption and Purchase - Redemption for Rating Reasons*), or 6(g) (*Redemption and Purchase - Redemption following a Substantial Purchase Event*).
- (b) **Issuer's Call Option:** The Issuer may, by giving not less than 10 nor more than 60 days' notice to the Fiscal Agent, the Paying Agents and, in accordance with Condition 14 (*Notices*), the Holders (which notice shall be irrevocable), redeem the Securities in whole, but not in part, (i) on any date during the Relevant Period, or (ii) on any Interest Payment Date thereafter at their principal amount together with any accrued and unpaid interest up to (but excluding) the Redemption Date and any outstanding Arrears of Interest.
- (c) **Issuer's Make-Whole Call Option:** The Issuer may, by giving not less than 10 nor more than 60 days' notice to the Fiscal Agent, the Paying Agents and, in accordance with Condition 14 (*Notices*), the Holders (which notice shall be irrevocable), redeem the Securities in whole, but not in part, at any time (other than a time that the Issuer may exercise its option to redeem the Securities pursuant to Condition 6(b) (*Redemption and Purchase - Issuer's Call Option*)) at their Make-Whole Redemption Amount, together with any accrued and unpaid interest up to (but excluding) the Redemption Date and any outstanding Arrears of Interest. Upon the expiry of such notice, the Issuer shall redeem the Securities.

All notifications, opinions, determinations, certifications, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition by the Agent Bank, shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Guarantor, the Paying Agents, and all Holders and (in the absence as aforesaid) no liability to the Holders shall attach to the Agent Bank in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

- (d) ***Redemption for Taxation Reasons:*** If, immediately prior to the giving of the notice referred to below, a Tax Event or a Withholding Tax Event has occurred and is continuing, then the Issuer may, subject to having given not less than 10 nor more than 60 days' notice to the Fiscal Agent, the Paying Agents and, in accordance with Condition 14 (*Notices*), the Holders (which notice shall be irrevocable) and subject to Condition 6(h) (*Redemption and Purchase - Preconditions to Redemption*), redeem the Securities in whole, but not in part, in accordance with these Conditions at any time, in each case at (i) their Early Redemption Amount (in the case of a Tax Event if the Redemption Date falls prior to the start of the Relevant Period) or (ii) their principal amount (in the case of (a) a Withholding Tax Event or (b) a Tax Event if the Redemption Date falls on or after the First Call Date), together, in each case, with any accrued and unpaid interest up to (but excluding) the Redemption Date and any outstanding Arrears of Interest. Upon the expiry of such notice, the Issuer shall redeem the Securities.
- (e) ***Redemption for Accounting Reasons:*** If, immediately prior to the giving of the notice referred to below, an Accounting Event has occurred and is continuing, then the Issuer may, subject to having given not less than 10 nor more than 60 days' notice to the Fiscal Agent, the Paying Agent and, in accordance with Condition 14 (*Notices*), the Holders (which notice shall be irrevocable) and subject to Condition 6(h) (*Redemption and Purchase - Preconditions to Redemption*), redeem the Securities in accordance with these Conditions in whole, but not in part, at any time, in each case (i) at their Early Redemption Amount if the Redemption Date falls before the start of the Relevant Period, or (ii) at their principal amount if the Redemption Date falls on or after the First Call Date, together with any accrued and unpaid interest up to (but excluding) the Redemption Date and any outstanding Arrears of Interest. Upon the expiry of such notice, the Issuer shall redeem the Securities.
- (f) ***Redemption for Rating Reasons:*** If, immediately prior to the giving of the notice referred to below, a Capital Event has occurred and is continuing, then the Issuer may, subject to having given not less than 10 nor more than 60 days' notice to the Fiscal Agent, the Paying Agent and, in accordance with Condition 14 (*Notices*), the Holders (which notice shall be irrevocable) and subject to Condition 6(h) (*Redemption and Purchase - Preconditions to Redemption*), redeem the Securities in accordance with these Conditions in whole, but not in part, at any time, in each case (i) at their Early Redemption Amount if the Redemption Date falls before the start of the Relevant Period, or (ii) at their principal amount if the Redemption Date falls on or after the First Call Date, together with any accrued and unpaid interest up to (but excluding) the Redemption Date and any outstanding Arrears of Interest. Upon the expiry of such notice, the Issuer shall redeem the Securities.
- (g) ***Redemption following a Substantial Purchase Event:*** If, immediately prior to the giving of the notice referred to below, a Substantial Purchase Event has occurred, then the Issuer may, subject to having given not less than 10 nor more than 60 days' notice to the Fiscal Agent, the Paying Agents and, in accordance with Condition 14 (*Notices*), the Holders (which notice shall be irrevocable) and subject to Condition 6(h) (*Redemption and Purchase - Preconditions to Redemption*), redeem the Securities in whole, but not in part, in accordance with these Conditions at any time, in each case at their principal amount, together with any accrued and unpaid interest up to (but excluding) the Redemption Date and any outstanding Arrears of Interest. Upon expiry of such notice, the Issuer shall redeem the Securities.
- (h) ***Preconditions to Redemption:*** Prior to serving any notice of redemption pursuant to this Condition 6 (other than Condition 6(b) (*Redemption and Purchase - Issuer's Call Option*))

or Condition 6(c) (*Redemption and Purchase - Issuer's Make-Whole Call Option*)), the Guarantor shall:

- (i) deliver to the Fiscal Agent a certificate signed by two directors of the Guarantor stating that the relevant requirement or circumstance giving rise to the right to redeem is satisfied;
  - (ii) in the case of a Tax Event or Withholding Tax Event deliver to the Fiscal Agent an opinion of independent legal or other tax advisers to the effect set out in paragraph (i) above;
  - (iii) in the case of an Accounting Event, deliver to the Fiscal Agent the relevant opinion from the relevant accountancy firm; and
  - (iv) in the case of a Capital Event, deliver to the Fiscal Agent the relevant confirmation from the relevant Rating Agency.
- (i) **Purchase:** Each of the Issuer, the Guarantor and their respective subsidiaries may at any time purchase Securities in the open market or otherwise at any price (provided that, if they should be cancelled pursuant to this Condition 6(h), they are purchased together with all unmatured Coupons and all unexchanged Talons relating to them). The Securities so purchased may be held, re-issued or re-sold or, at the option of the relevant purchaser, surrendered to the Fiscal Agent for cancellation, but while held by or on behalf of the Issuer, the Guarantor or any such subsidiary, shall not entitle the Holder to vote at any meetings of the Holders of Securities and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Holders of Securities or for the purposes of Condition 12 (*Meetings of Holders of Securities and Modification*).
- (j) **Cancellation:** All Securities so redeemed and any unmatured Coupons attached to or surrendered with them will be cancelled and may not be re-issued or re-sold.

The Guarantor intends (without thereby assuming any obligation) at any time that it or the Issuer will redeem or repurchase the Securities only to the extent that the aggregate principal amount of the Securities to be redeemed or repurchased does not exceed such part of the net proceeds received by the Guarantor or any subsidiary of the Guarantor on or prior to the date of such redemption or repurchase from the sale or issuance by the Guarantor or such subsidiary to third party purchasers (other than group entities of the Guarantor) of securities which are assigned by S&P, at the time of sale or issuance, an aggregate "equity credit" (or such similar nomenclature used by S&P from time to time) that is equal to or greater than the "equity credit" assigned to the Securities to be redeemed or repurchased at the time of their issuance (but taking into account any changes in hybrid capital methodology or another relevant methodology or the interpretation thereof since the issuance of the Securities), unless:

- (i) the rating assigned by S&P to the Guarantor is the same as or higher than the long-term corporate credit rating assigned to the Guarantor on the date when the most recent additional hybrid security was issued (excluding refinancings without net new issuance) and the Guarantor is of the view that such rating would not fall below this level as a result of such redemption or repurchase; or
- (ii) in the case of a repurchase, such repurchase is of less than (a) 10 per cent. of the aggregate principal amount of the outstanding hybrid securities of the Group in any period of 12 consecutive months or (b) 25 per cent. of the aggregate principal amount of the outstanding hybrid securities of the Group in any period of 10 consecutive years; or
- (iii) if the Securities are not assigned an "equity credit" by S&P (or such similar nomenclature then used by S&P at the time of such redemption or repurchase); or
- (iv) in the case of a repurchase, such repurchase relates to an aggregate principal amount of Securities which is less than or equal to the excess (if any) above the maximum aggregate principal amount of the Guarantor's hybrid capital to which S&P then assigns equity content under its prevailing methodology; or

- (v) the Securities are redeemed pursuant to a Tax Event, a Capital Event, an Accounting Event, a Substantial Purchase Event or a Withholding Tax Event; or
- (vi) such redemption or repurchase occurs on or after the Reset Date falling on 12 May 2049.

## 7. **Payments**

- (a) **Method of Payment:** Payments of principal and interest will be made against presentation and surrender (or, in the case of a partial payment, endorsement) of Securities or the appropriate Coupons (as the case may be) at the specified office of any Paying Agent by transfer to a euro account maintained by the payee with a bank in city in which banks have access to the TARGET System. Payments of interest due in respect of any Security other than on presentation and surrender of matured Coupons shall be made only against presentation and either surrender or endorsement (as appropriate) of the relevant Security.
- (b) **Payments subject to fiscal laws:** All payments are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 8 (*Taxation*). No commissions or expenses shall be charged to the Holders in respect of such payments.
- (c) **Unmatured Coupons:** Upon the due date for redemption of any Security, unmatured Coupons relating to such Security (whether or not attached) shall become void and no payment shall be made in respect of them. Where any Security is presented for redemption without all unmatured Coupons relating to it, redemption shall be made only against the provision of such indemnity as the Issuer and the Guarantor may require.
- (d) **Exchange of Talons:** On or after the Interest Payment Date for the final Coupon forming part of a Coupon sheet issued in respect of any Securities, the Talon forming part of such Coupon sheet may be surrendered at the specified office of the Fiscal Agent in exchange for a further Coupon sheet (and another Talon for a further Coupon sheet) (but excluding any Coupons that may have become void pursuant to Condition 10 (*Prescription*)).
- (e) **Payments on business days:** A Security or Coupon may only be presented for payment on a day which is a business day in the place of presentation (and, in the case of payment by transfer to a euro account, a day that is a Business Day). No further interest or other payment will be made as a consequence of the day on which the relevant Security or Coupon may be presented for payment under this Condition 7 falling after the due date. In this Condition "**business day**" means a day on which commercial banks and foreign exchange markets settle payments and are open in the relevant city.
- (f) **Paying Agents:** The initial Paying Agents and their initial specified offices are listed below. The Issuer and the Guarantor reserve the right at any time to vary or terminate the appointment of any Paying Agent and appoint additional or other Paying Agents, provided that they will maintain (i) a Fiscal Agent and (ii) a Paying Agent (which may be the Fiscal Agent) having specified offices in London or an alternative European city (as the Issuer may select). Notice of any change in the Paying Agents or their specified offices will promptly be given to the Holders in accordance with Condition 14 (*Notices*).

## 8. **Taxation**

- (a) **Additional Amounts:** All payments of principal and interest in respect of the Securities and the Coupons by the Issuer or (as the case may be) the Guarantor under the Guarantee will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges (collectively, "**Taxes**") of whatever nature imposed or levied by or on behalf of the Netherlands or the Kingdom of Spain or, in each case, any authority therein or thereof having power to tax (each a "**Taxing Authority**"), unless the withholding or deduction of such Taxes is required by law.

In that event, the Issuer or, as the case may be, the Guarantor will pay such additional amounts ("**Additional Amounts**") as may be necessary in order that the net amounts received by the Holders after such withholding or deduction of Taxes shall equal the respective amounts of principal and interest which would have been received in respect of

the Securities or (as the case may be) Coupons, in the absence of such withholding or deduction of Taxes; except that no Additional Amounts shall be payable with respect to any payment in respect of any Security or Coupon or (as the case may be) under the Guarantee:

- (i) to, or to a third party on behalf of, a Holder or to the beneficial owner of any Security or Coupon who is liable for Taxes in respect of such Security or Coupon by reason of his having some connection with the Netherlands or the Kingdom of Spain other than the mere holding of the Security or Coupon;
- (ii) presented for payment more than 30 days after the Relevant Date except to the extent that the relevant Holder or the beneficial owner thereof would have been entitled to such Additional Amounts on presenting the same for payment on the thirtieth such day;
- (iii) in relation to any estate, inheritance, gift, sales, transfer or similar Taxes;
- (iv) to, or to a third party on behalf of, a Holder or to the beneficial owner of any Security or Coupon if the Issuer or the Guarantor does not receive in a timely manner a duly executed and completed certificate from the Fiscal Agent, pursuant to the First Additional Provision of Law 10/2014, and Royal Decree 1065/2007 of 27 July, as amended by Royal Decree 1145/2011 of 29 July, and any implementing legislation or regulation;
- (v) where such withholding or deduction of Taxes is imposed, withheld or deducted by reason of the failure of the Holder or the beneficial owner of any Security or Coupon to comply with the Issuer's or the Guarantor's request addressed to the Holder or the beneficial owner to make any necessary claim or to comply with any certification, identification or other requirements concerning the nationality, residence, identity or connection with the taxing jurisdiction of such Holder or beneficial owner if such claim or compliance is required by the applicable tax laws and regulations of the relevant Taxing Authority as a precondition to exemption from, or reduction in the rate of deduction or withholding of, Taxes imposed by such relevant Taxing Authority;
- (vi) presented for payment in the Kingdom of Spain;
- (vii) presented for payment by or on behalf of a Holder who would have been able to avoid such withholding or deduction by presenting the relevant Security to another Paying Agent in a Member State of the European Union (if any); or
- (viii) where such withholding or deduction is required pursuant to the application of the Dutch Withholding Tax Act 2021 (*Wet bronbelasting 2021*);
- (ix) any taxes that are imposed or withheld pursuant to Sections 1471 through 1474 of the Internal Revenue Code of 1986 (FATCA) (or any amended or successor version of such sections that is substantively comparable and not materially more onerous to comply with), any regulations promulgated thereunder, any official interpretations thereof or any agreements entered into in connection with the implementation thereof.

In addition, Additional Amounts will not be payable with respect to (i) any Taxes that are imposed in respect of any combination of the items set forth above and to (ii) any Holder of any Security who is a fiduciary, a partnership, a limited liability company or other than the sole beneficial owner of that payment, to the extent that payment would be required by the laws of the relevant Taxing Authority to be included in the income, for tax purposes, of a beneficiary or settlor with respect to the fiduciary, a member of that partnership, an interest holder in that limited liability company or a beneficial owner who would not have been entitled to the Additional Amounts had it been the Holder.

- (b) **Tax Credit Payment:** If any Additional Amounts are paid by the Issuer or, as the case may be, the Guarantor under this Condition for the benefit of any Holder and such Holder, in

its sole discretion, determines that it has obtained (and has derived full use and benefit from) a credit against, a relief or remissions for, or repayment of, any tax, then, if and to the extent that such Holder, in its sole opinion, determines that (i) such credit, relief, remission or repayment is in respect of or calculated with reference to the Additional Amounts paid pursuant to this Condition; and (ii) its tax affairs for its tax year in respect of which such credit, relief, remission or repayment was obtained have been finally settled, such Holder shall, to the extent that it can do so without prejudice to the retention of the amount of such credit, relief, remission or repayment, pay to the Issuer or, as the case may be, the Guarantor such amount as such Holder shall in its sole opinion, determine to be the amount which will leave such Holder (after such payment) in no worse after tax position than it would have been in had the additional payment in question not been required to be made by the Issuer or, as the case may be, the Guarantor.

- (c) **Tax Credit Clawback:** If any Holder makes any payment to the Issuer or, as the case may be, the Guarantor pursuant to this Condition and such Holder subsequently determines in its sole opinion, that the credit, relief, remission or repayment in respect of which such payment was made was not available or has been withdrawn or that it was unable to use such credit, relief, remission or repayment in full, the Issuer or, as the case may be, the Guarantor shall reimburse such Holder such amount as such Holder determines, in its sole opinion, is necessary to place it in the same after tax position as it would have been in if such credit, relief, remission or repayment had been obtained and fully used and retained by such Holder, such amount not exceeding in any case the amount paid by the Holder to the Issuer or, as the case may be, the Guarantor.
- (d) **Tax Affairs:** Nothing in Conditions 8(b) (*Taxation - Tax Credit Payment*) and 8(c) (*Taxation - Tax Credit Clawback*) above shall interfere with the right of any Holder to arrange its tax or any other affairs in whatever manner it thinks fit, oblige any Holder to claim any credit, relief, remission or repayment in respect of any payment made under this Condition in priority to any credit, relief, remission or repayment available to it nor oblige any Holder to disclose any information relating to its tax or other affairs or any computations in respect thereof.
- (e) **Definitions:** References in these Conditions to (i) "Principal" shall be deemed to include all amounts in the nature of principal payable pursuant to Condition 7 (*Payments*) or any amendment or supplement to it; (ii) "interest" shall be deemed to include all Arrears of Interest and all other amounts payable pursuant to Condition 4 (*Interest Payments*) or any amendment or supplement to it; and (iii) "principal" and/or "interest" shall be deemed to include any Additional Amounts.
- (f) **Applicable law for Spanish tax purposes:** The Guarantor will apply the First Additional Provision of Law 10/2014 to the Securities for Spanish tax purposes.

Payments in respect of the Securities and the Coupons by the Guarantor under the Guarantee will be exempt from Spanish Non-Resident Income Tax to the extent that the Holder or beneficial owner is not acting through a permanent establishment in Spain.

The Guarantor will comply with the reporting obligations set out in Section 4 of the First Additional Provision of Law 10/2014 in respect of Holders or beneficial owners who are taxpayers of the Spanish Individual Income Tax or taxpayers of the Spanish Corporation Tax, as well as taxpayers of the Spanish Non-resident Income Tax who hold the Securities through a permanent establishment located in Spanish territory.

- (g) **Substitute taxing jurisdiction:** If, pursuant to the Issuer's option under Condition 12(c) (*Substitution and Variation*), the Securities are exchanged for new securities of any wholly-owned direct or indirect finance subsidiary of the Guarantor that is subject to any taxing jurisdiction other than the Netherlands or Spain, respectively, references in these Conditions to the Netherlands or Spain shall be construed as references to the Netherlands or (as the case may be) Spain and/or such other jurisdiction.

9. **Enforcement Events and No Events of Default**

There are no events of default in respect of the Securities.

However, if an Issuer Winding-up occurs, or an order is made or an effective resolution passed for the winding-up, dissolution or liquidation of the Guarantor, or the Guarantor becomes insolvent (*en estado de insolvencia*) pursuant to article 2 of the Spanish insolvency law, any Holder of a Security, in respect of such Security and provided that such Holder does not contravene a previously adopted Extraordinary Resolution (if any) may, by written notice to the Issuer and the Guarantor, declare that such Security and all interest then accrued but unpaid on such Security shall be forthwith due and payable, whereupon the same shall become immediately due and payable, together with all interest accrued thereon.

In such case the Holder of a Security may, at its sole discretion, institute steps in order to obtain a judgment against the Issuer and/or the Guarantor for any amounts due in respect of the Securities, including the institution of proceedings for the declaration of insolvency (*declaración de concurso*) under Spanish insolvency law of the Guarantor and/or proving and/or claiming in an Issuer Winding-up or in the winding-up, dissolution, liquidation or insolvency proceeding of the Guarantor for such amount.

Each Holder may, at its discretion and without further notice, institute such proceedings as it may think fit to enforce any term or condition binding on the Issuer or the Guarantor under the Securities or the Guarantee but in no event shall the Issuer or the Guarantor by the virtue of such proceedings be obliged to pay any sum or sums sooner than the same would otherwise have been payable by it.

No remedy against the Issuer or the Guarantor, other than as referred to in this Condition 9 shall be available to the Holders, whether for the recovery of amounts owing in respect of the Securities or the Guarantee or in respect of any other breach by the Issuer or the Guarantor of any of their respective other obligations under or in respect of the Securities or the Guarantee.

10. **Prescription**

Claims in respect of principal and interest or any other amount will become void unless presentation for payment is made as required by Condition 7 (*Payments*) within a period of 10 years in the case of principal (or any other amount in the nature of principal) and five years in the case of interest (or any other amount in the nature of interest, including Arrears of Interest) from the appropriate Relevant Date.

11. **Replacement of Securities and Coupons**

If any Security or Coupon is lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Fiscal Agent subject to all applicable laws and stock exchange or other relevant authority requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer, the Guarantor and the Fiscal Agent may require (provided that the requirement is reasonable in the light of prevailing market practice). Mutilated or defaced Securities or Coupons must be surrendered before replacements will be issued. In case any such lost, stolen, mutilated, defaced or destroyed Coupon has become or is about to become due and payable, the Issuer in its discretion may, instead of delivering replacements therefore, pay such Coupon when due.

12. **Meetings of Holders of Securities and Modification, Substitution and Variation**

- (a) **Meetings of Holders of Securities:** The Fiscal Agency Agreement contains provisions for convening meetings of Holders of Securities to consider matters affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Fiscal Agency Agreement) of a modification of any of these Conditions. Such a meeting may be convened by Holders of Securities holding not less than one twentieth in principal amount of the Securities for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution will be one or more persons holding or representing at least two thirds of the aggregate principal amount of the Securities for the time being outstanding, or at any adjourned meeting one or more persons being or representing



Holders of Securities whatever the principal amount of the Securities held or represented. Any Extraordinary Resolution duly passed shall be binding on Holders of Securities (whether or not they were present at the meeting at which such resolution was passed) and on all Holders of Coupons.

The Fiscal Agency Agreement provides that a resolution in writing signed by or on behalf of the holders of not less than 90 per cent. in principal amount of the Securities outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Holders of Securities duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Holders of Securities.

- (b) **Modification:** The Securities, these Conditions, the Deed of Covenant and the Deed of Guarantee may be amended without the consent of the Holders of Securities to correct a manifest error or in accordance with Condition 4(d) (*Interest Payments - Benchmark Replacement*). No other modification may be made to the Securities, these Conditions the Deed of Covenant or the Deed of Guarantee except with the sanction of a resolution of the Holders of the Securities.

In addition, the parties to the Fiscal Agency Agreement may agree to modify any provision thereof, but the Issuer shall not agree, without the consent of the Holders of Securities, to any such modification unless, in the opinion of the Issuer and the Guarantor, (i) it is of a formal, minor or technical nature; (ii) it is made to correct a manifest error; or (iii) it is not materially prejudicial to the interests of the Holders of Securities.

- (c) **Substitution and Variation:** If at any time after the Issue Date the Issuer and/or the Guarantor determines that a Tax Event, a Withholding Tax Event, an Accounting Event or a Capital Event has occurred, the Issuer may, as an alternative to an early redemption of the Securities, on any applicable Interest Payment Date, without the consent of the Holders, (i) exchange the Securities (the "**Exchanged Securities**") into new securities of the Issuer, the Guarantor or any wholly-owned direct or indirect finance subsidiary of the Guarantor (a "**Substitute Issuer**") with a guarantee of the Guarantor, or (ii) vary the terms of the Securities (the "**Varied Securities**"), so that in either case (A) in the case of a Tax Event, in respect of (I) the Issuer's (or Substitute Issuer's) obligation to make any payment of interest under the Exchanged Securities or Varied Securities; or (II) the obligation of the Guarantor to make any payment of interest in favour of the Issuer (or Substitute Issuer) under the Subordinated Loan (or any replacement thereof between the Guarantor and Substitute Issuer), the Issuer, the Guarantor or the Substitute Issuer (as the case may be) is entitled to claim a deduction or a higher deduction (as the case may be) in respect of interest paid when computing its tax liabilities in the Netherlands, in Spain or in the taxing jurisdiction of the Substitute Issuer (as the case may be), as compared with the entitlement after the occurrence of the relevant Tax Event, (B) in the case of a Withholding Tax Event, in making any payments in respect of the Exchanged Securities or Varied Securities or the Exchanged or Varied Guarantee (as defined below) the Issuer, the Guarantor or the Substitute Issuer are not required to pay a greater amount of Additional Amounts in respect of the Exchanged Securities or Varied Securities or the Exchanged or Varied Guarantee, (C) in the case of an Accounting Event, the aggregate nominal amount of the Exchanged Securities or Varied Securities (as the case may be) is recorded as "equity" pursuant to IFRS-EU or any other accounting standards that may replace IFRS-EU for the purposes of the consolidated financial statements of the Guarantor, or (D) in the case of a Capital Event, the aggregate nominal amount of the Exchanged Securities or Varied Securities (as the case may be) is assigned "equity credit" (or such other nomenclature that the relevant Rating Agency may then use to describe the degree to which an instrument exhibits the characteristics of an ordinary share) by the relevant Rating Agency that is equal to or greater than that which was assigned to the Securities on the Issue Date or, if "equity credit" is not assigned to the Securities by the relevant Rating Agency on the Issue Date, at the date on which "equity credit" is assigned by such Rating Agency for the first time.

Any such exchange or variation shall be subject to the following conditions:

- (i) the Issuer giving not less than 10 nor more than 60 days' notice to the Fiscal Agent and the Holders in accordance with Condition 14 (*Notices*);
- (ii) the Issuer complying with the rules of any stock exchange (or any other relevant authority) on which the Securities are for the time being admitted to trading, and (for so long as the rules of such exchange require) the publication of any appropriate supplement, listing particulars or offering circular in connection therewith, and the Exchanged Securities or Varied Securities continue to be admitted to trading on the same stock exchange as the Securities if they were admitted to trading immediately prior to the relevant exchange or variation;
- (iii) the Exchanged Securities or Varied Securities shall: (A) rank at least *pari passu* with the ranking of the Securities prior to the exchange or variation, (B) have the benefit of a guarantee (the "**Exchanged or Varied Guarantee**") from the Guarantor on terms not less favourable to Holders than the terms of the Guarantee (as reasonably determined by the Issuer or Substitute Issuer and the Guarantor) and (C) benefit from the same or more favourable interest rates and the same Interest Payment Dates, the same First Reset Date and early redemption rights (provided that the relevant exchange or variation may not itself trigger any early redemption right), the same rights to accrued interest or Arrears of Interest which have not been paid and any other amounts payable under the Securities which, in each case, has accrued to the Holders and has not been paid, the same rights to principal and interest, and, if publicly rated by S&P, Moody's and/or Fitch immediately prior to such exchange or variation, at least the same credit rating immediately after such exchange or variation by each of S&P, Moody's and/or Fitch (as the case may be), as compared with the relevant rating(s) immediately prior to such exchange or variation (as determined by the Issuer or Substitute Issuer and the Guarantor using reasonable measures available to it including discussions with S&P, Moody's and/or Fitch to the extent practicable) (D) not contain terms providing for the mandatory deferral of interest and (E) not contain terms providing for loss absorption through principal write-down or conversion to shares;
- (iv) the preconditions to redemption set out in Condition 6(h) (*Redemption and Purchase - Preconditions to Redemption*) having been satisfied and the terms of the exchange or variation (in the sole opinion of the Issuer or Substitute Issuer or the Guarantor, as the case may be) not being prejudicial to the interests of the Holders, including compliance with (iv) above, as certified to the benefit of the Holders by two directors of the Guarantor, having consulted with an independent investment bank of international standing, and any such certificate shall, absent fraud or manifest error, be final and binding on all parties. However, a change in the governing law of the provisions of Condition 2(b) (*Status and Subordination of the Securities and Coupons - Subordination of the Securities*) to the laws of the jurisdiction of incorporation of the Substitute Issuer, in connection with any substitution pursuant to Condition 12(c) (*Substitution and Variation*), shall be deemed not to be prejudicial to the interests of the Holders; and
- (v) the issue of legal opinions addressed to the Fiscal Agent (and which shall be made available to the Holders at the specified offices of the Fiscal Agent during usual office hours) from one or more international law firms of good reputation selected by the Issuer or the Guarantor and confirming (x) that each of the Issuer and the Guarantor has capacity to assume all rights, duties and obligations under the Exchanged Securities or Varied Securities and the Exchanged or Varied Guarantee (as the case may be) and has obtained all necessary corporate or governmental authorisation to assume all such rights and obligations and (y) the legality, validity and enforceability of the Exchanged Securities or Varied Securities.

