



Telefónica Group Fiscal Strategy

Telefónica, S.A.

Approved by the Board of Directors

Last review December 2022

Fiscal Strategy Updates	
Update number	Date of update
V0	02/2012
V1	12/2016
V2	06/2021
V3	12/2022

1. PURPOSE

This document sets out the objectives of the Fiscal Strategy of the Telefónica Group (hereinafter, "Telefónica" or the "Group") as well as the principles of action in tax matters, in compliance with the provisions of article 529 ter of the Capital Companies Act¹, the OECD Guidelines for Multinational Enterprises and the OECD recommendations in relation to co-operative tax compliance.

With more than eight decades of experience and steady growth, Telefónica is today a leading integrated telecommunications carrier in Spain².

This Fiscal Strategy document is aligned with the corporate strategy and with the Responsible Business Principles³, which are the basis for the strength and reputation of our company. Thanks to them, we gain the trust of our stakeholders, maximise the creation of long-term value for our shareholders and for the company in general, and contribute faithfully and loyally to sustaining the public finances of the countries and territories in which we operate, in line with our commitment to corporate social responsibility and compliance with the UN Sustainable Development Goals (SDGs).

As an example of the application of these principles in the tax sphere and of its commitment to the application of good tax practices, Telefónica, S.A. has adhered, by decision of the Board of Directors, since 2010, to the Code of Good Tax Practices, drawn up by the Large Companies Forum in conjunction with the Spanish Tax Administration.

2. SCOPE OF APPLICATION

Our Fiscal Strategy is applicable to all employees of Telefónica, S.A. and all the companies that make up its commercial Group, both nationally and internationally, regardless of their geographical location.

This Fiscal Strategy includes any tax obligations to which the Group is subject in the various countries and territories in which it is present or in which it conducts business.

3. RESPONSIBLE BUSINESS PRINCIPLES

In December 2006, the Telefónica Group approved a set of principles that apply to all employees and in all the countries in which we operate. These principles group together a set of guidelines that guide us in our daily activities and define how we develop our business. They are structured in General Principles and aim to guarantee the trust of our customers, our professionals, our shareholders, our suppliers, and the company.

These Responsible Business Principles, which govern the Group's actions, find their expression in the tax sphere in the following terms:

¹ Approved by Royal Legislative Decree 1/2010 of 2 July (and amended by Law 31/2014 of 3 December, which amends the Capital Companies Act to improve corporate governance)

² https://www.telefonica.com/es/web/about_telefonica

³ These principles are public and are available on the Group's corporate website https://www.telefonica.com/es/web/about_telefonica/estrategia/principios-de-negocio-responsable

Respect for the law

We ensure compliance with all national and international tax laws, regulations and regulatory obligations, respecting both their letter and their spirit and purpose.

We make a reasonable interpretation of the regulation, taking into account the will of the legislator in accordance with the interpretative criteria established by the competent tax authorities and the legislative history.

Honesty and trust

We fulfil our commitments, showing that we have integrity and can be trusted.

We avoid any actions that could be interpreted as dishonest, including situations of conflicts of interest or situations that generate undue advantages for the Group.

Transparency and information

We act with honesty while managing our tax matters, and are committed to our obligation to correctly pay the legally required taxes in all the countries where we operate, thereby contributing to their social and economic progress.

In addition, we ensure transparency and full information, both locally and globally, to facilitate comprehension of our tax matters by all of our stakeholders.

We provide, immediately and indiscriminately, truthful, complete, timely and clear information in the reports that we submit to the relevant Securities Market Supervisory Bodies, as well as in other public communications from the Company.

Integrity

We behave with honesty, without seeking in any way our own benefit or that of third parties, by means of inappropriate use of our positioning, our contacts in Telefónica, or of privileged information, safeguarding confidentiality and establishing the controls and processes legally required by the Security Market Supervisory Bodies in any actions related to said markets.