- (d) Notwithstanding Condition 8(a) (*Taxation - Additional Amounts*), if at any time after the Issue Date, the Issuer is required to withhold on account of Taxes imposed or levied in the Netherlands on any payment under the Securities, the Issuer may on any applicable Interest Payment Date, without the consent of the Holders, (i) exchange the Securities into new securities of the Issuer, the Guarantor or any wholly-owned direct or indirect finance subsidiary of the Guarantor with a guarantee of the Guarantor, or (ii) vary the terms of the Securities.
- (e) Any such exchange or variation set out in paragraph (d) above shall be subject to the fulfilment of the same conditions as described under Condition 12(c) (*Substitution and Variation*) in relation to Exchanged Securities or Varied Securities if a Tax Event, a Withholding Tax Event, an Accounting Event or a Capital Event has occurred, except that the fulfilment of the preconditions to redemption set out in Condition 6(h) (*Redemption and Purchase - Preconditions to Redemption*) as required by Condition 12(c)(iv) above shall be replaced by the delivery by the Guarantor to the Fiscal Agent of a certificate signed by two directors of the Guarantor and an opinion of independent tax advisers, in each case stating the Issuer is required to withhold on account of Taxes imposed or levied in the Netherlands on a payment under the Securities.

13. **Further Issues**

The Issuer may from time to time without the consent of the Holders create and issue further securities either having the same terms and conditions as the Securities in all respects (or in all respects except for the first payment of interest on them) and so that such further issue shall be consolidated and form a single series with the outstanding securities of any series (including the Securities) or upon such terms as the Issuer may determine at the time of their issue. References in these Conditions to the Securities include (unless the context requires otherwise) any other securities issued pursuant to this Condition and forming a single series with the Securities.

14. **Notices**

Notices to Holders of Securities will be deemed to be validly given if published in a leading daily newspaper having general circulation in London (which is expected to be the *Financial Times*) or, if such publication is not practicable, if published in a leading English language daily newspaper having general circulation in Europe. The Issuer shall also ensure that all notices are duly published in a manner which complies with the rules and regulations of any stock exchange or other relevant authority on which the Securities are for the time being listed and/or admitted to trading. Any such notice shall be deemed to have been validly given on the date of the first such publication or, if published more than once on the first date on which publication is made.

Notwithstanding the above, while all the Securities are represented by a Security in global form and such global form Security is deposited with a common depositary for Euroclear and/or Clearstream, Luxembourg, notices to Holders of Securities may be given by delivery of the relevant notice to Euroclear or Clearstream, Luxembourg in accordance with their respective rules and operating procedures, and such notices shall be deemed to have been given to Holders on the date of delivery to Euroclear and/or Clearstream, Luxembourg. Holders of Coupons will be deemed for all purposes to have notice of the contents of any notice given to the Holders of Securities in accordance with this Condition.

15. **Contracts (Rights of Third Parties) Act 1999**

No person shall have any right to enforce any term or condition of the Securities under the Contracts (Rights of Third Parties) Act 1999.

16. **Governing Law**

- (a) **Governing Law:** The Fiscal Agency Agreement, the Securities, the Coupons and the Guarantee and any non-contractual obligations arising out of or in connection with them are governed by and shall be construed in accordance with English law, other than the provisions of Condition 2(b) (*Status and Subordination of the Securities and Coupons - Subordination of the Securities*) which are governed by and construed in accordance with

the laws of the Netherlands, and the provisions of Conditions 3(b) (*Guarantee, Status and Subordination of the Guarantee - Status of the Guarantee*) and 3(c) (*Guarantee, Status and Subordination of the Guarantee - Subordination of the Guarantee*), and the corresponding provisions of the Guarantee, which are governed by and construed in accordance with the laws of the Kingdom of Spain.

- (b) **Jurisdiction:** The courts of England have exclusive jurisdiction to settle any dispute (a "**Dispute**") arising from or connected with the Securities or the Coupons (including a dispute relating to the existence, validity or termination of the Securities or any non-contractual obligations arising out of or in connection with the Securities or the consequences of their nullity). The Issuer agrees that the courts of England are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue to the contrary. This Condition is for the benefit of the Holders only. As a result, nothing in this Condition 16 prevents any Holder from taking proceedings relating to a Dispute ("**Proceedings**") in any other courts with jurisdiction. To the extent allowed by law, Holders may take concurrent Proceedings in any number of jurisdictions.
- (c) **Agent for Service of Process:** The Issuer agrees that the documents which start any Proceedings and any other documents required to be served in relation to those Proceedings may be served on it by being delivered to Telefónica Digital Limited, 20 Air Street, London W1B 5AN, United Kingdom, or, if different, its registered office for the time being or at any address of the Issuer in England at which process may be served on it. If such person is not or ceases to be effectively appointed to accept service of process on behalf of the Issuer, the Issuer shall forthwith appoint a further person in England to accept service of process on its behalf in England and notify the name and address of such person to the Fiscal Agent and, failing such appointment within 15 days, any Holder shall be entitled to appoint such a person by written notice addressed to the Issuer and delivered to the Issuer or to the specified office of the Fiscal Agent. Nothing in this paragraph shall affect the right of any Holder to serve process in any other manner permitted by law. This Condition applies to Proceedings in England.

## 17. Definitions

In these Conditions:

**"2014 Non-Call Securities"** means the EUR 1,000,000,000 Undated 10 Year Non-Call Deeply Subordinated Guaranteed Fixed Rate Reset Securities (ISIN: XS1050461034) issued by the Issuer on 31 March 2014 and unconditionally and irrevocably guaranteed on a subordinated basis by the Guarantor;

**"2016 Non-Call Securities"** means the EUR 1,000,000,000 Undated 5.5 Year Non-Call Deeply Subordinated Guaranteed Fixed Rate Reset Securities (ISIN: XS1490960942) issued by the Issuer on 15 September 2016 and unconditionally and irrevocably guaranteed on a subordinated basis by the Guarantor;

**"2017 Non-Call Securities"** means the EUR 1,000,000,000 Undated 5.5 Year Non-Call Deeply Subordinated Guaranteed Fixed Rate Reset Securities (ISIN: XS1731823255) issued by the Issuer on 7 December 2017 and unconditionally and irrevocably guaranteed on a subordinated basis by the Guarantor;

**"2018 Non-Call Securities"** means the EUR 1,250,000,000 Undated 5.7 Year Non-Call Deeply Subordinated Guaranteed Fixed Rate Reset Securities (ISIN: XS1795406575) issued by the Issuer on 22 March 2018 and unconditionally and irrevocably guaranteed on a subordinated basis by the Guarantor and the EUR 1,000,000,000 Undated 8.5 Year Non-Call Deeply Subordinated Guaranteed Fixed Rate Reset Securities (ISIN: XS1795406658) issued by the Issuer on 22 March 2018 and unconditionally and irrevocably guaranteed on a subordinated basis by the Guarantor;

**"2019 Non-Call Securities"** means the March 2019 Non-Call Securities and the September 2019 Non-Call Securities;

**"2020 Non-Call Securities"** means the EUR 500,000,000 Undated 7.25 Year Non-Call Deeply Subordinated Guaranteed Fixed Rate Reset Securities (ISIN: XS2109819859) issued by the Issuer on 5 February 2020 and unconditionally and irrevocably guaranteed on a subordinated basis by the Guarantor;

**"30/360 Day Count"** means, in respect of any period, the number of days in the relevant period, from (and including) the first day in such period to (but excluding) the last day in such period (such number of days being calculated on the basis of a 360 day year consisting of 12 months of 30 days each), divided by 360;

**"8 Year Swap Rate"** has the meaning given to it in Condition 4(c) (*Interest Payments - Prevailing Interest Rate*);

**"8 Year Swap Rate Quotations"** has the meaning given to it in Condition 4(c) (*Interest Payments - Prevailing Interest Rate*);

an **"Accounting Event"** shall be deemed to occur if the Issuer or the Guarantor has received, and notified the Holders in accordance with Condition 14 (*Notices*) that it has so received, a letter or report of a recognised accountancy firm of international standing, stating that, as a result of a change in the accounting rules or methodology (or in each case the application thereof) after the Issue Date (the earlier of such date that the aforementioned change is officially announced by the IASB or the equivalent body in respect of IFRS-EU or officially adopted or put into practice, the **"Accounting Event Adoption Date"**), the Securities may not or may no longer be recorded as "equity" pursuant to IFRS-EU or any other accounting standards that may replace IFRS-EU for the purposes of preparing the consolidated financial statements of the Guarantor. The Accounting Event shall be deemed to have occurred on the Accounting Event Adoption Date notwithstanding any later effective date. The period during which the Issuer may notify the redemption of the Securities as a result of the occurrence of an Accounting Event shall start on (and include) the Accounting Event Adoption Date. For the avoidance of doubt, such period shall include any transitional period between the Accounting Event Adoption Date and the date on which it comes into effect;

**"Additional Amounts"** has the meaning given to it in Condition 8(a) (*Taxation - Additional Amounts*);

**"Adjustment Spread"** means either a spread (which may be positive, negative or zero), or the formula or methodology for calculating a spread, in either case, which the Issuer, following consultation with the Independent Adviser and acting in good faith, determines is required to be applied to the Successor Rate or the Alternative Rate (as the case may be) and is the spread, formula or methodology which:

- (i) in the case of a Successor Rate, is formally recommended in relation to the replacement of the Original Reference Rate with the Successor Rate by any Relevant Nominating Body; or (if no such recommendation has been made, or in the case of an Alternative Rate);
- (ii) the Issuer determines, following consultation with the Independent Adviser and acting in good faith, is recognised or acknowledged as being the industry standard for over-the-counter derivative transactions or is in customary market usage in the debt capital market for transactions which reference the Original Reference Rate, where such rate has been replaced by the Successor Rate or the Alternative Rate (as the case may be); (or if the Issuer determines that no such industry standard is recognised or acknowledged); or
- (iii) the Issuer, in its discretion, following consultation with the Independent Adviser and acting in good faith, determines to be appropriate to reduce or eliminate, to the extent reasonably practicable in the circumstances, any economic prejudice or benefit (as the case may be) to Holders as a result of the replacement of the Original Reference Rate with the Successor Rate or the Alternative Rate (as the case may be);

**"Alternative Rate"** means an alternative benchmark or screen rate which the Issuer determines, following consultation with the Independent Adviser, has replaced the Original Reference Rate in

customary market usage in the international swap markets for the purposes of determining rates of interest (or the relevant component part thereof) for the same interest period and in euros;

"**Affiliates**" means an entity that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, the Guarantor;

"**Arrears of Interest**" has the meaning given to it in Condition 5(a) (*Optional Interest Deferral - Deferral of Interest Payments*);

"**Benchmark Amendments**" has the meaning given to it in Condition 4(d)(iv) (*Interest Payments - Benchmark Replacement*);

"**Benchmark Event**" means:

- (i) the Original Reference Rate has ceased to be published as a result of such benchmark ceasing to be calculated or administered; or
- (ii) a public statement by the administrator of the Original Reference Rate that (in circumstances where no successor administrator has been or will be appointed that will continue publication of the Original Reference Rate) it has ceased publishing the Original Reference Rate permanently or indefinitely or that it will cease to do so by a specified future date (the "**Specified Future Date**"); or
- (iii) a public statement by the supervisor of the administrator of the Original Reference Rate that the Original Reference Rate has been or will, by a specified future date (the "**Specified Future Date**"), be permanently or indefinitely discontinued; or
- (iv) a public statement by the supervisor of the administrator of the Original Reference Rate that means the Original Reference Rate will, by a specified future date (the "**Specified Future Date**"), be prohibited from being used or that its use will be subject to restrictions or adverse consequences, either generally or in respect of the Securities; or
- (v) a public statement by the supervisor of the administrator of the Original Reference Rate that, in the view of such supervisor, the Original Reference Rate is or will, by a specified future date (the "**Specified Future Date**") no longer representative of an underlying market; or
- (vi) it has or will, by a specified date within the following six months, become unlawful for any Paying Agent, Fiscal Agent, Agent Bank, the Issuer, the Guarantor or any other party to calculate any payments due to be made to any Holder using the Original Reference Rate (including, without limitation, under Regulation (EU) 2016/1011, if applicable),

and, notwithstanding the sub-paragraphs above, where the relevant Benchmark Event is a public statement within sub-paragraphs (ii), (iii), (iv) or (v) above and the Specified Future Date in the public statement is more than six months after the date of that public statement, the Benchmark Event shall not be deemed occur until the date falling six months prior to such Specified Future Date;

"**business day**" has the meaning given to it in Condition 7(e) (*Payments - Payments on business days*);

"**Business Day**" means a day, other than a Saturday, Sunday or public holiday, on which the Target System is operating;

"**Calculation Amount**" has the meaning given to it in Condition 4(b) (*Interest Payments - Interest Accrual*);

a "**Capital Event**" shall be deemed to occur if the Issuer or the Guarantor has received (directly or via publication by such Rating Agency), and notified the Holders in accordance with Condition 14 (*Notices*) that it has so received, confirmation from any Rating Agency that, due to any amendment to, clarification of, or change in hybrid capital methodology or a change in the interpretation thereof, in each case occurring or becoming effective after the Issue Date:

- (i) all or any of the Securities are being assigned a level of "equity credit" that is lower than the level or equivalent level of "equity credit" assigned to the Securities by such Rating Agency on the Issue Date, or, if "equity credit" is not assigned to the Securities by the relevant Rating Agency on the Issue Date, at the date on which "equity credit" is assigned by such Rating Agency for the first time; or
- (ii) if the Securities have been partially re-financed since the Issue Date and are no longer eligible for "equity credit" in part or in full as a result, paragraph (i) above would have applied had the Securities not been re-financed; or
- (iii) the length of time the Securities are assigned a particular level of "equity credit" by that Rating Agency would be shortened as compared to the length of time they would have been assigned that level of "equity credit" by that Rating Agency on the initial issuance of the Securities;

**"Compulsory Arrears of Interest Settlement Event"** has the meaning given to it in Condition 5(c) (*Optional Interest Deferral - Mandatory Settlement of Arrears of Interest*);

**"Condition"** means the terms and conditions of the Securities;

**"Deferral Notice"** has the meaning given to it in Condition 5(a) (*Optional Interest Deferral - Deferral of Interest Payments*);

**"Deferred Interest Payment"** has the meaning given to it in Condition 5(a) (*Optional Interest Deferral - Deferral of Interest Payments*);

**"Dividend Declaration"** has the meaning given to it in Condition 5(c) (*Optional Interest Deferral - Mandatory Settlement of Arrears of Interest*);

**"Early Redemption Amount"** means in respect of a redemption of the Securities following the occurrence of a Tax Event, an Accounting Event or a Capital Event, 101 per cent. of the principal amount of such Securities;

**"Financial Adviser"** means an independent and internationally recognised financial adviser selected by the Issuer at its own expense;

**"First Call Date"** means 12 February 2029;

**"First Reset Date"** means 12 May 2029;

**"Fitch"** means Fitch Ratings Ireland Limited;

**"Further Securities"** means any Securities issued pursuant to Condition 13 (*Further Issues*) and forming a single series with the outstanding Securities;

**"Group"** mean the Guarantor and its consolidated subsidiaries;

**"Guarantor"** means Telefónica, S.A.;

**"Holder"** has the meaning given to it in Condition 1(b) (*Form, Denomination and Title - Title*);

**"IFRS-EU"** means International Financial Reporting Standards, as adopted by the European Union;

**"IASB"** means the International Accounting Standards Board;

**"Independent Adviser"** means an independent financial institution of international repute or an independent financial adviser with appropriate expertise appointed by the Issuer (at its own expense) under Condition 4(d) (*Interest Payments - Benchmark Replacement*);

**"Interest Payment"** means, in respect of an interest payment on an Interest Payment Date, the amount of interest payable on the presentation and surrender of the relevant Coupon for the relevant Interest Period in accordance with Condition 4 (*Interest Payments*);

**"Interest Payment Date"** means 12 May in each year;

**"Interest Period"** means the period beginning on (and including) the Issue Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date;

**"Issue Date"** means 12 February 2021;

**"Issuer"** means Telefónica Europe B.V.;

**"Issuer Winding-up"** means a situation where (i) an order is made or a decree or resolution is passed for the winding-up, liquidation or dissolution of the Issuer, except for the purposes of a solvent merger, reconstruction or amalgamation, or (ii) a trustee (*curator*) is appointed by the competent District Court in the Netherlands in the event of bankruptcy (*faillissement*) affecting the whole or a substantial part of the undertaking or assets of the Issuer and such appointment is not discharged within 30 days;

**"Junior Obligations"** means the Junior Obligations of the Guarantor and the Junior Obligations of the Issuer;

**"Junior Obligations of the Guarantor"** means all obligations of the Guarantor issued or incurred directly or indirectly by it which rank or are expressed to rank junior to the Guarantee, including Ordinary Shares of the Guarantor and any other shares (*acciones*) in the capital of the Guarantor (and, if divided into classes, each class thereof);

**"Junior Obligations of the Issuer"** means all obligations of the Issuer, issued or incurred directly or indirectly by it, which rank or are expressed to rank junior to the Securities, including (i) Ordinary Shares of the Issuer and (ii) Preferred Shares of the Issuer, if any;

**"Law 10/2014"** means Law 10/2014 of 26 June 2014, on regulation, supervision and solvency of credit entities (*Ley 10/2014, de 26 de junio, de ordenación, supervisión y solvencia de entidades de crédito*);

**"Make-Whole Redemption Amount"** means in respect of a redemption of the Securities pursuant to Condition 6(c) (*Redemption and Purchase – Issuer's Make-Whole Call Option*), an amount calculated by the Agent Bank equal to the higher of:

- (i) 100 per cent. of the principal amount of the Securities to be redeemed; and
- (ii) the sum of the present values of the principal amount of the Securities to be redeemed and the aggregate amount of scheduled payment(s) of interest on such Securities for the Remaining Term (exclusive of interest accrued to the Redemption Date) discounted to the relevant Redemption Date on an annual basis (based on the actual number of days elapsed divided by 365 (in the case of a leap year, 366)) at a rate equal to the sum of: (x) the Reference Bond Rate and (y) 0.450 per cent. per annum;

**"March 2019 Non-Call Securities"** means the EUR 1,300,000,000 Undated 6 Year Non-Call Deeply Subordinated Guaranteed Fixed Rate Reset Securities (ISIN: XS1933828433) issued by the Issuer on 14 March 2019 and unconditionally and irrevocably guaranteed on a subordinated basis by the Guarantor;

**"Mandatory Settlement Date"** has the meaning given to it in Condition 5(c) (*Optional Interest Deferral - Mandatory Settlement of Arrears of Interest*);

**"Moody's"** means Moody's Investors Service España S.A.;

**"Optional Deferred Interest Settlement Date"** has the meaning given to it in Condition 5(b) (*Optional Interest Deferral - Optional Settlement of Arrears of Interest*);

**"Ordinary Shares of the Guarantor"** means ordinary shares in the capital of the Guarantor, having at the Issue Date a nominal value of EUR 1.00 each;



**"Ordinary Shares of the Issuer"** means ordinary shares in the capital of the Issuer, having on the Issue Date a nominal amount of EUR 460.00 each;

**"Original Reference Rate"** means EURIBOR;

**"Parity Obligations"** means the Parity Obligations of the Guarantor and the Parity Obligations of the Issuer;

**"Parity Obligations of the Guarantor"** means any and all present or future series of preferred securities (*participaciones preferentes*) issued directly by the Guarantor or indirectly through a wholly-owned subsidiary with the guarantee of the Guarantor in accordance with the First Additional Provision of Law 10/2014, obligations equivalent to preferred securities (*participaciones preferentes*) issued directly by the Guarantor or indirectly through a wholly-owned subsidiary with the guarantee of the Guarantor (whether issued under the First Additional Provision of Law 10/2014 or any other law or regulation of Spain or of any other jurisdiction) and obligations of the Guarantor, issued directly by it or indirectly through a wholly-owned subsidiary with the guarantee of the Guarantor, which rank or are expressed to rank *pari passu* with the Guarantee (which include the guarantees granted by the Guarantor in connection with the 2020 Non-Call Securities, the 2019 Non-Call Securities, the 2018 Non-Call Securities, the 2017 Non-Call Securities, the 2016 Non-Call Securities and the 2014 Non-Call Securities);

**"Parity Obligations of the Issuer"** means any obligations of the Issuer, issued or incurred directly or indirectly by it, which rank, or are expressed to rank, *pari passu* with the Securities including (i) the 2020 Non-Call Securities, (ii) the 2019 Non-Call Securities, (iii) the 2018 Non-Call Securities, (iv) the 2017 Non-Call Securities, (v) the 2016 Non-Call Securities and (vi) the 2014 Non-Call Securities;

**"Preferred Shares of the Issuer"** means any preference shares in the capital of the Issuer (and, if divided into classes, each class thereof);

**"Prevailing Interest Rate"** means the rate of interest payable on the Securities applicable from time to time pursuant to Condition 4 (*Interest Payments*);

**"Proceedings"** has the meaning given to it in Condition 16(b) (*Governing Law - Jurisdiction*);

**"Rating Agency"** means S&P, Moody's or Fitch or, in each case, any successor to the rating agency business thereof;

**"Redemption Date"** means the date fixed for redemption of the Securities pursuant to Condition 6 (*Redemption and Purchase*);

**"Reference Bond"** means DBR 0.25 per cent. due February 2029 (ISIN DE0001102465) or, if such security is no longer outstanding, shall be a government security or securities selected by the Financial Adviser as having an actual or interpolated maturity comparable with the Remaining Term that would be utilised, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities denominated in euros and of a comparable maturity to the Remaining Term;

**"Reference Bond Price"** means, with respect to the relevant Redemption Date, the amount displayed on the Reference Screen Page or, if the Reference Screen Page is not available, (a) the arithmetic average of the Reference Government Bond Dealer Quotations for such date of redemption, after excluding the highest and lowest such Reference Government Bond Dealer Quotations, or (b) if the Agent Bank is provided with fewer than four such Reference Government Bond Dealer Quotations, the arithmetic average of all such quotations;

**"Reference Bond Rate"** means, with respect to the relevant Redemption Date, the rate per annum equal to the annual yield (as the case may be) to maturity or interpolated yield to maturity (on the relevant day count basis) of the Reference Bond, assuming a price for the Reference Bond (expressed as a percentage of its nominal amount) equal to the Reference Bond Price for such Redemption Date;

**"Reference Date"** will be set out in the relevant notice of redemption;

**"Reference Government Bond Dealer"** means each of five banks selected by the Issuer, or their affiliates, which are (a) primary government securities dealers, and their respective successors, or (b) market makers in pricing corporate bond issues;

**"Reference Government Bond Dealer Quotations"** means, with respect to each Reference Government Bond Dealer and the relevant Redemption Date, the arithmetic average, as determined by the Agent Bank, of the bid and offered prices for the Reference Bond (expressed in each case as a percentage of its nominal amount) at 11 a.m. (Central European time) on the Reference Date quoted in writing to the Agent Bank by such Reference Government Bond Dealer;

**"Reference Screen Page"** means Bloomberg HP page for the Reference Bond (using the settings "Mid YTM" and "Daily" with price source "Bloomberg Generic") or any successor or replacement page, section or other part of the information service), or such other page, section or other part as may replace it on the information service or such other information service, in each case, as may be nominated by the person providing or sponsoring the information appearing there for the purpose of displaying the mid-market yield to maturity for the Reference Bond;

**"Relevant Date"** means (i) in respect of any payment other than a sum to be paid by the Issuer or the Guarantor in a winding-up or administration of the Issuer or Guarantor, as the case may be, the date on which such payment first becomes due and payable, but if the full amount of moneys payable on such date has not been received by the Fiscal Agent on or prior to such date, the Relevant Date means the date on which such moneys shall have been so received and notice to that effect shall have been given to the Holders of Securities in accordance with Condition 14 (*Notices*) and (ii) in respect of a sum to be paid by the Issuer or the Guarantor in a winding-up or administration of the Issuer or the Guarantor, as the case may be, the date that is one day prior to the date on which an order is made or a resolution is passed for the winding-up, or in the case of an administration, one day prior to the date on which any dividend is distributed;

**"Relevant Nominating Body"** means, in respect of a benchmark or screen rate (as applicable):

- (i) the central bank for the currency to which the benchmark or screen rate (as applicable) relates, or any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable); or
- (ii) any working group or committee sponsored by, chaired or co-chaired by or constituted at the request of (a) the central bank for the currency to which the benchmark or screen rate (as applicable) relates, (b) any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable), (c) a group of the aforementioned central banks or other supervisory authorities or (d) the Financial Stability Board or any part thereof;

**"Relevant Period"** means the period commencing on (and including) the First Call Date and ending on (and including) the First Reset Date;

**"Remaining Term"** means, with respect to any Security, the period from (and including) the Redemption Date to (but excluding): (a) if the Redemption Date occurs before the Relevant Period, the First Call Date; or (b) if the Redemption Date occurs after the Relevant Period, the next succeeding Interest Payment Date;

**"Reset Date"** means the First Reset Date and each date falling on the eighth anniversary thereafter;

**"Reset Interest Determination Date"** means, in respect of any Reset Period, the day falling two Business Days prior to the beginning of the relevant Reset Period;

**"Reset Period"** means each period from and including the First Reset Date to but excluding the next following Reset Date and thereafter from and including each Reset Date to but excluding the next following Reset Date;

**"Reset Reference Banks"** has the meaning given to it in Condition 4(c) (*Interest Payments - Prevailing Interest Rate*);

**"Reset Reference Bank Rate"** has the meaning given to it in Condition 4(c) (*Interest Payments - Prevailing Interest Rate*);

**"Reset Screen Page"** has the meaning given to it in Condition 4(c) (*Interest Payments - Prevailing Interest Rate*);

**"S&P"** means S&P Global Ratings Europe Limited;

**"Senior Obligations of the Guarantor"** means all obligations of the Guarantor, including subordinated obligations of the Guarantor according to Spanish insolvency law, other than Parity Obligations of the Guarantor and Junior Obligations of the Guarantor;

**"Senior Obligations of the Issuer"** means all obligations of the Issuer, including subordinated obligations of the Issuer according to Dutch insolvency law, other than Parity Obligations of the Issuer and Junior Obligations of the Issuer;

**"September 2019 Non-Call Securities"** means the EUR 500,000,000 Undated 8 Year Non-Call Deeply Subordinated Guaranteed Fixed Rate Reset Securities (ISIN: XS2056371334) issued by the Issuer on 24 September 2019 and unconditionally and irrevocably guaranteed on a subordinated basis by the Guarantor;

**"Subordinated Loan"** means the subordinated loan made by the Issuer to the Guarantor dated 12 February 2021, pursuant to which the proceeds of the issue of the Securities are on-lent to the Guarantor;

**"Subsequent Fixed Interest Rate"** has the meaning given to it in Condition 4(c)(ii) (*Interest Payments - Prevailing Interest Rate*);

a **"Substantial Purchase Event"** shall be deemed to have occurred if at least 75 per cent. of the aggregate principal amount of the Securities originally issued (which for these purposes shall include any Further Securities) is purchased by the Issuer, the Guarantor or any subsidiary of the Guarantor (and in each case is cancelled in accordance with Condition 6(j) (*Redemption and Purchase - Cancellation*));

**"Successor Rate"** means a successor to or replacement of the Original Reference Rate which is formally recommended by any Relevant Nominating Body;

**"Target System"** means the Trans-European Automated Real-Time Gross Settlement Express Transfer payment system which utilises a single shared platform and which was launched on 19 November 2007;

a **"Tax Event"** shall be deemed to have occurred if, as a result of a Tax Law Change, in respect of (i) the Issuer's obligation to make any payment under the Securities (including any Interest Payment) on the next following Interest Payment Date; or (ii) the obligation of the Guarantor to make any payment in favour of the Issuer under the Subordinated Loan on the next following due date for such payment, the Issuer or the Guarantor (as the case may be) would no longer be entitled to claim a deduction in respect of computing its tax liabilities in the Netherlands or in Spain (as the case may be), or such entitlement is materially reduced.