Respect for human rights

We respect the principles of the United Nations Universal Declaration of Human Rights, as well as the declarations of the International Labour Organisation.

4. TAX POLICY GUIDELINES

The Telefónica Group's tax guidelines have been prepared taking into account the guidelines and recommendations of the OECD and other international organisations⁴, as well as the provisions of the Code of Good Tax Practices. These guidelines comprise the following guidelines for action:

⁴ "OECD project on Base Erosion and Profit Shifting (BEPS) and the Anti-Tax Avoidance Directives and Directive on Administrative Cooperation (DAC) of the European Commission".

Compliance with all tax obligations in all countries in which we operate, contributing to their economic and social progress, and reconciling our commitment to create long-term value for our shareholders and the company at large. Such obligations include, among others:

The payment of both own taxes and those collected on behalf of third parties (for example, indirect taxes charged or withholdings on income paid to third parties), in accordance with the regulations of each tax and its own operations, providing complete and truthful information, and complying with the deadlines established for this purpose.

Profit taxes paid are related to the generation of value.

Efficient tax management and control procedures, and optimisation of the use of technology to ensure the quality, truthfulness, accuracy, and adequacy of both the data included in tax returns and the tax data that may be published in other reports.

Commitment to take all tax positions for commercial and business purposes. Therefore, the tax implication of any transaction may not be justified independently of the commercial and business reasons which justify the operation in question.

When making business decisions, a thorough analysis of the tax aspects involved will always be carried out. If there are several tax alternatives which achieve the same objective, the most efficient alternative, from a tax point of view, shall be opted for, avoiding any tax planning that might be considered aggressive.

Telefónica will adequately document the tax positions taken. In uncertain tax positions, where the law is unclear or subject to interpretation, a reasonable interpretation of the law will be made by applying the criteria expressed in doctrine and case law, and where appropriate, a third party opinion will be sought or a consultation with the tax authorities will be submitted to confirm the treatment. The monitoring of these criteria, together with their evaluation and documentation, ensures that the arguments put forward by the Group on a given concept that may be questioned by the tax authorities are sound.

Commitment to avoid the use of artificial structures that could undermine the transparency of its activities vis-à-vis the tax authorities or any other interested party.

Likewise, Telefónica Group commits to avoid having presence in any of the jurisdictions included in the list of tax havens established in Spanish regulations⁵. If for business reasons the presence of a carrier in a territory classified as a tax haven were to be necessary, authorisation would be sought from the Board of Directors. In accordance with the Capital Companies Act, the creation or procurement of shares in entities with special purposes or those domiciled in countries or territories which are considered tax havens, as well as any other transactions or operations of a similar nature which, owing to their complexity, could undermine the transparency of Telefónica, are reviewed and, where appropriate, subject to approval by the Board of Directors.

The Telefonica Group's operations in territories regarded by other bodies as having little or no taxation exist for economic and commercial reasons (Business Purpose), and have the material and human resources needed to conduct the activities, without, under any

⁵ In accordance with the 1st additional provision of Law 36/2006 on measures for the prevention of tax fraud as updated by the Final Provision 2 of Law 26/2014 of 27 November.

circumstances, the object of these operations being the transfer of profits to those jurisdictions in order to obtain a reduction in the tax burden.

Clearly established procedures for the identification, assessment, control, and management of tax risks generated as a result of economic activity and mechanisms that establish different levels of approval and communication of transactions with special tax risk, or significant transactions of a high amount or special characteristics, as established in the Tax Risk Control and Management Policy, approved by the Board of Directors.

This tax governance framework aims to increase the confidence of internal and external stakeholders about tax issues being identified, appropriately managed, and taken into account in the tax returns and financial statements of the Group companies.

Maintaining a responsible transfer pricing policy aligned with the OECD Transfer Pricing Guidelines for all transactions between related parties and entities, ensuring the principles of free competition and value creation, in accordance with the functions, assets, and assumption of risks and benefits in the jurisdictions in which it operates.