For the avoidance of doubt, a Tax Event shall not occur if payments of interest under the Subordinated Loan by the Guarantor are not deductible in whole or in part for Spanish corporate income tax purposes solely as a result of general tax deductibility limits set forth by Article 16 of Law 27/2014 dated 27 November 2014, on Corporate Income Tax, as at 4 February 2021;

**"Tax Law Change"** means a change in or proposed change in, or amendment to, or proposed amendment to, the laws or regulations of the Netherlands or Spain or, in either case, any political subdivision or any authority thereof or therein having power to tax, including, without limitation, any treaty to which the Netherlands or Spain is a party, or any change in the official or generally published interpretation of such laws or regulations, including a decision of any court or tribunal, or any interpretation or pronouncement by any relevant tax authority that provides for a position with respect to such laws or regulations or interpretations thereof that differs from the previously

generally accepted position in relation to similar transactions, which change, amendment or interpretation becomes or would become, effective after 4 February 2021;

"**Taxes**" has the meaning given to it in Condition 8(a) (*Taxation - Additional Amounts*);

"**Taxing Authority**" has the meaning given to it in Condition 8(a) (*Taxation - Additional Amounts*); and

a "**Withholding Tax Event**" shall be deemed to occur if as a result of a Tax Law Change, in making any payments in respect of the Securities or the Guarantee the Issuer or the Guarantor has paid or will or would on the next Interest Payment Date be required to pay Additional Amounts in respect of the Securities or the Guarantee that cannot be avoided by the Issuer or the Guarantor, as the case may be, taking measures reasonably available to it.

## SUMMARY OF PROVISIONS RELATING TO THE SECURITIES IN GLOBAL FORM

The Securities will initially be in the form of the Temporary Global Security which will be deposited on or around the Closing Date with a common depository for Euroclear and Clearstream, Luxembourg.

The Securities are not intended to be held in a manner which would allow Eurosystem eligibility.

The Temporary Global Security will be exchangeable in whole or in part for interests in the Permanent Global Security not earlier than 40 days after the Closing Date upon certification as to non-US beneficial ownership. No payments will be made under the Temporary Global Security unless exchange for interests in the Permanent Global Security is improperly withheld or refused. In addition, interest payments in respect of the Securities cannot be collected without such certification of non-US beneficial ownership.

The Permanent Global Security will become exchangeable in whole, but not in part, for Securities in definitive form ("**Definitive Securities**") in the denomination of EUR 100,000 each at the request of the bearer of the Permanent Global Security if (a) Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or (b) if principal in respect of any of the Securities is not paid when due and payable.

Whenever the Permanent Global Security is to be exchanged for Definitive Securities, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Securities, duly authenticated and with Coupons and Talons attached, in an aggregate principal amount equal to the principal amount of the Permanent Global Security to the bearer of the Permanent Global Security against the surrender of the Permanent Global Security to or to the order of the Fiscal Agent within 30 days of the bearer requesting such exchange.

If:

- (a) the Temporary Global Security is not duly exchanged, whether in whole or in part, for the Permanent Global Security by 5.00 p.m. (London time) on the thirtieth day after the time at which the preconditions to such exchange are first satisfied; or
- (b) Definitive Securities have not been delivered by 5.00 p.m. (London time) on the thirtieth day after the bearer has duly requested exchange of the Permanent Global Security for Definitive Securities; or
- (c) the Temporary or Permanent Global Security (or any part of it) has become due and payable in accordance with the Conditions or the date for final redemption of the Securities has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer in accordance with the terms of the Temporary or Permanent Global Security on the due date for payment,

then the relevant Global Security (including the obligation to deliver Definitive Securities) will become void at 5.00 p.m. (London time) on such thirtieth day (in the case of (a) and (b) above) or at 5.00 p.m. (London time) on such due date (in the case of (c) above), and the bearer of such Global Security will have no further rights thereunder (but without prejudice to the rights which the bearer of the Global Security or others may have under a deed of covenant dated 12 February 2021 (the "**Deed of Covenant**") executed by the Issuer). Under the Deed of Covenant, persons shown in the records of Euroclear and/or Clearstream, Luxembourg as being entitled to an interest in the relevant Global Security will acquire directly against the Issuer all those rights to which they would have been entitled if, immediately before such Global Security becomes void, they had been the holders of Definitive Securities in an aggregate principal amount equal to the principal amount of Securities they were shown as holding in the records of Euroclear and/or (as the case may be) Clearstream, Luxembourg.

In addition, the Temporary Global Security and the Permanent Global Security will contain provisions which modify the Conditions as they apply to such Temporary Global Security and Permanent Global Security. The following is a summary of certain of those provisions:

**Payments:** All payments in respect of the Temporary Global Security and the Permanent Global Security will be made against presentation and (in the case of payment of principal in full with all interest accrued thereon) surrender of the Temporary Global Security or (as the case may be) the Permanent Global Security

to or to the order of any Paying Agent and will be effective to satisfy and discharge the corresponding liabilities of the Issuer in respect of the Securities. On each occasion on which a payment of principal or interest is made in respect of the Temporary Global Security or (as the case may be) the Permanent Global Security, the Issuer shall procure that the payment is entered *pro rata* in the records of Euroclear and Clearstream, Luxembourg.

**Payments on business days:** In the case of all payments made in respect of the Temporary Global Security or the Permanent Global Security "**business day**" means any day on which the TARGET System is open.

**Notices:** While all the Securities are represented by the Permanent Global Security (or by the Temporary Global Security) and the Permanent Global Security (or the Temporary Global Security) is deposited with a common depositary for Euroclear and Clearstream, Luxembourg, notices to Holders of the Securities: (i) may be given by delivery of the relevant notice to Euroclear and Clearstream, Luxembourg and, in any case, such notices shall be deemed to have been given to the Holders in accordance with Condition 14 (*Notices*) of the Securities on the date of delivery to Euroclear and Clearstream, Luxembourg, and (ii) shall also be published (if such publication is required) in a manner which complies with the rules and regulations of any stock exchange or other relevant authority on which the Securities are listed/and or admitted to trading.

## FORM OF GUARANTEE

*The text of the Deed of Guarantee is as follows:*

This Deed of Guarantee is made on 12 February 2021

### BY

- (1) TELEFÓNICA, S.A. (the "**Guarantor**")

### IN FAVOUR OF

- (2) THE HOLDERS of any Security or Securities (as defined below) or the coupons relating to them; and
- (3) THE RELEVANT ACCOUNT HOLDERS (as defined in the Deed of Covenant described below).

### WHEREAS

- (A) Telefónica Europe B.V. (the "**Issuer**") proposes to issue EUR 1,000,000,000 Undated 8.25 Year Non-Call Deeply Subordinated Guaranteed Fixed Rate Reset Securities (the "**Securities**", which expression shall, if the context so admits, include the Global Securities (whether in temporary or permanent form)) in connection with which, the Issuer and Guarantor have become parties to a fiscal agency agreement (the "**Fiscal Agency Agreement**") dated 12 February 2021 between, inter alios, the Issuer, the Guarantor and The Bank of New York Mellon, London Branch in its various capacities as set out therein relating to the Securities, and the Issuer has executed and delivered a deed of covenant (the "**Deed of Covenant**") dated 12 February 2021.
- (B) The Guarantor has duly authorised the giving of a guarantee on a subordinated basis in respect of the Securities and the Deed of Covenant.

### THIS DEED WITNESSES as follows:

#### 1. Interpretation

- 1.1 All terms and expressions which have defined meanings in the Conditions (as defined in the Deed of Covenant), the Fiscal Agency Agreement or the Deed of Covenant shall have the same meanings in this Deed of Guarantee except where the context requires otherwise or unless otherwise stated.
- 1.2 Any reference in this Deed of Guarantee to a Clause is, unless otherwise stated, to a clause hereof.
- 1.3 All references in this Deed of Guarantee to an agreement, instrument or other document (including the Conditions, the Fiscal Agency Agreement and the Deed of Covenant) shall be construed as a reference to that agreement, instrument or other document as the same may be amended, supplemented, replaced or novated from time to time.
- 1.4 Any reference in this Deed of Guarantee to any legislation (whether primary legislation or regulations or other subsidiary legislation made pursuant to primary legislation) shall be construed as a reference to such legislation as the same may have been, or may from time to time be, amended or re-enacted.
- 1.5 Clause headings are for ease of reference only.

#### 2. Guarantee and Indemnity

- 2.1 The Guarantor hereby unconditionally and irrevocably guarantees on a subordinated basis:
- 2.1.1 to each Holder the due and punctual payment of all sums expressed to be payable from time to time by the Issuer in respect of any Security as and when the same become due and payable and accordingly undertakes to pay to such Holder, forthwith in the manner and currency prescribed by the Conditions for payments by the Issuer thereunder, any and every sum or sums which the Issuer is at any time liable to pay in respect of such

Security in accordance with the Conditions of the Securities and which the Issuer has failed to pay; and

2.1.2 to each Relevant Account Holder the due and punctual payment of all sums which become payable from time to time by the Issuer to such Relevant Account Holder in respect of the Direct Rights as and when the same become due and payable and accordingly undertakes to pay to such Relevant Account Holder, forthwith in the manner and currency prescribed by the Conditions of the Securities for payments by the Issuer thereunder, any and every sum or sums which the Issuer is at any time liable to pay to such Relevant Account Holder in respect of the Direct Rights in accordance with the Deed of Covenant and which the Issuer has failed to pay.

2.2 The Guarantor undertakes to each Holder and each Relevant Account Holder that, should any amount referred to in Clause 2.1 not be recoverable from the Guarantor thereunder for any reason whatsoever (including, without limitation, by reason of any Security, any provision of any Security, the Deed of Covenant or any provision thereof being or becoming void, unenforceable or otherwise invalid under any applicable law) then, notwithstanding that the same may have been known to such Holder or Relevant Account Holder, the Guarantor will, forthwith upon demand by such Holder or Relevant Account Holder, pay such sum by way of a full indemnity in the manner and currency prescribed by the Securities or (as the case may be) the Deed of Covenant. This indemnity constitutes a separate and independent obligation from the other obligations under this Guarantee and shall give rise to a separate and independent cause of action.

### 3. **Taxes**

The Guarantor covenants in favour of each Holder and each Relevant Account Holder that it will duly perform and comply with its obligations expressed to be undertaken by it in Condition 8 (*Taxation*).

### 4. **Preservation of Rights**

4.1 The obligations of the Guarantor herein contained shall be deemed to be undertaken as principal debtor.

4.2 The obligations of the Guarantor herein contained shall be continuing obligations notwithstanding any settlement of account or other matters or things whatsoever and, in particular but without limitation, shall not be considered satisfied by any intermediate payment or satisfaction of all or any of the Issuer's obligations under any Security or the Deed of Covenant and shall continue in full force and effect until all sums due from the Issuer in respect of the Securities and under the Deed of Covenant have been paid, and all other obligations of the Issuer thereunder or in respect thereof have been satisfied, in full.

4.3 Neither the obligations expressed to be assumed by the Guarantor herein contained nor the rights, powers and remedies conferred upon the Holders, the Relevant Account Holders or any of them by this Deed of Guarantee or by law shall be discharged, impaired or otherwise affected by:

4.3.1 the winding up, bankruptcy, moratorium or dissolution of the Issuer or analogous proceeding in any jurisdiction or any change in its status, function, control or ownership; or

4.3.2 any of the obligations of the Issuer under any of the Securities or the Deed of Covenant being or becoming illegal, invalid or unenforceable; or

4.3.3 time or other indulgence being granted or agreed to be granted to the Issuer in respect of its obligations under any of the Securities or the Deed of Covenant; or

4.3.4 any amendment to, or any variation, waiver or release of, any obligation of the Issuer under any of the Securities or the Deed of Covenant; or any other act, event or omission which, but for this Clause 4.3, might operate to discharge, impair or otherwise affect the obligations expressed to be assumed by the Guarantor herein or any of the rights, powers or remedies conferred upon the Holders, the Relevant Account Holders or any of them by this Deed of Guarantee or by law.



- 4.4 Any settlement or discharge between the Guarantor and the Holders, the Relevant Account Holders or any of them shall be conditional upon no payment to the Holders, the Relevant Account Holders or any of them by the Issuer or any other person on the Issuer's behalf being avoided or reduced by virtue of any provisions or enactments relating to bankruptcy, insolvency or liquidation for the time being in force and, in the event of any such payment being so avoided or reduced, the Holders and the Relevant Account Holders shall each be entitled to recover the amount by which such payment is so avoided or reduced from the Guarantor subsequently as if such settlement or discharge had not occurred.
- 4.5 No Holder or Relevant Account Holder shall be obliged before exercising any of the rights, powers or remedies conferred upon it by this Deed of Guarantee or by law:
- 4.5.1 to make any demand of the Issuer, other than (in the case of a Holder) the presentation of the relevant Security; or
- 4.5.2 to take any action or obtain judgment in any court against the Issuer; or
- 4.5.3 to make or file any claim or proof in a winding-up or dissolution of the Issuer and, save as aforesaid, the Guarantor hereby expressly waives, in respect of each Security, presentment, demand and protest and notice of dishonour.
- 4.6 The Guarantor agrees that so long as any amounts are or may be owed by the Issuer under any of the Securities or the Deed of Covenant or the Issuer is under any actual or contingent obligations thereunder, the Guarantor shall not exercise rights which the Guarantor may at any time have by reason of performance by the Guarantor of its obligations hereunder:
- 4.6.1 to claim any contribution from any other guarantor of the Issuer's obligations under the Securities or the Deed of Covenant; and/or
- 4.6.2 to take the benefit, in whole or in part, of any security enjoyed in connection with, any of the Securities or the Deed of Covenant issued by the Issuer, by any Holder or Relevant Account Holder; and/or
- 4.6.3 to be subrogated to the rights of any Holder or Relevant Account Holder against the Issuer in respect of amounts paid by the Guarantor under this Deed of Guarantee.
5. **Conditions, Status and Subordination**
- 5.1 The Guarantor undertakes to comply with and be bound by those provisions of the Conditions which relate to it and which are expressed to relate to it.
- 5.2 The Guarantor undertakes that its obligations hereunder rank, and will at all times rank, as described in Condition 3(b) (*Guarantee, Status and Subordination of the Guarantee - Status of the Guarantee*).
- 5.3 In the event of the Guarantor being declared in insolvency ("*concurso*") under Spanish insolvency law, the provisions of Condition 3(c) (*Guarantee, Status and Subordination of the Guarantee - Subordination of the Guarantee*) shall apply.
6. **Delivery of Deed of Guarantee**
- A duly executed original of this Guarantee shall be delivered promptly after execution to the Fiscal Agent and such original shall be held to the exclusion of the Guarantor until the date on which complete performance by the Guarantor of the obligations contained in this Guarantee and in the Securities occurs. A certified copy of this Guarantee may be obtained by any Holder or any Relevant Account Holder from the Fiscal Agent at its specified office at the expense of such Holder or Relevant Account Holder. Any Holder or Relevant Account Holder may protect and enforce his rights under this Guarantee (in the courts specified in Clause 11 below) upon the basis described in the Deed of Covenant (in the case of a Relevant Account Holder) and a copy of this Guarantee certified as being a true copy by a duly authorised officer of the Issue and Paying Agent without the need for production in any court of the actual records described in the Deed of Covenant or this Guarantee. Any such certification shall be binding, except in the case of manifest error or as may

be ordered by any court of competent jurisdiction, upon the Guarantor and all Holders and Relevant Account Holders. This Clause shall not limit any right of any Holder or Relevant Account Holder to the production of the originals of such records or documents or this Guarantee in evidence.

7. **Deed Poll; Benefit of Guarantee**

7.1 This Deed of Guarantee shall take effect as a Deed Poll for the benefit of the Holders and the Relevant Account Holders from time to time.

7.2 The obligations expressed to be assumed by the Guarantor herein shall enure for the benefit of each Holder and Relevant Account Holder, and each Holder and each Relevant Account Holder shall be entitled severally to enforce such obligations against the Guarantor.

7.3 The Guarantor may not assign or transfer all or any of its rights, benefits and obligations hereunder except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation of the Guarantor on terms approved by an Extraordinary Resolution of the Holders.

8. **Provisions Severable**

If at any time any provision hereof is or becomes illegal, invalid or unenforceable in any respect under the laws of any jurisdiction, neither the legality, validity or enforceability of the remaining provisions hereof nor the legality, validity or enforceability of such provision under the laws of any other jurisdiction shall in any way be affected or impaired thereby

9. **Notices**

9.1 All communications to the Guarantor hereunder shall be made in writing (by letter, telex or fax) and shall be sent to the Guarantor at:

Address: Distrito Telefónica  
Edificio Central  
c/ Ronda de la Comunicación, s/n  
28050 Madrid  
Spain

Fax: + 34 91 727 1397  
Attention: Carlos David Maroto Sobrado

or to such other address or fax number or for the attention of such other person or department as the Guarantor has notified to the Holders in the manner prescribed for the giving of notices in connection with the Securities.

9.2 Every communication sent in accordance with Clause 9.1 shall be effective upon receipt by the Guarantor; and **provided, however, that** any such notice or communication which would otherwise take effect after 4.00 p.m. on any particular day shall not take effect until 10.00 a.m. on the immediately succeeding business day in the place of the Guarantor.

10. **Law and Jurisdiction**

10.1 **Governing Law:** This Deed of Guarantee and all non-contractual obligations arising from or connected with it, are governed by and shall be construed in accordance with English law, except for the provisions of Conditions 3(b) (*Guarantee, Status and Subordination of the Guarantee - Status of the Guarantee*) and 3(c) (*Guarantee, Status and Subordination of the Guarantee - Subordination of the Guarantee*) referred to in Clauses 5.2 and 5.3, respectively, which shall be governed by and construed in accordance with Spanish law.

10.2 **English courts:** The courts of England have exclusive jurisdiction to settle any dispute (a "**Dispute**"), arising from or connected with this Deed of Guarantee (including a dispute regarding the existence, validity or termination of this Deed of Guarantee) or the consequences of its nullity.

10.3 **Appropriate forum:** The Guarantor agrees that the courts of England are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue to the contrary.

- 10.4 ***Rights of the Holders and Relevant Account Holders:*** Clause 10.2 (*English courts*) is for the benefit of the Holders and the Relevant Account Holders only. As a result, nothing in this Clause 10 (*Law and jurisdiction*) prevents the Holders and Relevant Account Holders from taking proceedings relating to a Dispute ("**Proceedings**") in any other courts with jurisdiction. To the extent allowed by law, the Holders and Relevant Account Holders may take concurrent Proceedings in any number of jurisdictions.
- 10.5 ***Process agent:*** The Guarantor agrees that the documents which start any Proceedings and any other documents required to be served in relation to those Proceedings may be served on it by being delivered to, Telefónica Digital Limited, 20 Air Street, London W1B 5AN, United Kingdom or, if different, its registered office for the time being or at any address of the Guarantor in the United Kingdom at which process may be served on it in accordance with Part 34 of the Companies Act 2006. If such person is not or ceases to be effectively appointed to accept service of process on behalf of the Guarantor, the Guarantor shall, on the written demand of any Holder or Relevant Account Holder addressed and delivered to the Guarantor appoint a further person in England to accept service of process on its behalf and, failing such appointment within 15 days, any Holder or Relevant Account Holder shall be entitled to appoint such a person by written notice addressed to the Guarantor and delivered to the Guarantor. Nothing in this paragraph shall affect the right of any Holder or Relevant Account Holder to serve process in any other manner permitted by law. This clause applies to Proceedings in England.

**IN WITNESS** whereof this Deed has been signed as a deed by the Guarantor and is hereby delivered on the date first above written.

**SIGNED** as a **DEED** and **DELIVERED** )  
on behalf of Telefónica, S.A. )  
a company incorporated in the Kingdom of Spain )  
by: )  
..... )  
being a person who, in accordance with )  
the laws of that territory are acting under )  
the authority of the company )

## USE AND ESTIMATED NET AMOUNT OF PROCEEDS

The net proceeds of the issue of the Securities, expected to amount to EUR 994,500,000, will be subject to specific eligibility criteria to be applied to new or existing projects ("**Eligible Projects**"), as detailed in Telefónica's Sustainable Development Goals Framework (the "**SDG Framework**"). The SDG Framework is in accordance with the Green Bond Principles 2018, Social Bond Principles 2018 and Sustainability Bond Guidelines 2018, each published by the International Capital Market Association.

The SDG Framework is available at:

<https://www.telefonica.com/documents/162467/144347968/Telefonica-Framework-Green-Social-Bonds-20210122.pdf/2ba276f5-af73-08b1-d4ea-2e169abd66e5>

The Second-Party Opinion from Sustainalytics B.V. dated 22 January 2021 (the "**Second-Party Opinion**") is available at:

<https://www.telefonica.com/documents/162467/144347968/Telefonica-SDG-Framework-Second-Party-Opinion-20210122.pdf/8a8de56e-1d09-17b7-ed65-a2a8e012ad4e>

Examples of Eligible Projects in relation to the energy efficiency of the Telefónica network infrastructure include:

- Modernisation of broadband networks, both fixed and mobile (5G deployment). Optic Fiber deployment, with the aim of transforming wireline legacy copper networks into latest generation fiber networks.
- Improvement of supporting infrastructure with a view to making it more efficient (including but not limited to: free cooling systems, cooling optimization, power modernisation, smart management, intelligent lighting or optimization of power storage). This also includes digital process transformation, such as automatisisation of maintenance processes.
- Software aimed at reducing power consumption, such as, but not limited to, power saving features, servers virtualisation, remote and data management applications, machine learning and artificial intelligence applications.

Examples of Eligible Projects in relation to the implementation of Telefónica's renewable energy plan:

- Self-generation of electricity from renewable sources such as solar, wind, mini-hydro and geothermal (excluding large hydro over 25 megawatts and geothermal with life cycle greenhouse gas emissions > 100 grams of carbon dioxide per kilowatt hour).

Examples of Eligible Projects in relation to Inclusive Connectivity accelerating deployment of broadband in unconnected or underserved areas:

- Overcoming the inequality of broadband in rural and remote areas through the deployment, extending and optimization of fixed or mobile connectivity to provide Internet access with sufficient bandwidth to underserved population.

Examples of Eligible Projects in relation to supporting Employment Generation, entrepreneurship and development of new digital skills:

- To invest directly in start-ups and small and medium sized enterprises through Telefónica's Open Innovation vehicles to promote innovation and foster employment ecosystems in countries where unemployment is a critical risk for socio-economic development and social welfare.

The list of eligibility criteria within the SDG Framework may be further updated as new technologies develop and other circumstances evolve.

Eligible Projects refer to new investments made after issuance as well as the refinancing of any investments made in the period of two years prior to issuance of the Securities.

An SDG bond committee / working group will monitor the project selection and evaluate allocation process as per the eligibility criteria set out in the SDG Framework. This committee will be composed of senior management representatives from Telefónica's Finance, Sustainability and Control departments alongside representatives from other key technical areas.

The SDG bond committee / working group will be responsible for:

- Review and validation of the selection of Eligible Projects based on the defined eligible categories listed above.
- Monitoring the Eligible Projects portfolio during the life of the Securities. The SDG bond committee / working group can decide to replace an Eligible Project if it no longer meets the eligibility criteria.
- Management of any future updates to the SDG Framework.

Telefónica may amend or update the SDG Framework in the future. Any change to the SDG Framework would be publicly announced. The SDG Framework, including any changes thereto, will be available on Telefónica's website at [www.telefonica.com](http://www.telefonica.com).

For the avoidance of doubt, neither the SDG Framework nor the Second-Party Opinion are, nor shall either of them be deemed to be, incorporated in, and/or form part of, this Prospectus.

## DESCRIPTION OF THE ISSUER

### Introduction

Telefónica Europe B.V. (the "**Issuer**") was incorporated for an indefinite period on 31 October 1996 in the Netherlands as a private company with limited liability (*besloten vennootschap met beperkte aansprakelijkheid*) under the laws of the Netherlands and in accordance with Book 2 of the Dutch Civil Code (*Burgerlijk Wetboek*). Its statutory seat is at Amsterdam, the Netherlands, and its business address is at Zuidplein 112, H Tower, 13th floor, 1077XV Amsterdam, the Netherlands. The Issuer's telephone number is +31(0)20 575 3370. Telefónica Europe B.V. is registered with the trade register of the Dutch Chamber of Commerce under number 24269798. The authorised share capital of the Issuer is EUR 46,000 represented by 100 ordinary shares having a nominal value of EUR 460 each. The share capital of the Issuer is fully subscribed and paid up by Telefónica, S.A. as the sole shareholder.

### Business

Telefónica Europe B.V. is a wholly-owned subsidiary of the Guarantor and one of its principal purposes is raising finance for the Telefónica Group. The Issuer raises funds primarily by issuing negotiable, and non-negotiable, instruments into the capital and money markets.

### Directors

The Directors of the Issuer are as follows:

<u>Name</u>	<u>Principal occupation</u>	<u>Principal External Activities</u>
Carlos David Maroto Sobrado.....	Director	Head of Financing at the Guarantor Director of Telefónica Participaciones, S.A.U. Director of Telefónica Emisiones, S.A.U.
François Declève.....	Director	Director Financing Subsidiaries and Equity at the Guarantor
Ilaria de Lucia .....	Director	Director at TMF Netherlands B.V.
Miguel Ángel Contreras Contreras.....	Director	Head of Telfisa Global B.V.

The business address of each of the directors of the Issuer is Zuidplein 112, H Tower, 13th floor, 1077XV Amsterdam, the Netherlands.

There are no potential conflicts of interest between any duties owed by the directors of the Issuer to the Issuer and their respective private interests and/or other duties.

### Auditors

The unconsolidated financial statements of the Issuer for the years ended 31 December 2019 and 31 December 2018 were audited by PricewaterhouseCoopers Accountants N.V., with its registered address at Thomas R. Malthusstraat 5, 1066 JR, Amsterdam, the Netherlands. PricewaterhouseCoopers Accountants N.V. is registered with the Chamber of Commerce with registration number 34180285. The auditor that signed the auditor's reports on behalf of PricewaterhouseCoopers Accountants N.V. is a member of the Netherlands Institute of Chartered Accountants (*Nederlandse Beroepsorganisatie van Accountants*).

## DESCRIPTION OF THE GUARANTOR

### Introduction

Telefónica, S.A. ("**Telefónica**" or the "**Guarantor**") is a corporation duly organised and existing under the laws of the Kingdom of Spain, incorporated on 19 April 1924. The Guarantor is governed by the Restated Spanish Companies Act (*Texto Refundido de la Ley de Sociedades de Capital*), approved by Royal Legislative Decree 1/2010, of 2 July 2010 (*Real Decreto Legislativo 1/2010, de 2 de julio, por el que se aprueba el texto refundido de la Ley de Sociedades de Capital*), as amended. The registered office of the Guarantor is at Gran Vía 28, 28013 Madrid, Spain, its tax identification number is A-28015865, its telephone number is +34 91 482 34 33 and its website is [www.telefonica.com](http://www.telefonica.com). The Telefónica Group is:

- a diversified telecommunications group which provides a comprehensive range of services through its large and modern telecommunications networks;
- focused on providing telecommunications services; and
- present principally in Europe and Latin America.

Telefónica has been assigned long term credit ratings of BBB- (stable outlook), Baa3 (stable outlook), BBB (stable outlook), respectively, by S&P, Moody's and Fitch. Telefónica has been assigned short term credit ratings of A3, P3 and F3, respectively, by S&P, Moody's and Fitch. S&P, Moody's and Fitch are established in the European Union and registered under the EU CRA Regulation. The ratings S&P, Moody's and Fitch have given Telefónica have been endorsed by S&P Global Ratings UK Limited, Moody's Investors Service Ltd and Fitch Ratings Ltd (respectively) which are established in the United Kingdom and registered under the UK CRA Regulation.

### Recent Developments

The principal events that have occurred since 31 December 2019, are set forth below:

- On 3 February 2020, Telefónica Emisiones, S.A.U. issued notes under its EUR 40,000,000,000 Euro Medium Term Note Programme for the issuance of debt instruments (the "**EMTN**") in the Euro market, guaranteed by the Guarantor, amounting to EUR 1,000 million. These notes are due on 3 February 2030, with an annual coupon of 0.664 per cent. and were issued at par (100 per cent.).
- In February 2020, Telefónica Europe, B.V. announced several transactions relating to its hybrid capital:
  - a new issue amounting to EUR 500 million, guaranteed by Telefónica, S.A. The net proceeds of the new issue were allocated towards eligible green investments, mainly energy efficiency in the network transformation from copper to fiber optic in Spain and also self-generation of renewable energy. The settlement took place on 5 February 2020;
  - a tender offer in respect of its two hybrid instruments, one denominated in pounds sterling and one in euros, with first call dates in November 2020 and September 2021, respectively. Telefónica Europe, B.V. accepted the purchase in cash of any and all of the tendered securities in an aggregate principal amount of GBP 128 million and EUR 232 million, respectively. The tender offer settled on 6 February 2020;
  - following the settlement of the abovementioned tender offer and the subsequent cancellation of the repurchased securities, Telefónica Europe, B.V. announced on 11 February 2020 the exercise of the early redemption option with respect to both series of hybrid instruments, according to their respective terms and conditions, for the remaining outstanding securities (EUR 112 million equivalent). Such outstanding instruments were redeemed on 6 February 2020 pursuant to the exercise of the early redemption option; and
  - on 13 February 2020, the exercise of the early redemption option with respect to the EUR 244 million outstanding securities issued in March 2014.

- On 20 February 2020, Telefónica filed with the United States Securities and Exchange Commission its annual report on Form 20-F for the year ended 31 December 2019.
- On 28 February 2020, after obtaining the relevant regulatory approvals, Telefónica de Contenidos, S.A.U. acquired 50 per cent. of the shares in Prosegur Alarmas España, S.L. ("**Prosegur**") for an amount of EUR 266 million, which is subject to the standard adjustments in this type of transactions on debt, working capital and existing customers. Furthermore, this amount was paid with 49,545,262 shares in Telefónica. With the purpose of setting protective mechanisms common in this type of transactions, Prosegur has committed to comply with, among others, certain restrictions over the transferability of such shares in Telefónica.
- On 17 April 2020, the Board of Directors of Telefónica, S.A. unanimously adopted the following resolution, in relation to the composition of its Nominating, Compensation and Corporate Governance Committee: to appoint the Independent Director Mr. Peter Löscher as Member of the Nominating, Compensation and Corporate Governance Committee, in replacement of Ms. Sabina Fluxà Thienemann, who presented her resignation to such position.
- On 29 April 2020, in relation to the agreement reached on 20 February 2019 with Millicom International Cellular, S.A. ("**Millicom**") for the sale of the entire share capital of Telefónica de Costa Rica TC, S.A., Telefónica notified Millicom of its intention to commence legal proceedings before the Courts of the State of New York (USA), in defence of its rights to claim compliance with what was agreed in the abovementioned agreement. The claim will be filed as soon as such Courts permit the commencement of new non-emergency actions. This claim concerns Millicom's refusal to close the transaction, and consequential breach of contract, following a formal request to do so, subsequent to obtaining regulatory approval and the satisfaction of all conditions precedent. In such legal action, Telefónica intends to seek compliance with what was agreed in the agreement, and compensation for all damages that this unjustified breach could cause to Telefónica. The agreed price for the sale of Telefónica de Costa Rica TC, S.A. amounted to USD 570 million (subject to adjustments), approximately EUR 503 million at the exchange rate as of the date of the agreement. The financial performance of Telefónica de Costa Rica TC, S.A. during this period was positive; its operating revenues amounted to EUR 235 million in 2019 (+7.0 per cent. year-on-year in organic terms) and the OIBDA amounted to EUR 88 million (+21.3 per cent. year-on-year in organic terms), leveraged on the business performance, demonstrated by the total accesses which amounted to 2.3 million, an increase of 5 per cent. year-on-year (+33 per cent. in the case of contract accesses).
- On 7 May 2020, Telefónica reached an agreement with Liberty Global plc to launch a 50-50 joint venture ("**JV**") through their operating businesses in the UK (O2 Holdings Ltd. and Virgin Media UK, respectively) to create an integrated communications provider in the UK with over 46 million video, broadband and mobile subscribers and approximately GBP 11 billion of revenue. The combined entity will be a stronger fixed and mobile player in the UK market and will benefit from the scale and complementary expertise of each partner, who will provide a suite of services to the JV after closing. The transaction is expected to deliver significant value, with estimated synergies of GBP 6.2 billion on a net present value basis after integration costs, estimated capex and revenue benefits of GBP 540 million on an annual basis by the fifth full year post closing, and free cash flow accretive since year one for Telefónica, which expects to receive GBP 5.7 billion of proceeds in total after an equalisation payment of GBP 2.5 billion. The JV will target leverage of between four and five times OIBDA. This move is fully aligned with Telefónica's new strategy to focus and improve market positioning in its core markets. The parties have agreed to restrict the transfer of interests in the JV to a third party until the fifth anniversary of closing, when it will be subject to a right of first offer in favour of the other shareholder. The transaction is subject to regulatory approvals, consummation of the recapitalisations and other customary closing conditions.
- On 13 May 2020, Telefónica Emisiones, S.A.U. issued EUR 2,000 million notes guaranteed by the Guarantor under its EMTN. This issuance is divided into two tranches. The first one for a principal amount of EUR 1,250 million, due on 21 August 2027, pays an annual coupon of 1.201 per cent. and was issued at 100.005 per cent. The second one, for a principal amount of EUR 750 million, due 21 May 2032, pays an annual coupon of 1.807 per cent. and was issued at par. The net proceeds of the notes are to be allocated towards projects aiming to improve energy efficiency in the network transformation from copper to fiber optic in Spain. Furthermore, a tender offer in respect of the



following notes was completed: EUR 1,000,000,000 3.961 per cent. Instruments due March 2021 (the "**March 2021 Instruments**"), EUR 1,000,000,000 1.477 per cent. Instruments due September 2021 (the "**September 2021 Instruments**"), EUR 1,400,000,000 0.750 per cent. Instruments due April 2022 (the "**April 2022 Instruments**"), and EUR 1,250,000,000 2.242 per cent. Instruments due May 2022 (the "**May 2022 Instruments**"). Telefónica Emisiones S.A.U. accepted the purchase in cash of EUR 894,000,000 of instruments of which (i) an amount of EUR 127,800,000 in principal amount related to the March 2021 Instruments, (ii) an amount of EUR 241,300,000 in principal amount related to the September 2021 Instruments, (iii) an amount of EUR 290,000,000 in principal amount related to the April 2022 Instruments and (iv) an amount of EUR 234,900,000 in principal amount related to the May 2022 Instruments. The tender offer settled on 22 May 2020.

- On 8 June 2020, Telefónica's subsidiary in Germany, Telefónica Germany GmbH & Co. OHG ("**Telefónica Deutschland**") signed an agreement with Telxius Telecom, S.A. ("**Telxius**") to sell approximately 10,100 sites to Telxius for EUR 1.5 billion, which implied a multiple of approximately 23 times enterprise value/EBITDA. The agreement included a commitment to build 2,400 additional sites over the next four years, to support higher growth for Telxius in Europe's largest market. Telxius financed 90 per cent. of the acquisition via a capital increase – to be subscribed by its current shareholders in proportion to their participation in Telxius – and by internally generated resources. The remaining 10 per cent. will be financed through incremental debt. The transaction, which is subject to regulatory approvals, is structured in two phases with Telxius acquiring approximately 60 per cent. of the portfolio initially and the remaining 40 per cent. by August of 2021. This acquisition and the commitment to build the new sites will allow Telxius to multiply its portfolio in Germany by more than six times to nearly 15,000 own sites, growing its global portfolio to 32,800 sites in the six countries where Telxius operates, approximately 80 per cent. of which are located in Europe. The agreement allows Telefónica Deutschland to further enhance its financial flexibility while Telefónica Deutschland secures access to important locations via long-term lease agreements agreed by the parties. This transaction will reduce the Telefónica Group's net debt by approximately EUR 500 million between 2020 and 2021, due to the contribution made by the partners in Telxius, net of the corresponding tax impacts derived from the transaction. With this agreement, Telefónica continues advancing on the strategy set out on 10 September 2019 – and later ratified with the creation of Telefónica Infra – to accelerate the monetisation of its extensive portfolio of mobile sites, as part of its strategy based on value creation for the shareholders, improving return on capital employed and making a more efficient use of its infrastructure. In 2019, Telefónica successfully closed the sale of more than 6,000 telecommunications towers (of which approximately 3,000 were to Telxius) at an average implied multiple of 18 times OIBDA. This agreement strengthens the position of Telefónica Infra, a portfolio management unit which owns Telefónica Group's stakes in infrastructure vehicles and owns 50.01 per cent. of Telxius as its main asset. In the months prior to the date of this Prospectus, Telxius has completed acquisitions of towers in Brazil and Peru. The creation of Telefónica Infra was one of the five strategic decisions taken under Telefónica's new plan unveiled on 27 November 2019.

On 1 September 2020, in execution of the obligations under the agreement, Telxius acquired all of the shares of the subsidiary Telefónica Germany Mobilfunk Standortgesellschaft mbH which owned approximately 6,000 sites (included in the first phase). As agreed, the total purchase price of EUR 896 million for the abovementioned sites included in this first phase is to be paid in two instalments, 85 per cent. was paid in the second half of 2020 and the remaining instalment is due in the third quarter of 2025.

- On 12 June 2020, the Annual General Shareholders' Meeting of Telefónica was held at second call with the attendance, present or represented, of shareholders holding shares representing 54.54 per cent. of the share capital of Telefónica. All the resolutions submitted were approved at the meeting.

Furthermore, Telefónica announced that on the same date, the Board of Directors agreed the implementation of the first capital increase with charge to reserves related to the shareholder compensation by means of a scrip dividend approved by the Annual General Shareholders' Meeting, under section V.1 of its agenda. On 3 July 2020, Telefónica announced that the shareholders of 36.99 per cent. of the free-of-charge allotment rights accepted the purchase commitment assumed by Telefónica, S.A. The gross amount paid by Telefónica, S.A. for these rights amounted to EUR 370,712,083.42. Telefónica waived the rights thus acquired, that have been amortised. On the other hand, the shareholders of 63.01 per cent. of the free-of-charge

allotment rights have opted to receive new shares of Telefónica, S.A. Therefore, the final number of ordinary shares with a nominal value of EUR 1 issued increased by 136,305,986, corresponding to 2.63 per cent. of the total share capital, resulting in a share capital increase of EUR 136,305,986. As a result, the amount of the share capital of Telefónica, S.A. after the capital increase has been set at EUR 5,328,437,672, divided into 5,328,437,672 shares.

- On 2 July 2020, Telefónica Audiovisual Digital, S.L.U., ("**Telefónica Audiovisual**") (Telefónica's wholly owned affiliate) signed an agreement for the exclusive media rights for Spain of the UEFA Champions League and the UEFA Europa League, as well as the UEFA Europa Conference League (a new competition to be separated from the UEFA Europa League) and the UEFA Youth League, for the next cycle comprising seasons 2021/22, 2022/23 and 2023/2024. The agreement guarantees Telefónica Audiovisual all media rights to the main European football competitions for all of its customers, both residential and horecas (hotels, restaurants, cafes, etc.). The direct acquisition from UEFA of this "premium" content will also allow Telefónica Audiovisual to continue designing and selling its own produced channels and content with European football that could be, likewise, accessible to other operators in the market interested in this content. The total award price for all competitions amounted to EUR 975 million which represents EUR 325 million for each of the seasons 2021/22, 2022/23 and 2023/2024, less the licence fees paid for the current cycle and without any year-to-year increase.
- On 18 July 2020, Telefónica Brasil S.A. ("**Telefónica Brasil**"), Telefónica's subsidiary in Brazil, presented a binding offer for the acquisition of Grupo Oi's mobile business, jointly with TIM S.A. and Claro S.A. The binding offer was submitted by the parties indicated above for the consideration of Grupo Oi, after the analysis of the data and information made available with respect to the business to be acquired.

On 28 July 2020, Telefónica Brasil presented an extended and revised binding offer for the acquisition of Grupo Oi's mobile business, jointly with TIM S.A. and Claro S.A. (jointly the "**Bidders**"), in the amount of 16,500 million Brazilian reais (approximately EUR 2,706 million at current exchange rates as at that date). Such joint proposal, additionally, considers the possibility of signing long term contracts for the use of Grupo Oi's infrastructure.

On 8 August 2020, Grupo Oi granted the Bidders, by the execution of an exclusivity agreement (the "**Agreement**"), to negotiate the documents and annexes related to the Revised Offer (as defined below).

On 8 September 2020, in replacement of the revised binding offer presented by Telefónica Brasil to Grupo Oi on 27 July 2020 (the "**Revised Offer**"), and, due to the new offer presented by the Bidders on 7 September 2020, by which the Bidders have ratified the amount of 16,500 million Brazilian reais (including 756 million Brazilian reais related to transition services to be provided for up to 12 months by Grupo Oi to the Bidders), plus the commitment to enter into long-term agreements for the provision of transmission capacity services, and adjustments in certain terms of the Revised Offer, the Bidders were qualified by Grupo Oi to participate in the competitive process of disposal of the Mobile Assets UPI, as "stalking horse".

On 14 December 2020, Telefónica announced that the offer submitted by Telefónica Brasil, jointly with TIM S.A. and Claro S.A. (jointly, the "**Purchasers**"), was declared the winner of the competitive process for purchase of Grupo Oi's mobile assets in a judicial auction. The Judicial Recovery Court approved the Purchasers' offer as winner of the bid, after a favorable opinion from the Public Prosecution of the State of Rio de Janeiro and the Judicial Administrator. The total offered amount corresponded to 16,500 million Brazilian reais (approximately EUR 2,684 million at exchange rates as at that date) including 756 million Brazilian reais referring to transitional services to be rendered for up to 12 months by Grupo Oi to the Purchasers. Telefónica Brasil shall disburse an amount corresponding to 33 per cent. of the total offered amount (equivalent to approximately 5,500 million Brazilian reais (approximately EUR 894 million at exchange rates as at that date)). Subject to the terms, conditions and payment schedule set out in the share purchase agreement, the price shall be paid upon closing of the transaction. Subject to the continuity of the current market conditions and the necessary internal approvals, and taking into account Telefónica Brasil's financial position, Telefónica Brasil intends to use its own resources to finance the transaction. Telefónica Brasil is entitled to a selection of assets composed of: (i) clients: approximately 10.5 million (corresponding to approximately 29 per cent. of Grupo Oi's mobile

total client base); (ii) spectrum: 43 MHz as a national weighted average rate based on population (46 per cent. of Grupo Oi's mobile radiofrequencies); and (iii) infrastructure: agreements for the use of 2.7 thousand mobile access sites (corresponding to 19 per cent. of Grupo Oi's mobile sites). The closing of the acquisition by the Purchasers is subject to certain conditions usually applicable to transactions of this nature, all of which are part of the share purchase agreement, in addition to the required regulatory authorisations. The transaction is expected to close in 2021.

On 29 January 2021, Telefónica announced that a purchase and sale agreement was executed by the Purchasers with Oi Móvel S.A to purchase the mobile assets of Grupo Oi.

- On 30 July 2020, Telefónica reached an agreement with Liberty Latin America Ltd. for the sale of the entire share capital of Telefónica de Costa Rica TC, S.A. (hereinafter, "**Telefónica Costa Rica**"). The enterprise value of Telefónica Costa Rica was USD 500 million (approximately EUR 425 million at the exchange rate on 30 July 2020), an implicit multiple of approximately 7.4 times the 2019 OIBDA of that company. The capital gain before taxes is estimated to amount to approximately EUR 210 million and the net debt of the Telefónica Group will be reduced by approximately EUR 425 million. The closing of this transaction is subject to certain closing conditions, including relevant regulatory approvals.
- On 3 September 2020, Telefónica reached agreement with América Móvil, S.A.B. de C.V. to terminate the agreement to purchase 99.3 per cent. of Telefónica Móviles El Salvador, S.A. de C.V. The decision followed careful consideration by both parties of the conditions to obtaining regulatory approval established by the *Superintendencia de Competencia* in their recent ruling on the proposed transaction.
- On 29 October 2020, with respect to the second tranche of the scrip dividend (EUR 0.20 per share), which was approved at the Annual General Shareholders' Meeting of Telefónica, S.A. held on 12 June 2020, the Board of Directors agreed for the Executive Commission, at the meeting to be held on 4 December 2020, to take the appropriate corporate resolutions to carry out the execution of the fully-paid capital increase related to the shareholder compensation through the referred scrip dividend payment ("**Telefónica's Flexible Dividend**").

On 30 December 2020, Telefónica announced that on 28 December 2020 the free-of-charge allotment rights trading period for the second capital increase with charge to reserves related to the shareholder compensation by means of a scrip dividend ("**Telefónica's Flexible Dividend**"), ended. The shareholders of 33.12 per cent. of the free-of-charge allotment rights accepted the purchase commitment assumed by Telefónica, S.A. The gross amount to be paid by Telefónica, S.A. for these rights amounts to EUR 342,323,986.80. Telefónica S.A. waived the rights thus acquired, that have been amortised. On the other hand, the shareholders of 66.88 per cent. of the free-of-charge allotment rights opted to receive new shares of Telefónica, S.A. Therefore, the final number of ordinary shares with a nominal value of EUR 1 issued increased by 197,993,390, corresponding to 3.72 per cent. of the share capital, and an increase in share capital of EUR 197,993,390. As a result, the amount of the share capital of Telefónica, S.A. after the capital increase has been set at EUR 5,526,431,062, divided into 5,526,431,062 shares.

In addition, on 29 October 2020, the Board agreed to submit for the approval of the General Shareholders Meeting of Telefónica, S.A. (the date of which will be announced at the appropriate time) the adoption of the appropriate corporate resolutions to execute a capital reduction by means of a redemption of treasury shares representing 1.5 per cent. of the share capital.

On the same date, Telefónica reached an agreement with Allianz to create a "joint venture" to deploy fiber in Germany through an open wholesale company.

- On 20 November 2020, Telefónica, the credit rating agency S&P published its decision to lower the long-term credit rating of Telefónica, S.A. from BBB to BBB-. At the same time, S&P lowered the short-term ratings to A3 from A2. The outlook on the ratings was changed from negative to stable.
- On 25 November 2020, the Board of Directors of Telefónica, S.A., unanimously agreed to appoint the Independent Director Mr. Juan Ignacio Cirac Sasturain, as Member of the Sustainability and Quality Committee.

- On 13 January 2021, Telefónica's subsidiary, Telxius Telecom, S.A. (a company of the Telefónica Group minority-owned, directly or indirectly, by KKR and Pontegadea), signed an agreement with American Tower Corporation ("ATC") for the sale of its telecommunications towers division in Europe (Spain and Germany) and in Latin America (Brazil, Peru, Chile and Argentina), for an amount of EUR 7.7 billion, payable in cash. The agreement establishes the sale of 30,722 telecommunication tower sites through two separate and independent transactions (on one hand, the Europe business and, on the other hand, the Latin American business), setting the respective closings once the corresponding regulatory authorisations have been obtained. Among other aspects, the sale agreement provides for a commitment to the employment by ATC. Telefónica Group operators will maintain the current lease agreements of the towers signed with the sold subsidiaries of Telxius Telecom, S.A., so that these operators will continue to provide their services in similar terms to the current ones. Renewal conditions do not include any additional "all or nothing" clauses. This operation is part of the Telefónica Group's strategy, which includes, among other objectives, an active portfolio management policy of its businesses and assets, based on value creation and at the same time, accelerating the organic reduction of debt.
- On 27 January 2021, the Board of Directors of Telefónica, S.A. agreed, following a favourable report from the Nominating, Compensation and Corporate Governance Committee, to appoint the Independent Director Mr. Peter Löscher, as a Member of the Executive Commission of the Board of Directors.

## Business Overview

### Highlights

Telefónica's total accesses totalled 341.5 million as of 30 September 2020, decreasing by 1.2 per cent. year-on-year. Excluding the effect of Telefónica Costa Rica and Telefónica El Salvador accesses in both years, accesses would have decreased 1.3 per cent. year-on-year due to the worsening of prepaid base in Telefónica Hispam, Telefónica Germany and Telefónica United Kingdom, as all of them were affected by the COVID-19 pandemic.

The table below shows the evolution of Group accesses in the first nine months of 2020 compared to the first nine months of 2019:

Thousands of accesses	January-September 2019	January-September 2020	Reported Change Year-on-Year	Organic Change Year-on-Year <sup>(1)</sup>
	(thousands)		(per cent.)	
Fixed telephony accesses <sup>(2)</sup> .....	32,338.2	28,881.4	(10.7)	(10.7)
Broadband.....	21,262.9	20,213.4	(4.9)	(4.9)
UBB.....	14,191.8	14,949.5	5.3	5.3
FTTx/Cable.....	7,923.7	9,486.8	19.7	19.7
Mobile accesses <sup>(3)</sup> .....	261,795.1	260,877.5	(0.4)	(0.4)
Prepaid.....	134,224.4	128,770.2	(4.1)	(4.1)
Contract.....	105,176.0	106,883.3	1.6	1.5
IoT.....	22,394.7	25,224.0	12.6	12.7
Pay TV.....	8,601.7	8,140.0	(5.4)	(5.4)
Final Clients Accesses.....	<b>324,331.2</b>	318,430.8	(1.8)	(1.8)
Wholesale Accesses.....	<b>21,489.4</b>	23,068.9	7.4	7.4
Fixed wholesale accesses.....	3,851.1	3,742.5	(2.8)	(2.8)
Mobile wholesale accesses.....	17,638.3	19,326.4	9.6	9.6
<b>Total Accesses.....</b>	<b>345,820.6</b>	<b>341,499.7</b>	<b>(1.2)</b>	<b>(1.3)</b>

<sup>(1)</sup> Organic growth excludes Central America accesses both in 2020 and 2019.

<sup>(2)</sup> Includes fixed Wireless and VoIP accesses.

<sup>(3)</sup> In 2019, 665,000 Mobile contract accesses have been reclassified to wholesale taking December 2019 base as a reference, in order to show a comparable business evolution in both lines.

The table below shows the contribution to reported growth of each item considered to calculate the organic variations, as explained below. For each line item, the contribution to reported growth, expressed as a percentage, 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 reported growth	Reported Change Year-on- Year	Organic Change Year-on- Year	Telefónica Central America
		(per cent.)	
Fixed telephony accesses.....	(10.7)	(10.7)	0.0
Broadband.....	(4.9)	(4.9)	0.0
UBB.....	5.3	5.3	0.0
FTTx/Cable.....	19.7	19.7	0.0
Mobile accesses.....	(0.4)	(0.4)	0.0
Prepaid.....	(4.1)	(4.1)	0.0
Contract.....	1.6	1.5	0.1
IoT.....	12.6	12.7	0.0
Pay TV.....	(5.4)	(5.4)	0.0
<b>Final Clients Accesses</b> .....	<b>(1.8)</b>	<b>(1.8)</b>	<b>0.0</b>
<b>Wholesale Accesses</b> .....	<b>7.4</b>	<b>7.4</b>	<b>0.0</b>
Fixed wholesale accesses.....	(2.8)	(2.8)	0.0
Mobile wholesale accesses.....	9.6	9.6	0.0
<b>Total Accesses</b> .....	<b>(1.2)</b>	<b>(1.3)</b>	<b>0.0</b>

The Group's strategy is based on capturing growth in its markets, especially on attracting high-value customers.

**Mobile accesses** totalled 260.9 million as of 30 September 2020, down 0.4 per cent. compared to the same period of 2019, where the decrease in prepaid accesses is not compensated by the postpaid segment accesses growth, up by 1.6 per cent. year-on-year (+1.5 per cent. year-on-year excluding in both periods Telefónica El Salvador and Telefónica Costa Rica accesses) whose weight over total mobile accesses up to 45.4 per cent. (+1.4 per cent. year-on-year).

**Fixed broadband accesses** stood at 20.2 million at 30 September 2020, down 4.9 per cent. year-on-year. Fiber accesses stood at 14.9 million at 30 September 2020, growing 5.3 per cent. compared to 30 September 2019.