Effort and commitment to adapt the tax environment that affects Telefónica's reality to the new digital economy environment that shapes the current market, and commitment to responsibly manage the intangible assets it owns and prevent their generation and use from being based on tax savings.

Where tax incentives are applied, this will be done in a transparent manner, in accordance with the regulations in force in the different territories in which it operates, and provided that these incentives are available to all carriers and are aligned with the business.

Development of a close cooperative relationship with tax authorities based on mutual respect, transparency, trust, and dialogue. In this respect, Telefónica, S.A. is a member of the AEAT's Code of Good Tax Practices, submits the corresponding transparency reports, participates in the cooperative compliance programme in the United Kingdom, and participates in various international forums aimed at promoting and developing the OECD's good practice recommendations.

Likewise, Telefónica also seeks to maintain a constructive dialogue with stakeholders to enable the development of tax systems and tax legislation, promoting the exercise of responsible tax practices.

As a result of this commitment to cooperative relations, the tax information of the Group companies requested by the tax authorities and other regulatory bodies, as well as the tax information, both its own and that of third parties, which is required either by periodic obligations or as a result of requests for information made by the tax authorities, shall be provided as soon as possible.

1. We ensure transparency in our financial *reporting* for investors and society, and work to facilitate understanding of our tax affairs.
2. The Group's Tax Department shall report annually to the Audit and Compliance Committee and, where appropriate, to the Board of Directors, on the Group's tax policies and the evolution of tax risks in order to facilitate the supervisory work on the tax risk management system entrusted to the Audit and Compliance Committee by

the Capital Companies Act and in accordance with the provisions of the Code of Good Tax Practices.

5. OWNERSHIP AND APPROVAL

The determination of the company's fiscal strategy is a non-delegable power of the Board of Directors and, therefore, the Board of Directors shall be responsible for the approval of this document as well as for any future amendments that may be made to it.

The Tax Directorate is responsible for developing the Fiscal Strategy and the framework for the control and management of tax risks, under the approval and supervision of the Board. The Tax Directorate is also responsible for compliance with the Fiscal Strategy.

In this respect, the Board of Directors of Telefónica will provide the Tax Department with sufficient and necessary resources, both material and human, to achieve the objectives of this strategy and to comply with its principles and good practices.

6. COMPLIANCE REVIEW AND SUPERVISION

The Telefónica Group's Fiscal Strategy is intended to be permanent. Independently, and in order to ensure that it fulfils its purpose at all times, it is subject to annual review by the Group's Tax Department and may be amended, subject to approval by the Board of Directors, when circumstances so advise.

The department in charge of supervising the correct application of the aspects contained in the Fiscal Strategy, as well as evaluating its effectiveness, will be the Internal Audit Directorate together with the Group Tax Directorate and the Regional Tax Directorates.

The Internal Audit Directorate will report annually to the Board of Directors on the degree of compliance with the Fiscal Strategy.

7. ADVERTISING

Following the Board of Directors' approval of the Fiscal Strategy, it will be made available to all Group personnel via the Telefónica Intranet.

Therefore, the entire organisation is aware of the Group's Fiscal Strategy and is committed to complying with it, applying its guidelines and principles in the development of the business.

In addition, all people outside the organisation, whether or not they have a direct relationship with us, as well as stakeholders (suppliers, customers, etc.) interested in accessing this Fiscal Strategy, may do so through Telefónica's corporate website.

8. CONCERN AND WHISTLEBLOWING CHANNEL

The Group has a whistle-blowing channel through which, anonymously, any employee or outsider may report alleged irregularities or acts contrary to the law or internal rules. This whistle-blowing channel is designed to report non-compliance in any area, including taxation.

The Group's whistle-blowing Channel Management Policy is governed by the principles of confidentiality of the data provided, respect, substantiation and completeness.

In cases where irregularities are identified, the Audit and Control Committee, which reports to the Board of Directors, shall be informed.



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