**TV accesses** totalled 8.1 million as of 30 September 2020, down 5.4 per cent. year-on-year.

### Segment results

#### Telefónica Spain

The table below shows the evolution of accesses in Telefónica Spain of the first nine months of 2020 compared to the first nine months of 2019:

Thousands of accesses	January- September 2019	January- September 2020	Change Year-on- Year
	(thousands)		(per cent.)
Fixed telephony accesses <sup>(1)</sup> .....	9,092.5	8,882.5	(2.3)
Broadband.....	6,078.3	6,030.3	(0.8)
FTTH.....	4,246.9	4,556.9	7.3
Mobile accesses.....	18,748.5	18,993.7	1.3
Prepaid.....	1,200.4	940.0	(21.7)
Contract.....	14,991.9	15,365.1	2.5
IoT.....	2,556.2	2,688.6	5.2
Pay TV.....	4,088.5	4,004.3	(2.1)
<b>Final Clients Accesses</b> .....	<b>38,020.7</b>	<b>37,922.1</b>	<b>(0.3)</b>
Wholesale Accesses.....	3,816.1	3,709.2	(2.8)
<b>Total Accesses</b> .....	<b>41,836.9</b>	<b>41,631.4</b>	<b>(0.5)</b>

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

Telefónica Spain's results for the nine months ended 30 September 2020 were clearly impacted by the imposition of strict measures to prevent the spread of COVID-19, particularly during the second quarter of 2020. Restrictions began before the start of the period, imposing severe limitations on commercial activity (90 per cent. of stores closed in March and April 2020; 50 per cent. in May 2020), interrupting all sports competitions (importantly football, which restarted in mid-June 2020) and suspending portability (especially in the fixed service but, finally lifted at the end of May 2020), as well as locking down the entire

population for most of the second quarter of 2020. Telefónica responded to these challenges by leveraging the strength of its FTTH network in Europe to provide reliable service throughout the COVID-19 pandemic crisis to support society and taking steps to show solidarity with its communities and customers.

During 2020, the commercial activity continued to rely on the differentiated assets of Telefónica, i.e. the **5G network** was switched-on with the aim of achieving 75 per cent. coverage by the end of 2020 together with a multi brand strategy (Movistar, O2, Tuenti) to serve to different segments of customers. In addition, during 2020, Telefónica launched innovations in its portfolio to increase the relationship with its clients and reach new segments such as **Movistar Salud**.

Also of note is the creation of **Movistar Prosegur Alarmas**, the joint venture of Prosegur and Telefónica, that launched to the market its first commercial offer for the alarm market in Spain. Unlike similar products in the market, customers won't have to pay any registration fee and there is not a minimum commitment term. The service will have a fixed price of EUR 45 per month (VAT included) for residential customers. The service includes an alarm connected to an alarm reception centre, a video surveillance system and a connection to Movistar Prosegur Alarmas mobile app. In addition, it is the only company that offers Acudas, an immediate intervention service (a service that sends a security guard to the customer's house in the event of a security incident or if the customer has simply forgotten their keys and just needs the door to be opened).

The **incorporation of Disney+ content to the "Fusión offer"** is also noteworthy, after the signing of the agreement on 8 March 2020. The agreement concerns The Walt Disney Company Iberia and Telefónica election of Movistar as the strategic distributor for the launch of Disney+ in Spain. With this agreement with the world's leading entertainment company, Movistar added Disney+ titles to its rich catalogue of original content, the streaming service that gives access to more than 1,000 movies, series and programs from Disney, Pixar, Marvel, Star Wars, National Geographic and much more. Disney+ will be included in the "Fusión packages" featuring fiction content such as "Fusión Selección Plus Ficción", "Fusión Total" and "Fusión Total Plus", and in general all those "Fusion products" that incorporate the Fiction package in their offer. Besides, Movistar+ will launch a new "Cine" (Movies) package which, among other products, will include Disney+.

Lastly, it is worth highlighting the activation of **unlimited data** to more than three million customers (associated with the most complete Fusion rates) at no additional cost, in response to society's increased demand for data consumption, which has reached record levels as a consequence of the restrictions imposed due to the COVID-19 pandemic. Clients of Fusión Selección La Liga or Champions, Fusión + Ocio, Fusión + Fútbol and Fusión Pro, can enjoy unlimited GB of data, calls and SMS for EUR 5 more per month. This unlimited connection capacity can also be enjoyed by those who only want a mobile device to be connected. For new gross adds, the monthly fee of having a mobile line with unlimited data, calls and SMS will be EUR 24.95 per month for 12 months.

Telefónica Spain had 41.6 million **accesses** as of 30 September 2020 (-0.5 per cent. compared to 30 September 2019), showing commercial slowdown, mainly affected by the COVID-19 pandemic.

**Convergent Offer**, with a customer base of 4.8 million customers as of 30 September 2020, decreased -0.1 per cent. year-on-year.

**Fixed accesses** decreased 2.3 per cent. compared to 30 September 2019, with a net loss of 142 thousand accesses at 30 September 2020.

**Retail broadband accesses** totalled 6.0 million (-0.8 per cent. year-on-year), with a net gain of 7 thousand accesses at 30 September 2020.

**Fiber accesses** reached 4.6 million customers (+7.3 per cent. compared to 30 September 2019), representing 75.6 per cent. of total broadband customers (+5.7 per cent. year-on-year) with net adds of 105 thousand accesses in the third quarter of 2020. Ultra speed fiber accesses, with 600 Mb (with higher ARPU) reached 3.1 million accesses (67.6 per cent. of total fiber accesses). At 30 September 2020, fiber deployment reached 24.4 million premises, 1.8 million more than at 30 September 2019.

**Total mobile accesses** stood at 19.0 million as of 30 September 2020, increased by 1.3 per cent. compared to 30 September 2019 as a result of the increase of mobile contract accesses that more than compensates the decrease in prepaid accesses (-21.7 per cent. year-on-year), reflecting the success of the convergent

strategy and the good performance of the migration from prepaid to postpaid. The contract access base accelerated its growth during September of 2020, growing by 2.5 per cent. year-on-year

**Pay TV accesses** reached 4.0 million at 30 September 2020, decreasing 2.1 per cent. year-on-year.

### Telefónica United Kingdom

On 7 May 2020, Telefónica reached an agreement with Liberty Global plc to launch a 50-50 joint venture combining their operating businesses in the UK (O2 Holdings Ltd. and Virgin Media UK, respectively). This move is fully aligned with Telefónica's strategy to focus on and improve market positioning in its core markets.

The transaction is subject to regulatory approvals, consummation of recapitalisations and other customary closing conditions.

The table below shows the evolution of accesses in Telefónica United Kingdom of the first nine months of 2020 compared to the first nine months of 2019:

Thousands of accesses	January- September 2019	January- September 2020	Change Year-on- Year
	(thousands)		(per cent.)
Fixed telephony accesses <sup>(1)</sup> .....	312.2	319.2	2.2
Broadband.....	28.7	29.1	1.3
Mobile accesses <sup>(2)</sup> .....	25,390.5	26,353.8	3.8
Prepaid.....	8,625.1	8,127.2	(5.8)
Contract <sup>(2)</sup> .....	12,164.1	12,292.7	1.1
IoT.....	4,601.3	5,934.0	29.0
<b>Final Clients Accesses</b> .....	<b>25,731.5</b>	<b>26,702.2</b>	<b>3.8</b>
<b>Wholesale Accesses</b> .....	<b>8,697.2</b>	<b>9,018.3</b>	<b>3.7</b>
<b>Total Accesses</b> .....	<b>34,428.7</b>	<b>35,720.5</b>	<b>3.8</b>

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

<sup>(2)</sup> In 2019, 665,000 Mobile contract accesses have been reclassified to wholesale taking December 2019 base as a reference, in order to show a comparable business evolution in both lines.

During the first nine months of 2020, despite the health crisis which lead to a lockdown of the UK population since the end of March 2020 and a competitive environment, Telefónica United Kingdom remained the favourite telecommunications operator in United Kingdom based on number of connections (Source: CCS Insight), a position underpinned by the strength of the O2 brand, customer loyalty, successful commercial propositions, network reliability and its industry leading customer service. Such value propositions have allowed Telefónica to achieve continuous customer growth in a competitive market.

**Total accesses** grew by 3.8 per cent. year-on-year standing at 35.7 million by the end of September 2020.

**Mobile net additions** in the first nine months of 2020 reached 550 thousand accesses due to continued demand for innovative propositions such as Custom Plans and the safe re-opening of the retail stores. **Contract mobile accesses** grew by 1.1 per cent. year-on-year to 12.3 million by the end of September 2020.

**Prepaid accesses** decreased by 5.8 per cent. year-on-year to 8.1 million customers by the end of 30 September 2020 mainly impacted by the COVID-19 pandemic effects and market dynamics in this segment, although it is starting to return to pre lockdown levels.

### Telefónica Germany

The table below shows the evolution of accesses in Telefónica Germany for the first nine months of 2020 compared to the first nine months of 2019:

Thousands of accesses	January- September 2019	January- September 2020	Change Year-on- Year
	(thousands)		(per cent.)
Fixed telephony accesses <sup>(1)</sup> .....	2,113.7	2,170.9	2.7
Broadband.....	2,193.4	2,251.6	2.7
UBB <sup>(2)</sup> .....	1,619.1	1,762.3	8.8
Mobile accesses.....	43,607.3	44,032.4	1.0

Thousands of accesses	January- September 2019	January- September 2020	Change Year-on- Year
	(thousands)		(per cent.)
Prepaid .....	20,332.5	19,530.7	(3.9)
Contract .....	22,095.9	23,146.3	4.8
IoT .....	1,179.0	1,355.4	15.0
<b>Final Clients Accesses .....</b>	<b>48,010.9</b>	<b>48,544.9</b>	<b>1.1</b>
<b>Total Accesses<sup>(3)</sup> .....</b>	<b>48,010.9</b>	<b>48,544.9</b>	<b>1.1</b>

(1) Includes "fixed wireless" and VoIP accesses.

(2) UBB accesses refers to VDSL accesses in Germany.

(3) Impacted by the disconnection of 67 thousand inactive IoT accesses in the second quarter of 2019.

As of September 2020, Telefónica Germany achieved solid financial results in a COVID-19 environment, with trading dynamics recovering to close to pre-pandemic levels and churn reaching historic low levels. These trends were supported by network quality improvements. In a dynamic yet rational competitive environment, the O2 Free portfolio continued to drive positive momentum and visible ARPU-accretive effects while COVID-19 related travel restrictions continued to impact roaming.

Telefónica Germany's key milestones in 2020:

- Telefónica announced the spin-off and sale of around 10.1 thousand mobile sites to Telxius for a total purchase price of EUR 1.5 billion, gaining further financial flexibility.
- 5G network is operational in 15 cities, targeting approximately 30 per cent. and approximately 50 per cent. population coverage by the end of 2021 and 2022, respectively, and to be close to full coverage by the end of 2025.
- O2 was a winner of both Connect Shop-Test and Connect Test of Service Apps with a "very good" rating.

The **total access base** grew 1.1 per cent. year-on-year and stood at 48.5 million at the end of September 2020, mainly driven by a 1.0 per cent. increase in the mobile base, which reached 44.0 million.

The **contract mobile customer** base grew 4.8 per cent. year-on-year and reached 23.1 million accesses, increasing the share over the total mobile base up to 52.7 per cent. Net adds reached 608 thousand accesses mainly driven by the good performance of the O2 Free tariff portfolio, continued data usage, and churn improvement registering historic low levels.

The **prepaid mobile customer** base decreased 3.9 per cent. year-on-year to 19.5 million reflecting the ongoing prepaid to contract migration trends in the market. The prepaid segment posted a net loss of 566 thousand customers during the nine months ended 30 September 2020.

The **retail broadband accesses** were extended by 45 thousand accesses during the nine months ended 30 September 2020, as a result of the continued robust demand for VDSL, with net adds of 110 thousand accesses during the nine months ended 30 September 2020.

## Telefónica Brazil

The table below shows the evolution of accesses in Telefónica Brazil of the first nine months of 2020 compared to the first nine months of 2019:

Thousands of accesses	January- September 2019	January- September 2020	Change Year-on- Year
	(thousands)		(per cent.)
Fixed telephony accesses <sup>(1)</sup> .....	11,384.9	9,347.8	(17.9)
Broadband .....	7,150.8	6,430.4	(10.1)
UBB .....	5,055.4	5,054.8	(0.0)
FTTH .....	2,332.3	3,129.7	34.2
Mobile accesses .....	73,824.4	76,709.4	3.9
Prepaid .....	31,533.9	32,757.1	3.9
Contract .....	32,820.7	33,689.5	2.6
IoT .....	9,469.8	10,262.8	8.4
Pay TV .....	1,382.7	1,257.8	(9.0)
IPTV .....	680.8	854.5	25.5



Thousands of accesses	January- September 2019	January- September 2020	Change Year-on- Year
	(thousands)		(per cent.)
Final Clients Accesses .....	93,815.0	93,811.5	(0.0)
Total Accesses .....	93,828.7	93,824.5	(0.0)

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

Telefónica Brazil closed the first nine months of 2020 keeping its leadership in higher mobile value segments (highest contract market share; Source: ANATEL) while gaining momentum in the prepaid segment, which allowed the operator to minimise the impact in mobile revenues derived from COVID-19 pandemic restrictions. In the fixed business, focus on the transformation towards strategic technologies, such as fiber, that equally permitted to capture IPTV (Internet Protocol TV) value customers to compensate for fixed traditional business downturn.

Telefónica Brazil reached 93.8 million accesses as of 30 September 2020, almost unchanged when compared to the same period in 2019. Improvements in high-value services reflected in postpaid, UBB and IPTV growth, along with the positive trend of prepaid, offset the drop in the fixed telephony accesses (migration to mobile helped by unlimited voice offers in the market, accelerated by COVID-19) and the contraction of xDSL and DTH customer bases following the legacy technology discontinuity.

In the **mobile business**, Telefónica Brazil maintained its market leadership in terms of total accesses with a market share of 33.6 per cent. as of 30 September 2020 (Source: ANATEL), with growth in both Contract (+2.6 per cent. year-on-year) and Prepaid customers (+3.9 per cent. year-on-year) despite COVID-19. The strategic focus remained on high value customers, reaching a market share of 38.3 per cent. in the contract segment as of 30 September 2020 (Source: ANATEL). Contract commercial offers focus on data plans, with improved benefits such as higher data allowances and roaming (Vivo Travel World). Vivo Selfie plan was also launched, with 25GB of data allowance plus 25GB of data to use in popular apps (Spotify, Rappi, Netflix or Premiere). Family plans remained unchanged but is an offer focused on higher value customers. In the prepaid segment, Telefónica Brazil offered unlimited off-net minutes, unlimited WhatsApp use, and data bonus (VIVO pre-turbo). These actions, supported by the interaction with the customer through the virtual assistant Aura in the Meu VIVO application, contribute to the transformation of customer attention channels in order to improve customer experience.

In the **fixed business**, Telefónica Brazil maintained its strategic focus on fiber deployment, with 23.7 million premises passed with FTTx at 30 September 2020 and 5.1 million homes connected, remaining stable and offsetting the decrease in FTTC with fiber growth. Telefónica is implementing alternative deployment models to accelerate fiber expansion with lower capex intensity and reducing time to market. Following the agreement reached with ATC for Minas Gerais and the development of a "franchise" model in smaller cities, Telefónica has reached an agreement with Phoenix in the states of Minas Gerais, Espírito Santo and Goiás for the joint development of the FTTH network. As at 30 September 2020 Telefónica Brazil had reached 3.1 million homes, a growth of 34.2 per cent. year-on-year. This growth does not compensate for the decrease in other broadband services', for example ADSL.

**Retail broadband** customers totalled 6.4 million in the first nine months of 2020, down 10.1 per cent. year-on-year. Fixed telephony accesses decreased by 17.9 per cent. year-on-year due to the fixed-mobile substitution.

**Pay TV** customers stood at 1.3 million as of 30 September 2020, decreasing 9.0 per cent. year-on-year due to a more selective commercial activity directed to high value customers. These measures are reflected in a 25.5 per cent. increase in IPTV accesses that partially offset DTH accesses reduction. IPTV represented 67.9 per cent. of total Pay TV accesses.

## Telefónica Hispam

The table below shows the evolution of accesses in Telefónica Hispam of the first nine months of 2020 compared to the first nine months of 2019:

Thousands of accesses	January- September 2019	January- September 2020	Reported Change Year-on- Year <sup>d</sup>
	(thousands)		(per cent.)
Fixed telephony accesses <sup>(1)</sup> .....	9,236.2	7,982.7	(13.6)
Broadband.....	5,733.4	5,407.1	(5.7)
UBB .....	3,235.9	3,550.9	9.7
FTTH <sup>(2)</sup> .....	2,770.7	3,239.3	16.9
Mobile accesses.....	95,133.3	89,650.6	(5.8)
Prepaid .....	69,222.7	64,201.0	(7.3)
Contract <sup>(3)</sup> .....	22,412.2	21,603.3	(3.6)
IoT.....	3,498.3	3,846.3	9.9
Pay TV .....	3,103.4	2,853.5	(8.1)
IPTV .....	277.6	501.3	80.5
<b>Final Clients Accesses</b> .....	<b>113,353.6</b>	<b>106,040.8</b>	<b>(6.5)</b>
<b>Total Accesses</b> .....	<b>113,374.9</b>	<b>106,061.1</b>	<b>(6.5)</b>

(1) Includes "fixed wireless" and VoIP accesses.

(2) Includes Peru's cable accesses.

(3) Includes the disconnection of 273 thousand inactive contract accesses in Peru in the first quarter of 2019.

**Telefónica Hispam total accesses** amounted to 106.0 million as of 30 September 2020 (-6.5 per cent. year-on-year).

**Mobile accesses** amounted to 89.6 million decreasing by 5.8 per cent. year-on-year mainly affected by the lower prepaid customer base.

- **Contract** drop by 3.6 per cent. year-on-year due to the lower accesses registered in Argentina (-9.3 per cent.); Perú (-11.4 per cent.); Ecuador (-4.5 per cent.) and Venezuela (-9.9 per cent.) partially offset by the strong performance in Colombia (+10.0 per cent.) and México (+4.8 per cent.).
- **Prepaid** decreased by 7.3 per cent. year-on-year, with a net loss of 3.0 million accesses at 30 September 2020, decreasing in all operations, mainly in Perú (-1.1 million accesses); México (-0.8 million accesses); Colombia (-0.6 million accesses) and Chile (-0.5 million accesses).

**Fixed accesses** stood at 8.0 million at 30 September 2020 (-13.6 per cent. year-on-year) with a net loss of 821 thousand accesses, due to the erosion of the traditional fixed business.

**Fixed broadband accesses** amounted to 5.4 million at 30 September 2020 (-5.7 per cent. year-on-year). The penetration of FBB accesses over fixed accesses stood at 67.7 per cent. (+5.6 per cent. year-on-year), as a result of the focus on UBB deployment in the region reaching 11.8 million real estate units and 3.5 million connected accesses (+9.7 per cent. year-on-year). The penetration of UBB accesses over fixed broadband accesses stood at 65.7 per cent. (+9.3 per cent. year-on-year).

**Pay TV accesses** stood at 2.9 million at 30 September 2020, decreasing by 8.1 per cent. as a result of the net loss at 30 September 2020, negatively impacted by the lower Direct-To-Home (DTH) technology accesses, standing out Perú (-110.8 thousand accesses); Chile (-47.0 thousand accesses) and Venezuela (-31.1 thousand accesses) that offset the increase in Argentina (+28.3 thousand accesses).

## Telefónica Infra

From the first quarter of 2020, Telefónica Infra is a segment of the Telefónica Group acting as a portfolio manager owing stakes in infrastructure. Telefónica Infra's consolidation perimeter includes Telxius as its first asset.

Telefónica Infra's objectives include crystallising the value of Telefónica's infrastructure assets and capabilities, improving Telefónica's business units' competitive position and capturing future value upside through the stakes held in infrastructure vehicles.

Telefónica Infra will focus on value creation through three key levers: (i) optimising existing infrastructure assets through dedicated management and increased focus, (ii) selectively monetising infrastructure assets,

and (iii) partnering with leading financial investors to co-invest in growth opportunities (flexible partnership structures and business models).

In the context of the COVID-19 pandemic crisis, **Telxius** has been characterised by the stability and resilience of its business model with limited impact, only affected by some delays in the construction of new sites, installation of new customers (co-locations adds), and in the provision of new connectivity services.

In the **Tower business**, Telxius acquired 1,909 towers in Brazil in February 2020, which established a solid platform to capture the expected growth of the Brazilian market.

Additionally, Telxius announced in June 2020 the acquisition of nearly 10,100 sites from Telefónica Deutschland for EUR 1,500 million, along with the commitment to build 2,400 additional sites build-to-suit ("**BTS**") in Germany, the largest market for telecommunications in Europe. The transaction was structured in two phases, with the first tranche of approximately 6,000 sites executed in the third quarter of 2020, and the second tranche, for the remaining sites, being expected to be completed in August 2021.

Once the acquisition and the deployment of BTS is completed, Telxius portfolio will exceed 32,900 sites in the six countries where it operates, doubling in size since its creation in 2016. Of these sites, approximately 80 per cent. will be located in Europe (Spain and Germany), and the rest in Latin America (Brazil, Peru, Chile and Argentina). Germany will thus become the largest country for Telxius, both in terms of revenue and number of towers.

In addition, Telxius has carried other inorganic transactions, expanding its land management optimisation program, strengthening its DAS activities (Distributed Antenna System, amplifying cellular signals in open or closed high density environments), and reinforcing and diversifying its business in the different geographies where it operates.

Excluding inorganic transactions, the portfolio of towers grew during the nine months ended 30 September 2020 by 281 additional sites, reaching 26,589 towers as of 30 September 2020 (+46.7 per cent. year-on-year), with a "tenancy ratio" excluding acquisitions of 1.37x and 1.28x including acquisitions.

The following table shows Telefónica Infra tower key performance indicators evolution during the first nine months of 2020 compared to the first nine months of 2019:

Key performance indicators	January-September 2019	January-September 2020	Change Year-on-Year (per cent.)
Towers (#) .....	18,130	26,589	46.7
Tenants (#) .....	24,556	33,998	38.5
Tenants (non anchor) (#) .....	6,426	7,409	15.3
Tenancy ratio (%).....	1.35x	1.28x	(0.08x)

Note: Non anchor tenants refer to other tenants than anchor

In the **Cable business**, traffic levels of approximately 13.8Tbps were verified during the first nine months of 2020 (+38.5 per cent. compared to the average of the first nine months of 2019), partially associated with COVID-19, which has had a positive effect on revenues. In addition, during the period, the good commercial momentum is maintained, especially in MAREA, a 6,600 km submarine cable with 200Tbps capacity connecting Spain (Sopelana) and USA (Virginia Beach), and the renewal of contracts with relevant carriers in Latin America stands out. In particular, during the third quarter of 2020, contract extensions with various clients were signed, increasing their net full contract value by USD 324 million, despite causing a temporary negative effect on revenues and OIBDA. Additional contract negotiations were carried out in the fourth quarter of 2020 in Spain, Brazil and Germany. These renewals will affect the performance of the cable business in the second half of 2020 and 2021.

Finally, during the first quarter of 2020, Telxius came to an agreement with América Móvil to build a new cable system in Pacific Ocean from Guatemala to Chile, with additional landing points in Ecuador, Peru and Chile.

## Telefónica's services and products

New digital technologies are the main driving force of social and economic transformation today. This premise is the basis upon which Telefónica builds its vision: it wants to provide access to digital life, using the best technology and without leaving anyone behind.

Connectivity is Telefónica's ally in reducing the digital divide and, due to Telefónica's fixed and mobile network infrastructure and the services the Group develops around it, Telefónica can aid progress in the communities in which it operates.

To move towards this vision, Telefónica works on three basic fronts:

- (1) providing access to technology through digital inclusion, in other words, by means of network roll-out and an accessible and affordable offer for all sectors of the population;
- (2) developing innovative services that add value to connectivity and which Telefónica develops through innovation: Big Data, the Internet of Things (IoT), eHealth, digital education and e-Finances; and
- (3) incorporating sustainability principles across all of Telefónica's product development processes.

## Mobile business

Telefónica offers a wide variety of mobile and related services and products to personal and business customers. Although they vary from country to country, Telefónica's principal services and products are as follows:

- **Mobile voice services:** Telefónica's principal service in all of its markets is mobile voice telephony.
- **Value added services:** Customers in most of the markets have access to a range of enhanced mobile calling features, including voice mail, call on hold, call waiting, call forwarding and three-way calling.
- **Mobile data and Internet services:** Current data services offered include SMS and MMS, which allow customers to send messages with images, photographs, sound recordings and video recordings. Customers may also receive selected information, such as news, sports scores and stock quotes. Telefónica also provides mobile broadband connectivity and Internet access. Through mobile Internet access, customers are able to send and receive e-mail, browse the Internet, download games, purchase goods and services in m-commerce transactions and use Telefónica's other data and software services.
- **Wholesale services:** Telefónica has signed network usage agreements with several MVNOs in different countries.
- **Corporate services:** Telefónica provides business solutions, including mobile infrastructure in offices, private networking and portals for corporate customers that provide flexible online billing.
- **Roaming:** Roaming agreements allow Telefónica customers to use their mobile handsets when they are outside their service territories, including on an international basis.
- **Fixed wireless:** Telefónica provides fixed voice telephony services through mobile networks in Brazil, Venezuela, Argentina, Peru, Mexico, Ecuador and El Salvador.
- **Trunking and paging:** Telefónica provides digital mobile services for closed user groups of clients and paging services in Spain and most of the regions in which it operates in Latin America.

## Fixed-line telephony business

The principal services Telefónica offers in its fixed businesses in Europe and Latin America are:

- **Traditional fixed telecommunication services:** Telefónica's principal traditional fixed telecommunication services include PSTN lines; ISDN accesses; public telephone services; local, domestic and international long-distance and fixed-to-mobile communications services; corporate communications services; supplementary value added services (including call waiting, call forwarding, voice and text messaging, advanced voicemail services and conference-call facilities); video telephony; business oriented value-added services; intelligent network services; leasing and sale of handset equipment; and telephony information services.
- **Internet and broadband multimedia services:** the principal Internet and broadband multimedia services include Internet provider service; portal and network services; retail and wholesale broadband access through ADSL, narrowband switched access and other technologies. Telefónica also offers high-speed Internet services through fiber to the home (FTTH) in certain markets (primarily Spain, Brazil and Chile) and VDSL-based services (primarily Spain and Germany). Telefónica also offers VoIP services in some markets.
- **Data and business-solutions services:** the data and business-solutions services principally include leased lines; virtual private network, or VPN, services; fiber optic services; the provision of hosting and application, including web hosting, managed hosting, content delivery and application, and security services; outsourcing and consultancy services, including network management, or CGP; and desktop services and system integration and professional services.
- **Wholesale services for telecommunication operators:** the wholesale services for telecommunication operators principally include domestic interconnection services; international wholesale services; leased lines for other operators; and local loop leasing under the unbundled local loop regulation framework. It also includes bit stream services, wholesale line rental accesses and leased ducts for other operators' fiber deployment.

## Digital services

The main highlights in services developed by Telefónica Digital are:

- **Video/TV services:** Interactive TV services in High Definition (HD) or Ultra High Definition (UHD), using several technologies (IPTV, DTH, CATV and OTT) on various types of networks (Fiber, Satellite, Cable or Mobile Networks). These services can be enjoyed on a variety of devices (TV with STBs, SmartTVs, PCs, Smartphones, Tablets, etc.), allowing also the Multiroom function (customers can watch different TV channels in different rooms or different devices simultaneously). The service allows the access to lineal TV content with advanced functions such as "Restart TV" (watch from the beginning), "Last 7 days" (recordings from the last seven days), "cPvR" (recordings using Cloud computing) and "Down to Play" (downloading the content on the device). Customers also have access to the content on demand catalogue (Video on Demand or VoD), in "Subscription Video on Demand" (SVoD) or "Pay per View" mode as well as integration with third parties, Netflix, Amazon, YouTube and HBO among others. In addition, Telefónica offers accessible content in Spain with subtitles, audio description and sign language functionalities through the Movistar+ 5s service, which aims to contribute toward the inclusion of disabled people across the country.
- **IoT (Internet of Things):** Telefónica's Global IoT portfolio includes:
  - **Smart Connectivity:** connectivity services for machines, mainly handled through the Kite platform.
  - **Smart Services:** end-to-end solutions that include "device + connectivity + application". These business to business solutions are mainly aimed at (i) the mobility management of vehicles, assets and/or people, (ii) the support of the retail and industrial sectors and (iii) the efficient management of energy consumption in buildings.
  - **Consumer IoT:** products focused on the business to customer segment, including end-to-end services around the person (e.g. Connected cars, trackers).
- **Financial services and other payment services:** These services provide customers with access to a consumer credit service and payment cards.

- **Security services:** Telefónica Global Security portfolio includes:
  - **Electronic Security:** services designed to guard the security and integrity of a customer's physical assets, mostly corporate assets (such as nodes and communications networks in malls, corporate and representative buildings, etc.).
  - **Information Security:** tools protecting information in end-user devices and communications, fixed and mobile, networks, as well as protecting customers' digital identity. These services include the in-house services developed by 11Paths.
- **Cloud computing services:** Telefónica offers private, public and hybrid Cloud computing services that allow enterprises of all sizes to manage their IT infrastructure more effectively, supporting companies at every stage of the IT life cycle. Telefónica offers a value offer including i) Virtual Data Center service based on VMware, which facilitates the migration to using Cloud computing from existing applications, ii) Open Cloud Service, based on Open Stack, which enables the development of Cloud computing native applications with low latency, iii) hyperscalers (AWS, Azure and GCP), offering Cloud computing services to the B2C segment. All Cloud computing apps are developed so as to improve companies' digital presence, make marketing campaigns, improve the relationship with the customers and increase efficiency. Telefónica's Cloud computing services are also provided with Telefónica's secure connectivity services for companies.
- **Advertising:** A portfolio of marketing channels that third party brands can use to acquire and engage with customers. Traditional channels such as SMS/MMS messaging may be used alongside with new channels like programmatic display and sponsored connectivity. All of which leverage on the Group's customer data in order to send messages to the correct target as well as to generate post-campaign brand analysis.
- **Big Data:** Includes products and services designed to enable companies and governments to make AI-powered data-driven decisions. The Group's Big Data offer comprises of three main categories: (i) "business insights", which provides information for decision-making based on analysis from advanced analytical products developed on top of data generated in the Group's network and systems; (ii) "consulting and analytics", which includes specialist professional services focused on data strategy, data science, data architecture and data engineering; and (iii) "tools and infrastructure", which provides advanced technology for data management, storage and data exploitation.
- **Digital Telco Experience:** Includes "Novum app", the global solution that aims to provide an end to end digital experience to the Group's customers. Its main features include account management, e-Care, Explore (monetisation), Cloud Phone and Aura interaction.
- **Aura:** Aura is a virtual assistant equipped with artificial intelligence enabling interactivity with the Group's customers in real time through a simple voice interface. Aura can be used to answer questions, top-ups and data usage. It can solve problems and provides other services related to communications, connectivity in the home as well as domotics. Aura helps in the telecommunications area and is expanding towards different areas out of telecommunications. Aura is at present available in Argentina, Brazil, Chile, Germany, Spain, the UK and Ecuador.
- **Movistar Home:** Telefónica launched Movistar Home in Spain on 18 October 2018, a new device designed around the functionality of Aura and targeted at the Group's Movistar and Pay TV customers. Movistar Home is designed to strengthen Telefónica's position by enabling highly-converged services and experiences that differentiate us from the Group's competitors. Movistar Home aims to provide the Group's customers with an enhanced TV experience on IPTV, increased landline functionality (which enables videoconferences), the Group's smart home package and games in addition to third-party services.
- **Living Apps:** is a new channel enabling other companies to offer new consumer experiences on the digital home platform.

## **Sales and Marketing**

The Group's sales and marketing strategy is aimed toward reinforcing its market position, generating brand awareness, promoting customer growth and achieving customer satisfaction. The Group uses a variety of marketing initiatives and programmes, including those that focus on customer value, with in-depth market segmentation; programmes to promote customer loyalty; pricing initiatives aimed toward stimulating usage, including segmented packages and innovative tariff options; and initiatives that are responsive to the latest market trends, including those aimed toward boosting demand for the Group's mobile Internet and mobile broadband offerings. In connection with these and the Group's other sales and marketing initiatives, the Group markets its products through a broad range of channels, including television, radio, billboards, telemarketing, direct mail and Internet advertising. The Group also sponsors a variety of local cultural and sporting events in order to enhance its brand recognition.

## **Competition**

The telecommunications industry is competitive and consumers generally have a choice of mobile and fixed line operators from which to select services. The Group is a global telecommunications services provider and faces significant competition in most of the markets in which it operates. In Europe, the Group's largest competitor is Vodafone and in Latin America, the Group's largest competitor is América Móvil. Newer competitors, including handset manufacturers, MVNOs, Internet companies and software providers, are also entering the market and offering integrated communications services.

The Group competes in its market on the basis of the price of its services; the quality and range of features; the added value the Group offers with its service; additional services associated with those main services; the reliability of its network infrastructure and its technological attributes; and the desirability of its offerings, including bundled offerings of one type of service with another and, in the case of the mobile industry, in most of the markets offerings that include subsidised handsets.

To compete effectively with its competitors, the Group needs to successfully market its products and services and to anticipate and respond to various competitive factors affecting the relevant markets, such as the introduction of new products and services, different pricing strategies and changes in consumer preferences. See *"Risk Factors - Risks Relating to the Issuer and the Guarantor - Telefónica's competitive position in some markets could be affected by the evolution of competition and market consolidation"*

## **Strategic Partnerships**

### ***China Unicom (Hong Kong) Limited ("China Unicom")***

Since 2005 the Group has a stake in China Unicom and its predecessor company. On 6 September 2009, it entered into a strategic alliance agreement with China Unicom, which provided, among other things, for cooperation, joint procurement of infrastructure and client equipment, common development of mobile service platforms, joint provisions of service to multinational customers, roaming, research and development, sharing of best practices and technical, operational and management know-how, joint development of strategic initiatives in the area of network evolution, joint participation in international alliances and exchanges of senior management. In furtherance of this strategic alliance, the Group entered into a subscription agreement with China Unicom, pursuant to which it increased its voting interest in the share capital of China Unicom to 8.06 per cent. and China Unicom obtained a 0.87 per cent. voting interest in its share capital in October 2009.

On 23 January 2011, the Group entered into an agreement to enhance the strategic alliance with China Unicom, under which the Group agreed to strengthen and deepen its strategic alliance in certain business areas, and committed to investing the equivalent of U.S.\$500 million in ordinary shares of the other party. Such investments took place along 2011. In recognition of China Unicom's stake in the Group's share capital, the Group committed to propose, in accordance with the prevailing legislation and its by-laws, the appointment of a member of its Board of Directors nominated by China Unicom.

China Unicom completed the acquisition of Telefónica shares on 28 January 2011, giving it ownership of 1.37 per cent. of Telefónica's capital.

The Telefónica Group purchased China Unicom shares during 2011 for an amount of EUR 358 million. At 31 December 2011, the Telefónica Group held a 9.57 per cent. stake in China Unicom.

On 10 June 2012, Telefónica's wholly-owned subsidiary Telefónica Internacional, S.A.U. and a subsidiary of China United Network Communications Group Company Limited entered into an agreement for the acquisition by the latter of 1,073,777,121 shares of China Unicom owned by Telefónica, equivalent to 4.56 per cent. of its share capital.

On 21 July 2012, such agreement was complemented by a supplemental agreement. The transaction was completed on 30 July 2012.

In subsequent years, Telefónica has continued to sell down its stake in China Unicom.

As of 31 December 2019, the Group held a 0.59 per cent. stake in the share capital of China Unicom and China Unicom held a 1.24 per cent. stake in the Group share capital.

Telefónica maintains its commitment to the strategic partnership with China Unicom, strengthened through cooperation in digital areas such as the big data joint venture between both companies, namely Smart Steps Digital Technology Co. Ltd., which is a demographic big data service provider in urban planning in China. In April 2019, JD Digits made a strategic investment through a capital increase in the joint venture, with an investment of 100 million yuan (around EUR 13.2 million) which grants JD Digits a 16.7 per cent. stake of the joint venture. China Unicom and Telefónica hold a 45.8 per cent. and 37.5 per cent. stake respectively after the transaction.

### **Legal Proceedings**

Telefónica and its Group companies are party to several legal proceedings which are currently in progress in the courts of law and the arbitration bodies of the various countries in which they are present.

Based on the advice of its legal counsel Telefónica believes it is reasonable to assume that these legal proceedings will not materially affect the financial condition or solvency of the Telefónica Group.

The following unresolved legal proceedings or those underway in 2019 are highlighted (see Note 25 to the 2019 Consolidated Financial Statements for details of tax-related cases).

#### ***Appeal against the decision by ANATEL regarding the inclusion of interconnection and network usage revenues in the Fundo de Universalização de Serviços de Telecomunicações ("FUST")***

Vivo Group operators (currently Telefônica de Brasil), together with other cellular operators, appealed ANATEL's decision of 16 December 2005, to include interconnection and network usage revenues and expenses in the calculation of the amounts payable into the FUST (*Fundo de Universalização de Serviços de Telecomunicações*) – a fund which pays for the obligations to provide Universal Service – with retroactive application from 2000. On 13 March 2006, Regional Federal Court no. 1 granted a precautionary measure which stopped the application of ANATEL's decision. On 6 March 2007, a ruling in favour of the wireless operators was issued, stating that it was not appropriate to include the revenues received by transfer from other operators in the taxable income for the FUST's calculation and rejecting the retroactive application of ANATEL's decision. On 26 January 2016, ANATEL filed an appeal to overturn this decision with Brasília Regional Federal Court no. 1, which was also dismissed. On 10 May 2017 ANATEL appealed to the higher courts on the merits of the case.

At the same time, Telefônica Brasil and Telefónica Empresas, S.A., together with other wireline operators through ABRAFIX (*Associação Brasileira de Concessionárias de Serviço Telefônico Fixo Comutado*) appealed ANATEL's decision of 16 December 2005, also obtaining the precautionary measures requested. On 21 June 2007, Federal Regional Court no. 1 ruled that it was not appropriate to include the interconnection and network usage revenues in the FUST's taxable income and rejected the retroactive application of ANATEL's decision. ANATEL filed an appeal to overturn this ruling on 29 April 2008, before Brasília Regional Federal Court No. 1, which was dismissed on 10 May 2016. ANATEL filed an appeal against this dismissal.

The fixed operators filed an appeal to clarify that revenues obtained through interconnection and dedicated line operation should not be included in the calculation of the amounts payable to the FUST. In addition, the court was also requested to rule on two grounds which had not been analysed in the initial decision: (i) that the FUST has become obsolete, among other reasons, by the advance of mobile telephony; and (ii) that amounts collected are not applied to the purpose for which the FUST was created, since only a very low percentage of the revenues collected by the FUST is used to finance fixed telephony. Although the petition



for clarification was dismissed on 23 August 2016, the court noted that the FUST should not be funded with revenues from interconnection and dedicated line operation. ABRAFIX appealed to the higher courts on these two elements that had not been analysed. ANATEL appealed all the holdings of the ruling to the higher courts.

The amount of the claim is quantified at 1 per cent. of the interconnection revenues.

***Appeal against the Decision of the European Commission dated 23 January 2013, to sanction Telefónica for the infringement of Article 101 of the Treaty on the functioning of the European Union***

On 19 January 2011, the European Commission initiated formal proceedings to investigate whether Telefónica and Portugal Telecom SGPS, S.A. ("**Portugal Telecom**") had infringed European Union anti-trust laws with respect to a clause contained in the sale and purchase agreement of Portugal Telecom's ownership interest in Brasilcel, N.V., a joint venture in which both were venturers and which was the owner of the Brazilian company Vivo.

On 23 January 2013, the European Commission passed a ruling on the formal proceedings. The ruling imposed a fine on Telefónica of EUR 67 million, as the European Commission ruled that Telefónica and Portugal Telecom committed an infraction of Article 101 of the Treaty on the Functioning of the European Union for having entered into the agreement set forth in Clause Nine of the sale and purchase agreement of Portugal Telecom's ownership interest of Brasilcel, N.V.

On 9 April 2013, Telefónica filed an appeal for annulment of this ruling with the European Union General Court. On 6 August 2013, the European Union General Court notified Telefónica of the response issued by the European Commission, in which the European Commission reaffirmed the main arguments of its ruling and, specifically, that Clause Nine includes a competition restriction.

On 30 September 2013, Telefónica filed its reply. On 18 December 2013, the European Commission filed its appeal.

A hearing was held on 19 May 2015, at the European Union General Court.

On 28 June 2016, the European Union General Court ruled. Although it declares the existence of an infringement of competition law, it annuls Article 2 of the contested Decision and requires the European Commission to reassess the amount of the fine imposed. The General Court considers that the European Commission has not neutralised the allegations and evidences provided by Telefónica on services in which there was not potential competition or were outside the scope of Clause Nine.

Telefónica understands that there are grounds for believing that the ruling does not suit at law; consequently, it filed an appeal to the Court of Justice of the European Union, on 11 September 2016.

On 23 November 2016, the European Commission filed its response against the Telefónica's appeal. On 30 January 2017, Telefónica filed its response. On 9 March 2017, the European Commission filed its rejoinder.

On 13 December 2017, the General Court dismissed the appeal filed by Telefónica. The European Commission must issue a new resolution in accordance with the judgment of the General Court of June 2016, which urged the Commission to recalculate the amount of the fine.

***Decision by the High Court regarding the acquisition by Telefónica of shares in Český Telecom by way of tender offer***

Venten Management Limited ("**Venten**") and Lexburg Enterprises Limited ("**Lexburg**"), were minority shareholders of CESKY TELECOM. In September 2005 both companies sold their shares to Telefónica in a mandatory tender offer. Subsequently Venten and Lexburg, in 2006 and 2009, respectively, filed actions against Telefónica claiming a higher price than the price for which they sold their shares in the mandatory tender offer.

On 5 August 2016, the hearing before the High Court in Prague took place in order to decide the appeal against the second decision of the Municipal Court, which had been favourable to Telefónica's position (as was also the case with the first decision of the Municipal Court). At the end of the hearing, the High Court announced the Second Appellate Decision by which it reversed the second decision of the Municipal Court

and ordered Telefónica to pay 644 million Czech koruna (approximately EUR 23 million) to Venten and 227 million Czech koruna (approximately EUR 8 million) to Lexburg, in each case plus interest.

On 28 December 2016, the decision was notified to Telefónica. Telefónica filed an extraordinary appeal, requesting the suspension of the effects of the decision.

In March 2017, Telefónica was notified of the decision of the Supreme Court, which ordered the suspension of the effects of the unfavourable decision to Telefónica issued by the High Court.

Venten and Lexburg filed with the Supreme Court a motion to partially abolish the suspension of enforceability of the Decision of the High Court in Prague. On 17 January 2018, Telefónica filed its response seeking dismissal of such motion for lack of legal basis.

On 14 February 2019, notification was given to Telefónica of the resolution of the Supreme Court which, based on the extraordinary appeal filed by Telefónica, abolished the decision of the High Court in Prague dated 5 August 2016 and remanded the case back to the High Court.

#### ***Claim by Entel against Telefónica de Argentina, S.A.***

In 1999, Entel (the National Telecommunications Company of Argentina before its privatisation) sued Telefónica de Argentina, S.A. ("TASA"), who was the licensee of the telecom service after the privatisation process, seeking detailed and documented accounting and reimbursement of the amounts that it received from and on behalf of Entel after assuming the telecom service as a licensee, and of the amounts deducted as commissions.

In general terms, the items in dispute were the amounts that TASA charged on behalf of Entel soon after having taken possession as a licensee of the telecom service (i.e. the consumptions charges for telecom services from prior customers of Entel, either billed or unbilled, but pending payment at the time of the privatisation). Entel also challenged the commissions that TASA discounted to Entel in exchange for the service of collection of fees on behalf of Entel. Additionally, Entel also claimed several credits received by TASA, which allegedly belonged to Entel and had not been transferred to TASA in the privatisation process.

TASA replied arguing the inadmissibility of the accountability request, since such liquidations had previously been submitted to the Entel Liquidating Commission without being timely challenged.

In 2010, the Court of First Instance ruled in favour of Entel and held TASA accountable to Entel.

After exhausting all legal appeals available, TASA submitted the requested accounting to Entel, which was challenged by the national government on behalf of the liquidated Entel.

Several accounting drafts and cross-claims between the parties followed, with the intervention of a court-appointed expert accountant. After several court decisions, the intervening judge rejected TASA's objections to the accounting presented by the national government and adopted the calculations made by Entel and the court-appointed expert.

Although this judicial decision was appealed, TASA's appeal was dismissed by the Court of Appeals in October 2017, confirming, to a large extent, the accounting of Entel and the court-appointed expert, but also ordering Entel to recalculate interests. Specifically, the resolution of the Court accepted certain concepts that TASA had questioned and the application of a "judicial" interest rate (average passive rate), which implies a daily capitalisation component, in detriment of the rate set forth in the privatisation specifications which set a simple annual interest of 8 per cent. (which had even been used by the court-appointed expert and Entel in their calculations).

On 22 February 2018, Entel submitted the new principal and interest calculations required by the judge, claiming an amount of 1,689 million Argentine pesos (approximately EUR 39 million at exchange rates on 31 December 2018).

The resolution of the Court of Appeals exhausted the ordinary remedies available. TASA filed an extraordinary appeal, which was rejected in November 2017. TASA has submitted an exceptional appeal before the Argentine Supreme Court, although this appeal does not suspend the potential execution by Entel of prior rulings against TASA.

On 26 March 2019, the Court of First Instance finally ruled to approve the liquidation that ENTEL had submitted for an amount of 1,689 million Argentine pesos (approximately EUR 35 million at exchange rates as at that date). The liquidation of accounts of the Court of First Instance was confirmed by the Court of Appeals.

In September 2020, ENTEL requested the court to update the liquidation, amounting to 3,445 million Argentine pesos (approximately EUR 38 million).

On 29 December 2020, TASA paid the 1,689 million Argentine pesos (approximately EUR 16 million) of the liquidation approved by the Court of First Instance in March 2019. The court will soon have to decide on the difference between the 1,689 million Argentine pesos (approximately EUR 16 million at exchange rates as at that date) paid and the 3,445 million Argentine pesos (approximately EUR 33 million at exchange rates as at that date) request by ENTEL.

### ***Appeal against the resolution of ANATEL to sanction Telefônica Brazil for breaches of the Fixed Telephony Regulation***

In May 2018, Telefônica filed a judicial action for annulment against a resolution issued by ANATEL in March 2018 concluding the administrative process for determination of non-compliance with obligations (*Processo Administrativo para Apuração de Descumprimento de Obrigações* or "**PADO**") investigating alleged infractions of the Fixed Telephony Regulation by Telefônica Brasil.

This PADO investigation had been suspended during the negotiations of the Conduct Adjustment Terms (*Termo de Ajustamento de Conduta*) between Telefônica and ANATEL relating to this and certain other PADO investigations. Since the negotiations concluded without agreement, the suspended PADO sanctioning procedures were reactivated and finalised.

In its resolution of March 2018, ANATEL considered that Telefônica Brasil committed several infractions, in particular those related to the inadequate notice of suspension of services to defaulting users, the terms of reactivation of services after payment of outstanding amounts by defaulting users and the disagreement with the terms of refunds claimed by users of the services.

The fine imposed by ANATEL and appealed by Telefônica Brasil is approximately 211 million Brazilian reais (approximately EUR 48 million), which amounted to approximately 516 million Brazilian reais after currency value updates and accrued interest as of 31 December 2020 (approximately EUR 112 million).

Telefônica Brasil has appealed the fine imposed by ANATEL based, fundamentally, on the following arguments: (i) ANATEL should have considered a smaller universe of users to determine the fine and (ii) the calculation of the fine is disproportionate and based on insufficient grounds.

Telefônica Brasil has not yet paid the fine, although Telefônica Brasil has guaranteed its payment through a guarantee insurance submitted to the court.

The conciliation hearing was held and the procedure follows its normal course.

### ***ICSID Arbitration Telefónica, S.A. v. Republic of Colombia***

In the local arbitration brought by the Republic of Colombia against Colombia Telecomunicaciones ("**ColTel**"), on 25 July 2017, the local arbitration tribunal forced ColTel to pay EUR 470 million as economic compensation for the reversion of assets related to voice services for the concession granted between 1994 and 2013.

On 29 August 2017, ColTel's capital was increased in order to pay the local arbitral award. Telefónica, S.A. contributed and disbursed 67.5 per cent. of the award's amount (equivalent to EUR 317 million) and the Colombian Government contributed the remaining 32.5 per cent. (equivalent to EUR 153 million), through assumption of debt and compensation of the same.

On 1 February 2018, Telefónica, S.A. filed a Request for Arbitration against Colombia at the International Centre for Settlement of Investment Disputes ("**ICSID**"), which was formally registered on 20 February 2018.

The ICSID Tribunal was constituted on 26 February 2019, with José Emilio Nunes Pinto as President, Horacio A. Grigera Naón appointed by Telefónica, S.A., and Yves Derains appointed by Colombia.

Colombia filed Preliminary Objections on Jurisdiction on 5 August 2019. Telefónica, S.A. responded to Colombia's objections in its Claimant's Memorial on 23 September 2019, in which it also requested that Colombia pay compensation for damages caused to Telefónica, S.A.

On 23 October 2019, Colombia submitted its Complementary Objections on Jurisdiction as well as a request for Bifurcation, to which Telefónica, S.A. responded on 29 November 2019.

On 24 January 2020, the Court dismissed the request for Bifurcation presented by Colombia, ordering the continuation of the proceeding. A decision on the merits of Telefónica, S.A.'s claim is pending.

On 3 July 2020, Colombia filed its reply to the claim filed by Telefónica before the ICSID.

On 2 November 2020, Telefónica presented its response to Colombia's reply.

#### ***Telefónica's lawsuit against Millicom International Cellular for default in the sale of Telefónica Costa Rica***

Telefónica and Millicom International Cellular, S.A. ("**Millicom**") reached an agreement on 20 February 2019 for the purchase and sale of the entire capital stock of Telefónica de Costa Rica TC, S.A.

In March 2020, Telefónica informed Millicom that, once the pertinent regulatory authorisations had been obtained and all the other conditions established in the aforementioned agreement for the execution of the sale had been completed, the execution of the contract and the closing of the transaction should be in April 2020.

Millicom expressed its refusal to proceed with the closure, arguing that one of the Costa Rican administrative authorities had not issued the appropriate authorisation.

On 25 May 2020, Telefónica filed a lawsuit against Millicom before the New York Supreme Court, considering that Millicom has breached the terms and conditions established in the sale contract, demanding compliance with the provisions of the aforementioned agreement, and compensation for all damages that this unjustified breach could cause to Telefónica.

On 29 June 2020, Millicom filed a Motion to Dismiss, to which Telefónica replied on 8 July 2020.

On 3 August 2020, Telefónica submitted an amendment to the lawsuit, eliminating the requirement to comply with the provisions of the sale and purchase contract and requesting only compensation for all damages that the unjustified breach of said agreement could cause Telefónica.

On 5 January 2021, the Motion to Dismiss filed by Millicom in June 2020 was dismissed by the New York Supreme Court.

#### ***Other Proceedings***

As of the date of this Prospectus, the Group co-operates with governmental authorities (and, where appropriate, conducting the relevant internal investigations) regarding requests for information related, direct or indirectly to possible violations of applicable anti-corruption laws. Telefónica believes that, considering the size of the Group, any potential penalty as a result of those information requests would not materially affect the Group's financial condition.

#### **Tax Proceedings**

##### ***Inspections in the tax group in Spain***

In 2012, tax inspections for all taxes for the years 2005 to 2007 were completed, with Telefónica signing off a corporate income tax assessment of EUR 135 million, which was paid in 2012, whilst disputing other adjustments with which it disagreed. Although the settlement agreement for the disputed tax assessment did not give rise to any tax payment, since the adjustments proposed were offset by unused tax loss carryforwards, Telefónica filed an appeal with the Central Economic-Administrative Court against these

adjustments in May 2015, regarding the tax treatment of the interest on own capital (*juros sobre el capital propio*) as dividends.

In July 2015 tax inspections for all taxes for the years 2008 to 2011 were completed, with Telefónica signing off certain corporate income tax assessments and disputing others. This resulted in 2015 in an expense amounting to EUR 206 million. However, this did not require any tax payment, as the adjustments arising from the inspection were offset by unused tax loss carryforwards, at the corresponding tax rate for each period.

Although the settlement agreement for the disputed tax assessment did not give rise to any tax payment, in July 2015 Telefónica filed an appeal with the Central Economic-Administrative Court against the adjustments it disputes, regarding the tax treatment of the interest on own capital (*juros sobre el capital propio*) as dividends, and the criteria to use tax loss carryforwards in the years subject to settlement.

In June 2017 Telefónica received an order of the Audiencia Nacional extending the effects of its ruling from 27 February 2014 from another tax payer to the individual legal status of Telefónica, in connection with the interest on own capital (*juros sobre el capital propio*). As a consequence of the aforementioned, the Audiencia Nacional has voided the corporate income tax assessment for the years 2005 to 2007 and 2008 to 2011 related to "Juros sobre el capital propio" settled by the tax authorities.

With respect to the use of tax loss carryforwards in the years subject to settlement during the inspection 2008 to 2011, still under litigation, in November 2017 Telefónica brought a judicial appeal to the Audiencia Nacional, against the alleged dismissal of the claim in the absence of a reply from the authorities. On 23 January 2019, Telefónica announced that it was notified of a resolution issued by the Central Economic-Administrative Court which partially upheld the claims made by Telefónica in connection with the tax inspections for the years 2008 to 2011. Telefónica intends to appeal this resolution (which is pending execution) in respect of such matters that were not resolved in favour of Telefónica.

On 15 March 2019, Telefónica announced that it was notified of an execution notice issued by the Spanish tax authorities in connection with the Central Economic-Administrative Court Resolution partially upholding the claims filed against the assessments pertaining 2008-2011 Corporate Income Tax Audit. The execution notice ordered a EUR 702 million refund to Telefónica pertaining to overpayments made by it in those tax years. Telefónica filed an appeal with the Central Economic-Administrative Court against the execution notice based, among other reasons, on the lack of inclusion of delayed interest. On 13 June 2019 the Central Economic-Administrative Court issued a resolution which upheld the claim made by Telefónica and ordered the Spanish tax authorities to pay delayed interest amounting to EUR 201 million. The payment of this amount was received in July 2019 and it was accounted as financial income.

In July 2019, new inspection proceedings were initiated for several of the companies belonging to the tax group of which Telefónica is the dominant company. The concepts and periods being audited are: Corporate Income Tax for the years 2014 to 2017 and Value Added Tax, Withholdings Income Tax for the second half of 2015 and from 2016 to 2018.

## **Telefónica Brazil**

### ***State taxes***

The Telefónica Group is involved in a range of tax litigation in Brazil over direct and indirect taxes (including those relating to GVT). This includes a number of appeals relating to ICMS tax (a tax similar to VAT, levied on telecommunications services). There is a dispute with the Brazilian tax authorities over which services should be subject to settlement of this tax.

To date the most significant issues have focused on the requirement to collect ICMS on penalties charged to customers for non-compliance, Internet advertising services, and complementary or additional services to the basic telecommunications services such as value-added services, modem rental, and the application of this tax on the basic fee (*assinatura básica*). In the case of the latter (*assinatura básica*), a case is still pending before the Supreme Court including Oi, which could affect other companies of the telecommunications sector.

All related procedures are being contested in all instances (administrative and court proceedings). The aggregate amount of the relevant proceedings, updated to take into account interest, fines and other items, is approximately 15,460 million Brazilian reais (approximately EUR 3,416 million, see Note 25 to the 2019

Consolidated Financial Statements). Telefónica Brazil has obtained independent expert reports supporting its position, i.e. that the aforesaid services are not subject to ICMS.

### ***Federal taxes***

Regarding the income tax (federal tax) the tax authorities proposed adjustments in relation to the tax amortisation in the period from 2011 to 2014 of the goodwill generated by Telefónica Brazil's acquisition and merger with Vivo. The tax inspections were conducted from 2016 to 2018 and the accumulated amount at 31 December 2019 was 9,895 million Brazilian reais (approximately EUR 2,186 million). These proceedings are at the administrative stage and no provisions have been made since the potential risk associated with them has been classified as "not probable" and Telefónica Brazil has received independent expert reports that support this view.

### **Telefónica del Perú**

With regard to tax matters in Peru, litigation continues over corporate income tax for 2000 and 2001, payments on account in respect of the year 2000, recoverable balances for 1998 and 1999, and the interest and penalties that should apply to these.

In August 2015, the court of second instance handed down a ruling partially upholding the position of Telefónica del Perú, ruling in its favour on three of the five objections filed by the tax authorities and appealed against to the courts, relating, inter alia, to corporate income tax from 2000 to 2001 (among others). This dispute accounts for more than 75 per cent. of the total amount under litigation, with the objections relating to insolvency provisions, interest on borrowing and leases of space for public telephones. Both the tax authorities and Telefónica del Perú have filed appeals against the decision in higher courts.

In July 2019, Telefónica del Perú was notified that the Supreme Court had handed down two rulings in connection with the appeals relating to corporate income tax for 2000 to 2001. These rulings have resolved the main matters of dispute by annulling the rulings of the court of second instance and returning the case to the court for it to pass judgment on the matters again and they have made a final ruling in favour of Telefónica del Perú in relation to the deductibility of the rental of public spaces and against the deductibility of certain financial charges. However, to the extent that there have been some adjustments over which the judgments are pronounced (positively for Telefónica del Perú in relation to the deductibility of the rental of public spaces and negatively in the case of the deductibility of certain financial charges), Telefónica del Perú recorded in its financial statements of 2019 an additional provision of 580 million Peruvian soles (approximately EUR 154 million at the exchange rate as of 31 December 2019) (see Note 24 to the 2019 Consolidated Financial Statements).

In addition, in January 2019, Telefónica del Perú was notified that the Supreme Court handed down a ruling partially upholding its position in relation to certain matters relating to 1998. In particular, on one hand, it has made a final ruling in favour of Telefónica in matters relating to the lease of space for public telephones, and on the other, it has resolved the matter relating to insolvency provisions by annulling the ruling of the court of second instance and returning the case to the court of first instance for it to pass judgment on the matter again.

Therefore, all settlements carried out by SUNAT for 2000 and 2001 financial years are still pending of the final ruling in the judicial phase.

Regarding these rulings, the Group and its external attorneys consider that there are solid arguments to defend their position, both in relation to the insolvency provisions and in relation to the interest in the administrative phase and to recoverable balances for 1998 and 1999.

Given the sentences and rulings handed down, the Group recognised, as at 31 December 2019, a provision that reached a total amount of 2,355 million Peruvian soles (approximately EUR 633 million) (see Note 24 to the 2019 Consolidated Financial Statements).

In connection with these proceedings in Peru, the Group and its legal advisors consider that the Group's position continues to be based on robust legal arguments.

## **Tax deductibility of financial goodwill in Spain**

The tax regulations added article 12.5 to the Spanish Corporate Income Tax Law (*ley del impuesto sobre sociedades*), which came into force on 1 January 2002. This article regulated the deductibility of tax amortisation of financial goodwill arising from the acquisition of non-Spanish companies, which could be amortised over 20 years at 5 per cent. per annum. Following the entry into force of the Laws 9/2011 of 19 August 2011 and 16/2013 of 29 October 2013, the amount of goodwill amortisation deductible for tax purposes under article 12.5 for the years 2011 to 2015 was reduced from 5 per cent. to 1 per cent. The effect is temporary because the 4 per cent. not amortised during five years (20 per cent. in total) will be recovered extending the deduction period from the initial 20 years to 25 years.

The Telefónica Group, under this regulation, has been amortising for tax purposes the financial goodwill from its investments, both direct and indirect, in O2, BellSouth and Coltels (prior to 21 December 2007) and Vivo (acquired in 2010). The positive accumulated effect in the corresponding settlements of corporate income tax from 2004 to the closing of 31 December 2019, was EUR 1,552 million.

In relation to this tax incentive, the European Commission has in recent years commenced three proceedings against the Spanish State as it deems that this tax benefit could constitute an example of state aid. Although the European Commission itself acknowledged the validity of its first two decisions for those investors that invested in European Union companies (for operations carried out before 21 December 2007 in the first decision, and before 21 May 2011 for investments in other countries in the second decision), in its third decision from 15 October 2014 it calls into question the applicability of the principle of legitimate expectations in the application of the incentive for indirect acquisitions, whatever the date of acquisition may have been.

As of the date of this Prospectus, the three decisions continue to be subject to a final ruling. The first two were annulled by two judgments of the General Court of the European Union, which were appealed by the European Commission before the Court of Justice of the European Union and sent again to the General Court by the Judgment dated 21 December 2016, to reassess the tax incentive. In its ruling of 15 November 2018, the General Court confirmed the applicability of the legitimate expectations principle, but considered the "goodwill amortisation" as state aid not compatible with the common market. This ruling has been appealed before the Court of Justice of the European Union.

Furthermore, there are doubts in the Spanish courts regarding the classification of the incentive as a deduction and if this deduction would remain in the case of a subsequent transfer of the relevant stake.

Whilst the three decisions are still pending, a final ruling by the Court of Justice of the European Union, *Dependencia de Control Tributario y Aduanero de la Agencia Tributaria* (the Large Taxpayers Central Office) implemented its obligations as set out in the Decision of the European Commission (EU) 2015/314 and, in March 2019, recovered the goodwill amortised for the indirect acquisition of shares in non-resident companies. This recovery remains provisional pending the final results of the appeals brought against the three decisions. The result of this settlement once offset by available tax credits (negative tax bases and deductions) has resulted in a payment of EUR 1.4 million.

The Group has continued provisioning the amount of the goodwill amortised for tax purposes, corresponding mainly to the purchase of Vivo, for a total amount of EUR 352 million at 31 December 2019 (EUR 283 million at 31 December 2018).

## **Years open for inspection**

### ***Years open for inspection in the Group companies***

The years open for review by the tax inspection authorities for the main applicable taxes vary from one consolidated company to another, based on each country's tax legislation, taking into account their respective statute-of-limitations periods. In Spain the taxes from 2014 onwards are open to inspection.

In the other countries in which the Telefónica Group has a significant presence, the years open for inspection by the relevant authorities are generally as follows:

- The last twelve years in Germany.
- The last seven years in United Kingdom.

- The last seven years in Argentina.
- The last five years in Brazil, Mexico, Uruguay and the Netherlands.
- The last six years in Colombia (except in respect of years in which there were tax losses that are then used to offset tax charges, in which case the period is extended to 12 years).
- The last four years in Peru, Guatemala, Nicaragua and Costa Rica.
- Since 2016, the statute of limitation is six years in Venezuela.
- The last three years in Chile, Ecuador, El Salvador, the United States and Panama.

The tax inspection of the open years is not expected to give rise to additional material liabilities for the Group.

### Major Shareholders

As at the date of this Prospectus, Telefónica had 5,526,431,062 shares outstanding, each having a nominal value of EUR 1.00 per share. All outstanding shares have the same rights.

As at the date of this Prospectus, according to information provided to Telefónica or to the Spanish National Securities Commission (*Comisión Nacional de Mercado de Valores* or the "CNMV"), beneficial owners of 3 per cent. or more of Telefónica's voting stock were as follows:

Name of Beneficial Owner	Percentage of shares carrying voting rights		Percentage of voting rights through financial instruments		Percentage of voting rights
	Direct	Indirect	Direct	Indirect	
	(per cent.)		(per cent.)		(per cent.)
Banco Bilbao Vizcaya Argentaria, S.A. <sup>(1)</sup>	5.16	0.02	0.00	0.00	5.18
CaixaBank, S.A. <sup>(2)</sup>	4.872	0.007	0.00	0.00	4.879
BlackRock, Inc. <sup>(3)</sup>	0.00	4.807	0.00	0.176	4.983

<sup>(1)</sup> Based on the information provided by Banco Bilbao Vizcaya Argentaria, S.A. as at 31 December 2019 for the Group's 2018 Annual Report on Corporate Governance with the share capital as of that date.

<sup>(2)</sup> Based on information provided by CaixaBank, S.A. as at 14 July 2020 with the share capital as of that date.

<sup>(3)</sup> On 31 March 2020, BlackRock, Inc. notified the CNMV its shareholding with the Telefónica's share capital as of that date.

To the extent that Telefónica shares are represented by account in the book-entry form, it does not keep a shareholder registry and its ownership structure cannot be known precisely. Based on the information available to Telefónica there is no individual or corporation that directly or indirectly through one or more intermediaries may exercise any type of control over Telefónica. Nevertheless, Telefónica has certain shareholders whose holdings are considered material.

### Directors and Senior Management of Telefónica

During 2018, Telefónica's Board of Directors met 12 times. During 2019, Telefónica's Board of Directors met 12 times. As at the date of this Prospectus, Telefónica's directors, their respective positions on its Board and the year they were first appointed were as follows:

Name	Date of Birth	Age	First Appointed	Current Term Ends
<b>Chairman</b>				
Mr. José María Álvarez - Pallete López <sup>(1)</sup>	12/12/1963	57	2006	2021
<b>Vice-Chairmen</b>				
Mr. Isidro Fainé Casas <sup>(1)(2)</sup>	10/07/1942	78	1994	2024
Mr. José María Abril Pérez <sup>(1)(3)(6)</sup>	19/03/1952	68	2007	2022
Mr. José Javier Echenique Landiribar <sup>(1)(4)(7)</sup>	20/11/1951	69	2016	2024
<b>Members</b>				
Mr. Ángel Vilá Boix <sup>(1)</sup>	29/07/1964	56	2017	2022
Mr. Juan Ignacio Cirac Sasurain <sup>(6)(8)</sup>	11/10/1965	55	2016	2024
Mr. Peter Erskine <sup>(1)(6)(7)</sup>	10/11/1951	69	2006	2024
Ms. Sabina Fluxà Thienemann	26/04/1980	40	2016	2024
Ms. Carmen García de Andrés <sup>(4)(8)</sup>	15/12/1962	58	2017	2021
Ms. María Luisa García Blanco <sup>(5)(7)</sup>	25/10/1965	55	2018	2022
Mr. Jordi Gual Solé <sup>(2)(5)(6)</sup>	12/06/1957	63	2018	2022



<b>Name</b>	<b>Date of Birth</b>	<b>Age</b>	<b>First Appointed</b>	<b>Current Term Ends</b>
Mr. Peter Löscher <sup>(1)(4)(6)(7)</sup> .....	17/09/1957	63	2016	2024
Mr. Ignacio Moreno Martínez <sup>(3)(4)(5)(8)</sup> .....	30/07/1957	63	2011	2021
Ms. Verónica Pascual Boé <sup>(6)</sup> .....	17/01/1979	42	2019	2024
Mr. Francisco Javier de Paz Mancho <sup>(1)(5)(7)(8)</sup> .....	24/07/1958	62	2007	2022
Mr. Francisco José Riberas Mera .....	01/06/1964	56	2017	2021
Ms. Claudia Sender Ramírez <sup>(8)</sup> .....	30/10/1974	46	2019	2024

<sup>(1)</sup> Member of the Executive Commission of the Board of Directors.

<sup>(2)</sup> Name or company name of the shareholder represented or that has proposed their appointment: CaixaBank, S.A.

<sup>(3)</sup> Name or company name of the shareholder represented or that has proposed their appointment: Banco Bilbao Vizcaya Argentaria, S.A. (BBVA).

<sup>(4)</sup> Member of the Audit and Control Committee.

<sup>(5)</sup> Member of the Regulation and Institutional Affairs Committee.

<sup>(6)</sup> Member of the Strategy and Innovation Committee.

<sup>(7)</sup> Member of the Nominating, Compensation and Corporate Governance Committee.

<sup>(8)</sup> Member of the Sustainability and Quality Committee.

The principal activities inside and outside the Group of each of the directors of Telefónica are as follows:

<b>Name</b>	<b>Principal activities inside the Group</b>	<b>Principal Activities outside the Group</b>
<b>José María Álvarez-Pallete López</b> .....	Executive Chairman of Telefónica, S.A.	
<b>Isidro Fainé Casas</b> .....	Vice Chairman of Telefónica, S.A.	<p>Chairman of Fundación Bancaria Caixa d' Estalvis i Pensions de Barcelona (la "Caixa")</p> <p>Chairman of Criteria Caixa, S.A.U.</p> <p>Chairman of Caixa Capital Risc SGEIC, S.A.</p> <p>Vice Chairman of Inmo Criteria Caixa, S.A.U.</p> <p>Honorary Chairman of Naturgy Energy Group, S.A.</p> <p>Chairman of the Spanish Confederation of Savings Banks (<i>Confederación Española de Cajas de Ahorros, CECA</i>)</p> <p>Vice Chairman of European Savings Bank Group (ESGB)</p> <p>Chairman of the World Savings Banks Institute (WSBI)</p> <p>Special Advisor of the Bank of East Asia (BEA)</p> <p>Director of Suez, S.A.</p> <p>Chairman of the Spanish Confederation of Directors and Executives (<i>Confederación Española de Directivos y Ejecutivos, CEDE</i>)</p> <p>Chairman of the Spanish Chapter of the Club of Rome and Chairman of the Circulo Financiero</p> <p>Member of the Trust of Museo Nacional del Prado</p> <p>Member of the Carlos Slim Foundation</p>
<b>José María Abril Pérez</b> .....	Vice Chairman of Telefónica, S.A.	
<b>José Javier Echenique Landiribar</b> .....	Vice Chairman of Telefónica, S.A.	Vice Chairman of Banco Sabadell, S.A.

<b>Name</b>	<b>Principal activities inside the Group</b>	<b>Principal Activities outside the Group</b>
	Director of Telefónica Audiovisual Digital, S.L.U.	Director of ACS Actividades de Construcción y Servicios, S.A
	Director of Pegaso PCS, S.A. de C.V.	Director of ACS Servicios, Comunicaciones y Energía S.L.
		Director of Ence Energía y Celusosa, S.A.
		Trustee of Novia Salcedo Foundation
		Member of the Board of Deusto Business School
		Member of the Basque Businessmen Circle
		Member of the McKinsey Advisory Council
<b>Ángel Vilá Boix</b> .....	Chief Operating Officer and Executive Director of Telefónica, S.A.	
<b>Juan Ignacio Cirac Sasurain</b> .....	Director of Telefónica, S.A.	Co-Director of the Quantum Science and Technology Center
		Director of International of Max-Planck School Quantum Science and Technology
		Member of the Advisory Board of the Institute for the Interdisciplinary Information Sciences, Tsinghua University
		Member of the Advisory Board of Annalen der Physik
		Member of the Scientific Committee, Fundación BBVA
		Member of the Advisory Board of Science Center of Benasque
		Member of the Scientific Advisory Board, Centre of Quantum Technology, NUS, Singapore
		Founding and managing Editor, Quantum Information and Computation
<b>Peter Erskine</b> .....	Director of Telefónica, S.A.	Chairman of the BRAINSTORM charity organization
	Member of the Supervisory Board of Telefónica Deutschland Holding AG	
<b>Sabina Fluxà Thienemann</b> .....	Director of Telefónica, S.A.	Co-Vice President and CEO of Iberostar Group
		Member of the Executive Committee of IEF
		Member of the Regional Advisory Board of BBVA
		Member of the Board of Directors of APD Illes Balears
		Trustee of Iberostar Foundation

<b>Name</b>	<b>Principal activities inside the Group</b>	<b>Principal Activities outside the Group</b>
<b>Carmen García de Andrés</b> .....	Director of Telefónica, S.A	<p>Chairwoman of <i>Fundación Tomillo</i></p> <p>Trustee of <i>Fundación Tomillo Tietar</i></p> <p>Trustee of the <i>Fundación Youth Business Spain</i></p> <p>Treasurer of the <i>Asociación Española de Fundaciones</i> (AEF)</p> <p>Trustee of <i>Fundación Secretariado Gitano</i></p> <p>Trustee of <i>Fundación Xavier de Salas</i></p> <p>Member of the Board of Directors of the collective initiative <i>Juntos por el Empleo de los más desfavorecidos</i></p> <p>Co-Founder and Trustee of <i>Fundación Aprendiendo a ser</i></p>
<b>María Luisa García Blanco</b> .....	Director of Telefónica, S.A	Partner at the law firm Salama García Blanco
<b>Jordi Gual Solé</b> .....	Director of Telefónica, S.A.	<p>Chairman of CaixaBank, S.A.</p> <p>Member of the Supervisory Board of ERSTE Group Bank AG</p> <p>Chairman of FEDEA</p> <p>Vice President of the <i>Círculo de Economía</i></p> <p>Vice President of the <i>Fundación Cotec para la Innovación</i></p> <p>Trustee of the <i>Fundación CEDE</i></p> <p>Trustee of the CIC Cultural Institution</p> <p>Trustee of the <i>Real Instituto Elcano</i></p> <p>Trustee of the <i>Fundación Barcelona Mobile Word</i></p>
<b>Peter Löscher</b> .....	<p>Director of Telefónica, S.A.</p> <p>Member of the Supervisory Board Telefónica Deutschland Holding AG</p>	<p>Chairman of the Supervisory Board of Sulzer AG</p> <p>Member of the Board of Directors of Thyssen-Bosnensisza Group AG, Switzerland</p> <p>Member, non-executive, of the Board of Directors of Doha Venture Capital LLC, Qatar</p> <p>Member of the Supervisory Board of Philips</p>
<b>Ignacio Moreno Martínez</b> .....	Director of Telefónica, S.A.	<p>Chairman of Metrovacesa, S.A.</p> <p>Member of the Board of Roadis Transportation Holding, S.L.U.</p> <p>Senior Advisor of Apollo Investment Consulting Europe LTD for Spain</p>

<b>Name</b>	<b>Principal activities inside the Group</b>	<b>Principal Activities outside the Group</b>
		Member of the Board of Directors of General Alquiler de Maquinaria, S.A. (GAM)
<b>Verónica Pascual Boé</b> .....	Director of Telefónica, S.A.	CEO of ASTI Mobile Robotics Group
		Chairwoman of the ASTI Technology and Talent Foundation
		Member of the Board of Directors of General Alquiler de Maquinaria, S.A. (GAM)
<b>Francisco Javier de Paz Mancho</b> .....	Director of Telefónica, S.A.	
	Director of Telefónica Móviles de Argentina, S.A.	
	Director of Telefônica Brasil, S.A.	
	Chairman of Telefónica Ingeniería de Seguridad, S.A.	
	Director of Pegaso PCS, S.A. de C.V.	
<b>Francisco José Riberas Mera</b> .....	Director of Telefónica, S.A.	Chairman and CEO of Gestamp Automoción, S.A.
		Member of the Board of Directors of companies of the Gestamp Group
		Member of the Board of Directors of companies of the Gonvarri Group
		Member of the Board of Directors of companies of the Acek Energías Renovables Group
		Member of the Board of Directors of companies of the Inmobiliaria Acek Group
		Member of the Board of Directors of CIE Automotive
		Member of the Board of Directors of Sideacero, S.L. and companies of its Group
		Member of the Board of Directors of General Alquiler de Maquinaria, S.A. (GAM)
		Chairman of the Endeavor Foundation
<b>Claudia Sender Ramírez</b> .....	Director of Telefónica, S.A.	Member of the Board of Directors of LafargeHolcim Ltd
		Member of the Board of Directors of Gerdau, S.A.
		Member of the Board of Directors of Yduqs University
		Member of the Board of Directors of Amigos do Bem

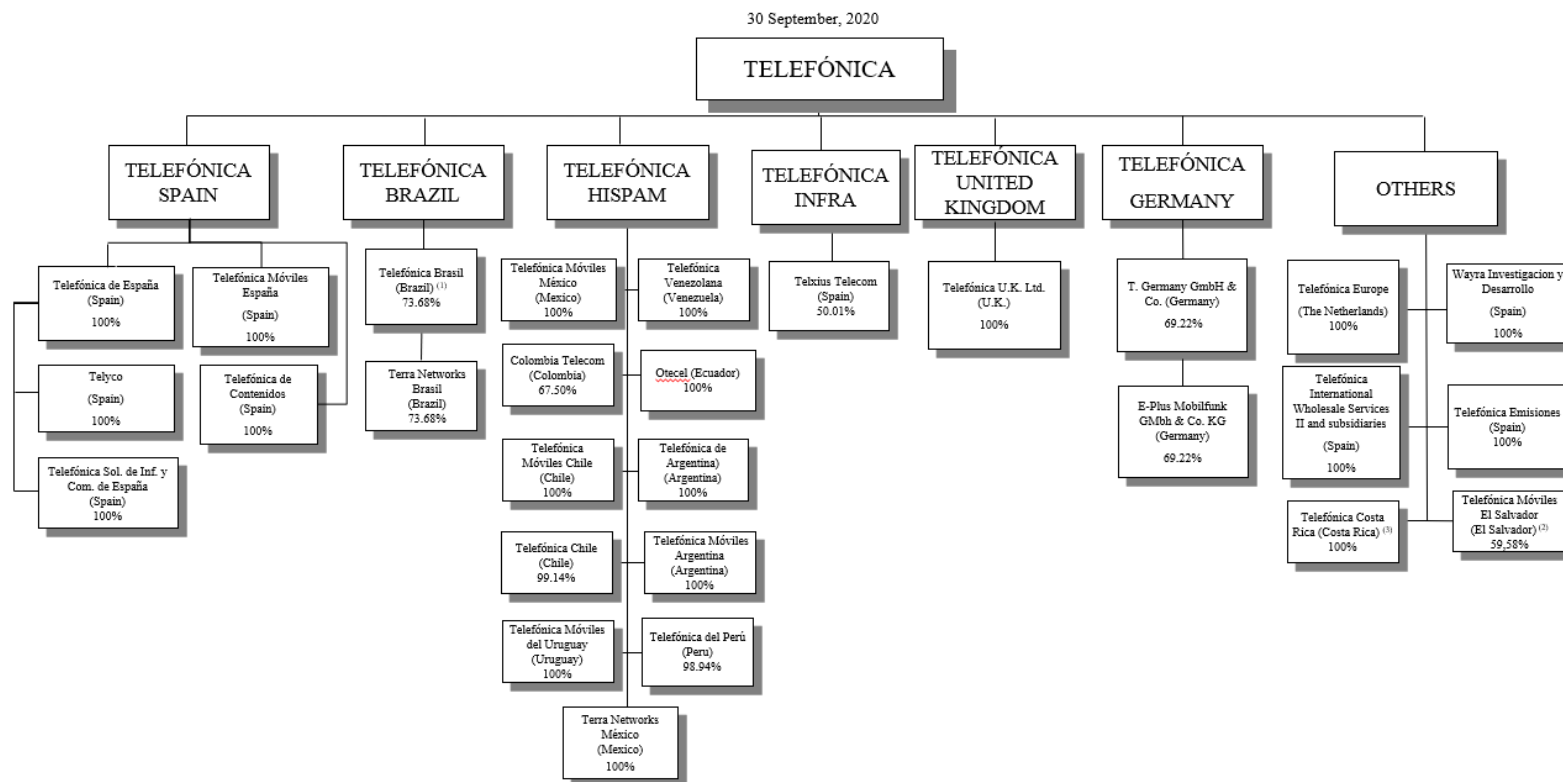
The business address of each of the directors of the Guarantor is Distrito Telefónica Ed. Central, Ronda de la Comunicación s/n, 28050 Madrid, España.

**Conflicts of Interest**

As at the date of this Prospectus, there are no current or potential conflicts of interest in relation to members of the Board of Directors between any duties owed to Telefónica and their private interests and other duties.

## Organisational Structure

The following chart shows the organisational structure of the principal subsidiaries of the Telefónica Group at 30 September 2020, including their jurisdictions of incorporation and Telefónica's ownership interest.



(1) 94.85% voting interest

(2) On January 24, 2019 an agreement was reached for the sale of Telefónica Móviles El Salvador.

(3) On July 30, 2020 an agreement was reached for the sale of Telefónica Costa Rica

## TAXATION

*The following is a general description of certain tax considerations relating to the Securities. It does not purport to be a complete analysis of all tax considerations relating to the Securities whether in those countries or elsewhere. Prospective purchasers of Securities should consult their own tax advisers as to the consequences under the tax laws of the country of which they are resident for tax purposes and the tax laws of the Netherlands and the Kingdom of Spain of acquiring, holding and disposing of Securities and receiving payments of interest, principal and/or other amounts under the Securities. This summary is based upon the law as in effect on the date of this Prospectus and is subject to any change in law that may take effect after such date.*

*Also investors should note that the appointment by an investor in Securities, or any person through which an investor holds Securities, of a custodian, collection agent or similar person in relation to such Securities in any jurisdiction may have tax implications. Investors should consult their own tax advisers in relation to the tax consequences for them of any such appointment.*

### Dutch Tax

For the purpose of the paragraph "Taxes on Income and Capital Gains" below it is assumed that, a holder of Securities, being an individual or a non-resident entity, does not have nor will have a substantial interest (*aanmerkelijk belang*), or - in the case of such holder being an entity - a deemed substantial interest, in the Issuer and that no connected person (*verbonden persoon*) to the holder has or will have a substantial interest in the Issuer.

Generally speaking, an individual has a substantial interest in a company if (a) such individual, either alone or together with his partner, directly or indirectly has or is deemed to have or (b) certain relatives of such individual or his partner directly or indirectly have or are deemed to have (i) the ownership of, a right to acquire the ownership of, or certain rights over, shares representing 5 per cent. or more of either the total issued and outstanding capital of such company or the issued and outstanding capital of any class of shares of such company, or (ii) the ownership of, or certain rights over, profit participating certificates (*winstbewijzen*) that relate to 5 per cent. or more of either the annual profit or the liquidation proceeds of such company.

Generally speaking, a non-resident entity has a substantial interest in a company if such entity directly or indirectly has (i) the ownership of, a right to acquire the ownership of, or certain rights over, shares representing 5 per cent. or more of either the total issued and outstanding capital of such company or the issued and outstanding capital of any class of shares of such company, or (ii) the ownership of, or certain rights over, profit participating certificates (*winstbewijzen*) that relate to 5 per cent. or more of either the annual profit or the liquidation proceeds of such company. An entity has a deemed substantial interest in a company if such entity has disposed of or is deemed to have disposed of all or part of a substantial interest on a non-recognition basis.

For the purpose of this summary, the term "entity" means a corporation as well as any other person that is taxable as a corporation for Dutch corporate tax purposes or would be taxable as a corporation for Dutch corporate tax purposes in case such corporation or other person would be or would be deemed to be tax resident in the Netherlands for Dutch corporate tax purposes.

Where this summary refers to a holder of Securities, an individual holding Securities or an entity holding Securities, such reference is restricted to an individual or entity holding legal title to as well as an economic interest in the Securities or otherwise being regarded as owning Securities for Dutch tax purposes. It is noted that for purposes of Dutch income, corporate, gift and inheritance tax, assets legally owned by a third party such as a trustee, foundation or similar entity, may be treated as assets owned by the (deemed) settlor, grantor or similar originator or the beneficiaries in proportion to their interest in such arrangement.

Where the summary refers to "the Netherlands" or "Dutch" it refers only to the European part of the Kingdom of the Netherlands.

***Investors should consult their professional advisers on the tax consequences of their acquiring, holding and disposing of Securities.***

1. **WITHHOLDING TAX**

All payments of principal and interest by the Issuer under the Securities can be made without withholding or deduction of any taxes of whatever nature imposed, levied, withheld or assessed by the Netherlands or any political subdivision or taxing authority thereof or therein, save that as of 1 January 2021 withholding tax may apply on certain (deemed) payments of interest made to a related entity or permanent establishment of such entity (i) in a specifically listed low-tax jurisdiction that has no profits tax or a tax rate that is lower than 9 per cent., or which is included in the EU Blacklist for non-cooperative jurisdictions, or (ii) in certain abusive situations involving a hybrid or conduit entity within the meaning of the conditional withholding tax act 2021 (*Wet bronbelasting 2021*).

2. **TAXES ON INCOME AND CAPITAL GAINS**

**Residents**

***Resident entities***

An entity holding Securities which is or is deemed to be resident in the Netherlands for Dutch corporate tax purposes and which is not tax exempt, will generally be subject to Dutch corporate tax in respect of income or a capital gain derived from the Securities at the prevailing statutory rates (up to 25 per cent. in 2021).

***Resident individuals***

An individual holding Securities who is or is deemed to be resident in the Netherlands for Dutch income tax purposes will be subject to Dutch income tax in respect of income or a capital gain derived from the Securities at the prevailing statutory rates (up to 49.50 per cent. in 2021) if:

- (i) the income or capital gain is attributable to an enterprise from which the holder derives profits (other than as a shareholder); or
- (ii) the income or capital gain qualifies as income from miscellaneous activities (*belastbaar resultaat uit overige werkzaamheden*) as defined in the Income Tax Act (*Wet inkomstenbelasting 2001*), including, without limitation, activities that exceed normal, active asset management (*normaal, actief vermogensbeheer*).

If neither condition (i) nor (ii) applies, such individual will be subject to Dutch income tax on the basis of a deemed return, regardless of any actual income or capital gain derived from the Securities. For 2021, the deemed return ranges from 1.90 per cent. to 5.69 per cent. of the value of the individual's net assets as at the beginning of the relevant fiscal year (including the Securities). The applicable rates will be updated annually on the basis of historic market yields. Subject to application of certain allowances, the deemed return will be taxed at the prevailing statutory rate (31 per cent. in 2021).

**Non-residents**

A holder of Securities which is not and is not deemed to be resident in the Netherlands for the relevant tax purposes will not be subject to Dutch taxation on income or a capital gain derived from the Securities unless:

- (i) the income or capital gain is attributable to an enterprise or part thereof which is either effectively managed in the Netherlands or carried on through a permanent establishment (*vaste inrichting*) or a permanent representative (*vaste vertegenwoordiger*) taxable in the Netherlands and the holder derives profits from such enterprise (other than by way of the holding of securities); or
- (ii) the holder is an individual and the income or capital gain qualifies as income from miscellaneous activities (*belastbaar resultaat uit overige werkzaamheden*) in the Netherlands as defined in the Income Tax Act (*Wet inkomstenbelasting 2001*), including, without limitation, activities that exceed normal, active asset management (*normaal, actief vermogensbeheer*).



### 3. **GIFT AND INHERITANCE TAXES**

Dutch gift or inheritance taxes will not be levied on the occasion of the transfer of Securities by way of gift by, or on the death of, a holder of Securities, unless:

- (i) the holder is or is deemed to be resident in the Netherlands for the purpose of the relevant provisions; or
- (ii) the transfer is construed as an inheritance or gift made by, or on behalf of, a person who, at the time of the gift or death, is or is deemed to be resident in the Netherlands for the purpose of the relevant provisions.

### 4. **VALUE ADDED TAX**

There is no Dutch value added tax payable by a holder of Securities in respect of payments in consideration for the issue or acquisition of the Securities, payments of principal or interest under the Securities or payments in consideration for the disposal of Securities.

### 5. **OTHER TAXES AND DUTIES**

There is no Dutch registration tax, stamp duty or any other similar tax or duty payable in the Netherlands by a holder of Securities in respect of or in connection with the execution, delivery and/or enforcement by legal proceedings (including any foreign judgement in the courts of the Netherlands) of the Securities or the performance of the Issuer's obligations under the Securities.

### 6. **RESIDENCE**

A holder of Securities will not be and will not be deemed to be resident in the Netherlands for Dutch tax purposes and, subject to the exceptions set out above, will not otherwise become subject to Dutch taxation, by reason only of acquiring, holding or disposing of Securities or the execution, performance, delivery and/or enforcement of Securities.

## **Spanish Tax**

### *Applicable law for Spanish tax purposes*

The Guarantor believes that the First Additional Provision of Law 10/2014 (as defined in the Conditions) shall apply to the Securities according to its Section 8, provided that the Securities are issued by a company which is (i) tax resident in the European Union and (ii) whose voting rights are completely held directly by an entity which is resident in Spain for tax purposes.

The Guarantor will comply with the reporting obligations set out in Section 4 of the First Additional Provision of Law 10/2014 in respect of Holders who are taxpayers of the Spanish Individual Income Tax or taxpayers of the Spanish Corporation Tax, as well as taxpayers of the Spanish Non-resident Income Tax ("**NRIT**") who hold the Securities through a permanent establishment located in the Spanish territory.

### *Payments made by the Guarantor*

In the opinion of the Guarantor, any payments of principal and interest that do not remunerate the use of funds in Spain made by the Guarantor under the Guarantee should not be subject to taxation in Spain.

However, payments of interest made under the Guarantee to the beneficial owners of the income arising from the Securities (each of them, a "**Holder**", and collectively the "**Holders**") may be subject to Spanish taxation and, hence, to Spanish withholding tax at the then applicable rate (as at the date of this Prospectus, 19 per cent.) to the extent it remunerates the use of funds in Spain. According to Spanish tax legislation, "interest" includes payment of coupons and income deriving from the transfer, redemption or reimbursement of the Securities, on the basis of the positive difference between the amounts obtained in the transfer, redemption or reimbursement of the Securities and their tax basis.

For Non-Spanish tax resident Holders not acting with respect to the Securities through a permanent establishment in Spain, such income should be exempt from Spanish tax in accordance with the First Additional Provision of Law 10/2014 and, therefore, no Spanish withholding may be due.

The application of the above mentioned exemption from Spanish withholding tax is conditional:

- (i) while the Securities are represented by Global Securities and the Global Securities are deposited with a common depositary for Euroclear and/or Clearstream, Luxembourg, upon the submission by the Fiscal Agent, in a timely manner, to the issuer (that is, the Guarantor with respect to any payments of interest under the Guarantee) with a certificate containing certain information relating to the Securities in accordance with section 44 of the Royal Decree 1065/2007, as detailed under the Fiscal Agency Agreement, or
- (ii) while the Securities are represented by Definitive Securities, upon the submission by the Holder to the issuer (that is, the Guarantor with respect to any payments of interest under the Guarantee) prior to the corresponding payment of interest under the Guarantee of a valid certificate of tax residence, duly issued by the tax authorities of the country of tax residence of the Holder, each certificate generally being valid for a period of one year beginning on the date of the issuance. For these purposes, if the certificate is referred to a specific period, it will only be valid for that period.

The Issuer, the Guarantor and the Fiscal Agent have arranged certain procedures to facilitate the collection of information concerning the Securities so that before the close of business on the Business Day (as defined in the Conditions) immediately preceding the date on which any payment of interest, principal or of any amounts in respect of the early redemption of the Securities (each, a "**Payment Date**") is due, the Guarantor must receive from the Fiscal Agent a certificate containing certain information relating to the Securities as prescribed under section 44 paragraph 5 of the Royal Decree 1065/2007. If, despite these procedures, the relevant information is not received by the Guarantor on each Payment Date, the Guarantor will withhold tax at the then-applicable rate (as at the date of this Prospectus, 19 per cent.) from any payment of interest in respect of the relevant Security. Neither the Issuer nor the Guarantor will pay any additional amounts with respect to any such withholding.

Notwithstanding the above, if, before the tenth calendar day of the month following the month in which the relevant income is paid, the Fiscal Agent provides the required information, the Guarantor will reimburse the amounts withheld.

If the First Additional Provision of Law 10/2014 was not deemed applicable to the Securities, the relevant Additional Amounts will be payable according to Condition 8(a) (*Taxation - Additional Amounts*) of the Securities.

Holders not acting with respect to the Securities through a permanent establishment in Spain and entitled to exemption from NRIT, but the payment to whom was not exempt from Spanish withholding tax due to the failure to deliver by the Holder or the Fiscal Agent (as the case may be) of a valid certificate of tax residence of the Holder or certain information relating to the Securities (as the case may be) in a timely manner may apply directly to the Spanish tax authorities for any refund to which they may be entitled. Holders are advised to consult their own tax advisers regarding their eligibility to claim a refund from the Spanish tax authorities and the procedures to be followed in such circumstances.

Furthermore, Non-Spanish tax resident Holders not acting with respect to the Securities through a permanent establishment in Spain may take the position that payments of interest received from the Guarantor under the Guarantee should be characterised as an indemnity under Spanish law and, hence, should have been made free of withholding or deduction on account of any Spanish tax. In such a case, these Holders should apply directly to the Spanish tax authorities for any refund to which they may be entitled.

In connection with Spanish tax resident Holders and Non-Spanish tax resident Holders acting with respect to the Securities through a permanent establishment in Spain, income deriving from the Securities and the Guarantee is subject to tax in Spain. Payments made under the Guarantee which correspond to payments of interest under the Securities may be subject to withholding on account of Spanish taxes.

#### **The proposed financial transactions tax ("FTT")**

On 14 February 2013, the European Commission published a proposal (the "**Commission's Proposal**") for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**participating Member States**"). However, Estonia has since stated that it will not participate.

Spain approved the Spanish law which implements its own Spanish tax on financial transactions (the "**Spanish FTT**") on 7 October 2020. The Spanish FTT came into force on 16 January 2021 and charges a 0.2 per cent. rate on specific acquisitions of listed shares issued by Spanish companies whose market capitalisation exceeds EUR 1,000,000,000, regardless of the jurisdiction of residence of the parties involved in the transaction. Therefore, the Spanish FTT will not affect the Securities.

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in Securities (including secondary market transactions) in certain circumstances.

Under the Commission's Proposal the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in Securities where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

The FTT proposal remains subject to negotiation between participating Member States and it may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of Securities are strongly advised to seek their own professional advice in relation to the FTT.

#### **US Foreign Account Tax Compliance Withholding.**

Under certain provisions of the U.S. Internal Revenue Code of 1986, as amended, and U.S. Treasury regulations promulgated thereunder (commonly referred to as "**FATCA**"), a 30 per cent. withholding tax may apply to certain "foreign passthru payments" made by a foreign financial institution (an "**FFI**"), including an FFI in the chain of ownership between an ultimate beneficial owner and the issuer of an obligation that has entered into an agreement with the U.S. Internal Revenue Service pursuant to which it agrees to certain due diligence, reporting and withholding functions (such an FFI referred to as a "**PFFI**"). FATCA withholding may apply to payments made by a PFFI to (a) an FFI that is not a PFFI and is not otherwise exempt from FATCA and to (b) certain other payees who fail to provide sufficient identifying information (including, in certain cases, regarding their U.S. owners). Certain aspects of the application of these rules are modified by intergovernmental agreements between the United States and certain other countries ("**Intergovernmental Agreements**"), including Spain and the Netherlands. The term "foreign passthru payment" is not defined currently and withholding on foreign passthru payments will not apply prior to the date that is two years after the publication of the final regulations defining "foreign passthru payment". It is uncertain how foreign passthru payment withholding will apply under Intergovernmental Agreements, if at all. Given the uncertainty of the FATCA provisions, although the Issuer does not expect FATCA withholding to apply to payments it makes on the Securities, FATCA may impact payments by custodians or intermediaries in the payment chain between the Issuer and the ultimate beneficial owner of the Securities. The Issuer and the Guarantor have no responsibility for any FATCA withholding applied by any such custodians or intermediaries in the ownership chain and would not be required to pay any additional amounts were any amount deducted or withheld from any payment pursuant to FATCA. Investors should consult their own tax advisers with respect to FATCA and its application to the Instruments and should consider carefully the FATCA compliance status of any financial intermediaries in the chain of ownership through which they hold Securities.

## SUBSCRIPTION AND SALE

Banco Bilbao Vizcaya Argentaria, S.A., BNP Paribas, BofA Securities Europe SA, Caixabank, S.A., Crédit Agricole Corporate and Investment Bank, HSBC Continental Europe, Mizuho Securities Europe GmbH, MUFG Securities (Europe) N.V., NatWest Markets N.V. and UniCredit Bank AG (the "**Joint Bookrunners**") have, in a subscription agreement dated 4 February 2021 (the "**Subscription Agreement**") and made between the Issuer, the Guarantor and the Joint Bookrunners upon the terms and subject to the conditions contained therein, jointly and severally agreed to subscribe for the Securities. The Joint Bookrunners are entitled in certain circumstances to be released and discharged from their obligations under the Subscription Agreement prior to the closing of the issue of the Securities.

### **United Kingdom**

#### ***Prohibition of Sales to UK Retail Investors***

Each Joint Bookrunner has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Securities to any retail investor in the United Kingdom. For the purposes of this provision the expression "**retail investor**" means a person who is one (or more) of the following:

- (a) a retail client as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the EUWA; and/or
- (b) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA.

#### ***Other UK Regulatory Restrictions***

Each Joint Bookrunner has represented, warranted and undertaken that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Securities in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or the Guarantor; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Securities in, from or otherwise involving the United Kingdom.

#### ***Prohibition of Sales to EEA Retail Investors***

Each Joint Bookrunner has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Securities to any retail investor in the European Economic Area. For the purposes of this provision, the expression "retail investor" means a person who is one (or more) of the following:

- (a) a retail client as defined in point (11) of Article 4(1) of EU MiFID II; or
- (b) a customer within the meaning of Directive (EU) 2016/97, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of EU MiFID II.

### **United States of America**

The Securities and the Guarantee have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, US persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

The Securities are subject to US tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a US person, except in certain transactions permitted by US tax

regulations. Terms used in this paragraph have the meanings given to them by the United States Internal Revenue Code and regulations thereunder. Accordingly, the Securities are being offered and sold only outside the United States in offshore transactions in reliance on, and in compliance with, Regulation S.

Each Joint Bookrunner has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Securities, (a) as part of their distribution at any time or (b) otherwise, until 40 days after the later of the commencement of the offering and the issue date of the Securities, within the United States or to, or for the account or benefit of, US persons, and that it will have sent to each dealer to which it sells Securities during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Securities within the United States or to, or for the account or benefit of, US persons.

In addition, until 40 days after commencement of the offering, an offer or sale of Securities within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

### **The Kingdom of Spain**

Neither the Securities nor this Prospectus have been approved or registered in the administrative registries of the Spanish Securities Markets Commission (*Comisión Nacional del Mercado de Valores*). Accordingly, the Securities may not be offered, sold or distributed, nor may any subsequent resale of the Securities be carried out in Spain, except in circumstances which do not require the registration of a prospectus in Spain or without complying with all legal and regulatory requirements under Spanish securities laws. The Securities shall only be directed specifically at, or made to, to professional clients (*clientes profesionales*) as defined in Article 205 of the Spanish Securities Market Law approved by legislative Royal Decree 4/2015, of 23 October (*Real Decreto Legislativo 4/2015, de 23 de octubre, por el que se aprueba el texto refundido de la Ley del Mercado de Valores*) (the "**Spanish Securities Market Law**") and Article 58 of Royal Decree 217/2008, of 15 February, and eligible counterparties (*contrapartes elegibles*) as defined in Article 207 of the Spanish Securities Market Law.

### **Republic of Italy**

The offering of the Securities has not been registered with the Commissione Nazionale per le Società e la Borsa ("**CONSOB**") pursuant to Italian securities legislation and, accordingly, no Securities may be offered, sold or delivered, nor may copies of this Prospectus or of any other document relating to any Securities be distributed in Italy, except, in accordance with any Italian securities, tax and other applicable laws and regulations.

Each Joint Bookrunner has represented and agreed that it has not offered, sold or delivered, and will not offer, sell or deliver any Securities or distribute any copy of this Prospectus or any other document relating to the Securities in Italy except:

- (a) to qualified investors (*investitori qualificati*), as defined pursuant to Article 2 of the EU Prospectus Regulation and any applicable provision of Legislative Decree no. 58 of 24 February 1998 (the "**Financial Services Act**") and Italian CONSOB regulations, all as amended from time to time; or
- (b) in other circumstances which are exempted from the rules on public offerings pursuant to Article 1 of the EU Prospectus Regulation, Article 34-ter, paragraph 1, letter (b) of CONSOB Regulation No. 11971 of 14 May 1999, as amended from time to time, and the applicable Italian laws.

In any event, any offer, sale or delivery of the Securities or distribution of copies of this Prospectus or any other document relating to the Securities in Italy under paragraphs (a) or (b) above must be

- (i) made by an investment firm, bank or financial intermediary permitted to conduct such activities in Italy in accordance with the Financial Services Act, Legislative Decree No. 385 of 1 September 1993 (the "**Banking Act**") and CONSOB Regulation No. 20307 of 15 February 2018, all as amended from time to time;
- (ii) in compliance with Article 129 of the Banking Act, as amended from time to time, and the implementing guidelines of the Bank of Italy, as amended from time to time; and

- (iii) in compliance with any other applicable laws and regulations, including any limitation or requirement which may be imposed from time to time by CONSOB or the Bank of Italy or other competent authority.

### **General**

Each Joint Bookrunner has represented, warranted and agreed that, to the best of its knowledge and belief, it has complied and will comply with all applicable laws and regulations in each country or jurisdiction in which it purchases, offers, sells or delivers Securities or possesses, distributes or publishes this Prospectus or any other offering material relating to the Securities. Persons into whose hands this Prospectus comes are required by the Issuer, the Guarantor and the Joint Bookrunners to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Securities or possess, distribute or publish this Prospectus or any other offering material relating to the Securities, in all cases at their own expense.

## GENERAL INFORMATION

### Authorisation

1. The creation and issue of the Securities has been authorised by a resolution of the Board of Managing Directors of the Issuer dated 21 January 2021. The giving of the Guarantee of the Securities has been authorised by a resolution of the Delegated Committee of the Board of Directors of the Guarantor dated 15 January 2021, acting upon a resolution of the shareholders acting through the General Shareholders' Meeting of the Guarantor dated 12 June 2020 and a resolution of the Board of Directors of the Guarantor dated 12 June 2020.

### Legal and Arbitration Proceedings

2. Save as described in "*Risk Factors - Risks relating to the Issuer and the Guarantor - Telefónica and Telefónica Group companies are party to lawsuits, antitrust, tax claims and other legal proceedings*" on page 14 of this Prospectus, under "*Description of the Guarantor - Legal Proceedings*" on pages 87 through 91 of this Prospectus and under "*Description of the Guarantor - Tax Proceedings*" on pages 91 through 94 of this Prospectus, there are no governmental, legal or arbitration proceedings, (including any such proceedings which are pending or threatened, of which the Issuer or the Guarantor is aware), which may have, or have had during the 12 months prior to the date of this Prospectus, a significant effect on the financial position or profitability of the Issuer or the Guarantor and its subsidiaries.

### Significant/Material Change

3. Since 31 December 2019 there has been no material adverse change in the prospects of the Issuer. Since 30 June 2020 there has been no significant change in the financial position or financial performance of the Issuer.
4. Since 31 December 2019 there has been no material adverse change in the prospects of the Guarantor and the Group. Since 30 September 2020 there has been no significant change in the financial position or financial performance of the Guarantor and the Group, save for (i) on 17 October 2020, Telefónica Emisiones, S.A.U. redeemed EUR 1,250 million of its notes issued on 17 October 2016; and (ii) on 23 October 2020, Telefónica Emisiones, S.A.U. redeemed CHF 225 million of its notes issued on 23 October 2013. These notes were guaranteed by the Guarantor.

### Auditors

5. The consolidated financial statements of the Guarantor have been audited without qualification for the years ended 31 December 2019 and 31 December 2018 by PricewaterhouseCoopers Auditores S.L. with its registered address at Torre PwC, Paseo de la Castellana, 259B, 28046 Madrid, Spain, registered with the Official Registry of Accounting Auditors ("**ROAC**") under number S0242.
6. The unconsolidated financial statements of the Issuer have been audited without qualification for the years ended 31 December 2019 and 31 December 2018 by PricewaterhouseCoopers Accountants N.V. with its registered address at Thomas R. Malthusstraat 5, 1066 JR Amsterdam, the Netherlands, registered in the Netherlands in the Chamber of Commerce, Rotterdam with registration number 34180285. The auditor that signed the auditor's reports on behalf of PricewaterhouseCoopers Accountants N.V. is a member of the Netherlands Institute of Chartered Accountants (*Nederlandse Beroepsorganisatie van Accountants*).

### Documents on Display

7. For so long as the Securities are listed, electronic copies of the following documents may be inspected during normal business hours at the offices of the Fiscal Agent, at the registered/head office of the Issuer and the Guarantor or at [www.telefonica.com](http://www.telefonica.com):
  - (a) the articles of association of the Issuer (together with English translations thereof), as the same may be updated from time to time;
  - (b) the by-laws of the Guarantor (together with English translations thereof), as the same may be updated from time to time;

- (c) the Fiscal Agency Agreement, the Deed of Covenant and the Deed of Guarantee;
- (d) the audited unconsolidated financial statements of the Issuer for the years ended 31 December 2019 and 2018 and the unaudited and unreviewed interim unconsolidated financial statements of the Issuer for the six months ended 30 June 2020; and
- (e) the audited consolidated financial statements of the Guarantor for the years ended 31 December 2019 and 2018, the unaudited condensed consolidated interim financial statements of the Guarantor for the six months ended 30 June 2020 subject to limited review and the unaudited consolidated interim management statement of the Guarantor for the nine months ended 30 September 2020.

Each of the translations into English of the Issuer's articles of association and of the by-laws of the Guarantor is a direct and accurate translation of the corresponding document. In the event of any discrepancy between the English language version and the original language version, the original language version shall prevail.

For the avoidance of doubt, unless specifically incorporated by reference into this Prospectus, information contained on the website does not form part of this Prospectus.

This Prospectus will be available, in electronic format, on the website of Euronext Dublin ([www.ise.ie](http://www.ise.ie)).

## **Yield**

- 8. From (and including) the Issue Date to (but excluding) the First Reset Date, the yield on the Securities will be 2.375 per cent. per annum. The yield is calculated at the Issue Date on the basis of the Issue Price and it is not an indication of future yield.

## **Legend Concerning US Persons**

- 9. The Securities and any Coupons and Talons appertaining thereto will bear a legend to the following effect: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code.".

## **Credit Ratings**

- 10. The Securities are expected to be rated BB by S&P, Ba2 by Moody's and BB+ by Fitch. In accordance with Fitch's ratings definitions available as at the date of this Prospectus on <https://www.fitchratings.com/products/rating-definitions>, a rating of "BB" indicates an elevated vulnerability to default risk, particularly in the event of adverse changes in business or economic conditions over time; however, business or financial flexibility exists that supports the servicing of financial commitments. In accordance with S&P's ratings definitions available as at the date of this Prospectus on [https://www.standardandpoors.com/en\\_US/web/guest/article/-/view/sourceId/504352](https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352), an obligation rated "BB" is less vulnerable to non-payment than other speculative issues. However, it faces major ongoing uncertainties or exposure to adverse business, financial, or economic conditions that could lead to the obligor's inadequate capacity to meet its financial commitments on the obligation. In accordance with Moody's ratings definitions available as at the date of this Prospectus on <https://www.moodys.com/ratings-process/Ratings-Definitions/002002>, obligations rated "Ba" are judged to be speculative and are subject to substantial credit risk.

## **Listing**

- 11. It is expected that the listing of the Securities on the Official List and the admission of the Securities to trading on the regulated market of Euronext Dublin will take place on or about 12 February 2021, subject to the issue of the Temporary Global Security.
- 12. The Bank of New York Mellon SA/NV, Dublin Branch is acting solely in its capacity as listing agent for the Issuer (and not on its own behalf) in connection with the application for admission of



the Securities to the Official List of the Euronext Dublin and trading on the regulated market of Euronext Dublin.

#### **Validity of Prospectus and supplements thereto**

13. The period of validity of this Prospectus is up to (and including) the admission to trading of the Securities. For the avoidance of doubt, the Issuer and the Guarantor shall have no obligation to supplement this Prospectus after the admission to trading of the Securities.

#### **Fees**

14. The estimated costs and expenses in relation to admission to trading are approximately EUR 1,540.

#### **Legal Entity Identifier**

15. The Legal Entity Identifier (LEI) code of the Issuer is 7245007FZS0M65WUGP67.
16. The Legal Entity Identifier (LEI) code of the Guarantor is 549300EEJH4FEPDBBR25.

#### **ISIN and Common Code**

17. The Securities have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The ISIN of the Securities is XS2293060658 and the common code is 229306065.

#### **Conflicts of Interests**

18. Certain Joint Bookrunners and/or their affiliates (including parent companies) may have engaged in various general financing and banking transactions with, and provided financial advisory and investment banking services to the Issuer, the Guarantor and their parent and group companies.

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