

Telefónica S.A.



Individual
Annual
Report
2023



This version of our report is a free translation of the original, which was prepared in Spanish. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

Independent auditor's report on the annual accounts

To the shareholders of Telefónica, S.A.:

Report on the annual accounts

Opinion

We have audited the annual accounts of Telefónica, S.A. (the Company), which comprise the balance sheet as at 31 December 2023, and the income statement, statement of changes in equity, cash flow statement and related notes for the year then ended.

In our opinion, the accompanying annual accounts present fairly, in all material respects, the equity and financial position of the Company as at 31 December 2023, as well as its financial performance and cash flows for the year then ended, in accordance with the applicable financial reporting framework (as identified in note 2.a of the notes to the annual accounts), and in particular, with the accounting principles and criteria included therein.

Basis for opinion

We conducted our audit in accordance with legislation governing the audit practice in Spain. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the annual accounts* section of our report.

We are independent of the Company in accordance with the ethical requirements, including those relating to independence, that are relevant to our audit of the annual accounts in Spain, in accordance with legislation governing the audit practice. In this regard, we have not rendered services other than those relating to the audit of the accounts, and situations or circumstances have not arisen that, in accordance with the provisions of the aforementioned legislation, have affected our necessary independence such that it has been compromised.

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts of the current period. These matters were addressed in the context of our audit of the annual accounts as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters	How our audit addressed the key audit matters
-------------------	---

Measurement of non-current investments in Group companies and associates

A relevant part of Telefónica, S.A.'s assets consist of equity investments in Group companies and associates. As described in note 8, non-current investments in Group companies and associates (equity instruments) amount to € 52,966 million at 31 December 2023.

To assess if there is an impairment in the investments in Group companies and associates, management conducts an impairment test at least annually or more frequently if events or circumstances indicate the carrying value may not be fully recoverable. Management calculates the recoverable amount as the higher of the fair value less costs to sell and the value in use to which the investment relates.

As described in notes 4.c) and 8.2, when the recoverable amount is determined by calculating the present value of projected cash flows from the investments, management refers to the strategic plans approved by the Board of Directors covering a four-year period including the closing year.

Management's cash flows projections involved significant judgements when considering significant assumptions such as revenue growth, long-term OIBDA margin, long-term capital expenditure ratio, discount rate and perpetuity growth rate which would be significantly affected by the future trends in the economic, competitive, regulatory and technological environment in each of the countries in which Telefónica Group operates. As described in note 8.2, a net write down of impairment provision of €1,208 million has been recognised in the income statement for the year.

We identify this as a key audit matter due to the significant judgements made by management when estimating the significant assumptions that supports the recoverable amount of the investments in Group companies and associates which in turn led to a high degree of auditor judgement and audit effort in evaluating these assumptions.

We have performed audit procedures over the process followed by the directors and management to determine the recoverable amount of the investments in Group companies and associates, including:

- Understanding of the control environment, assessment and testing of the relevant controls over the Company's process for calculating the present value of future cash flows from investments in Group companies and associates.
- Verification of the consistency of the data used in the calculation of the actual value with respect to the strategic plans approved by the Board of Directors.
- Evaluation of the cash flow discount model used, for which we have had the collaboration of our valuation experts.
- Analysis of the degree of budget achievement with respect to the strategic plan approved in the previous year, as well as historical achievement.
- Assessment of the significant assumptions used to determine the recoverable amount, testing reasonableness and consistency with available external information. We have had the collaboration of our valuation experts in evaluating the discount rates and perpetual growth rates considered by management.
- Evaluation of the adequacy of the disclosures included in the annual accounts in accordance with the applicable regulations.

Based on the procedures performed, we consider management's assessment to be reasonable and its conclusions on the measurement of investments in Group companies and associates are consistent with the information contained in the accompanying annual accounts.

Other information: Management report

Other information comprises only the management report for the 2023 financial year, the formulation of which is the responsibility of the Company's directors and does not form an integral part of the annual accounts.

Our audit opinion on the annual accounts does not cover the management report. Our responsibility regarding the management report, in accordance with legislation governing the audit practice, is to:

- a) Verify only that the statement of non-financial information, certain information included in the Annual Corporate Governance Report and the Annual Report on Remuneration of the Directors, as referred to in the Auditing Act, have been provided in the manner required by applicable legislation and, if not, we are obliged to disclose that fact.
- b) Evaluate and report on the consistency between the rest of the information included in the management report and the annual accounts as a result of our knowledge of the Company obtained during the audit of the aforementioned financial statements, as well as to evaluate and report on whether the content and presentation of this part of the management report is in accordance with applicable regulations. If, based on the work we have performed, we conclude that material misstatements exist, we are required to report that fact.

On the basis of the work performed, as described above, we have verified that the information mentioned in section a) above has been provided in the manner required by applicable legislation and that the rest of the information contained in the management report is consistent with that contained in the annual accounts for the 2023 financial year, and its content and presentation are in accordance with applicable regulations.

Responsibility of the directors and the audit and control committee for the annual accounts

The directors are responsible for the preparation of the accompanying annual accounts, such that they fairly present the equity, financial position and financial performance of the Company, in accordance with the financial reporting framework applicable to the entity in Spain, and for such internal control as the aforementioned directors determine is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The audit and control committee is responsible for overseeing the process of preparation and presentation of the annual accounts.

Auditor's responsibilities for the audit of the annual accounts

Our objectives are to obtain reasonable assurance about whether the annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.



Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with legislation governing the audit practice in Spain will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts.

As part of an audit in accordance with legislation governing the audit practice in Spain, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

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

We communicate with the entity's audit and control committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the entity's audit and control committee with a statement that we have complied with relevant ethical requirements, including those relating to independence, and we communicate those matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the entity's audit and control committee, we determine those matters that were of most significance in the audit of the annual accounts of the current period and are therefore the key audit matters.

We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Report on other legal and regulatory requirements

European single electronic format

We have examined the digital file of the European single electronic format (ESEF) of Telefónica, S.A. for the 2023 financial year that comprises an XHTML file of the annual accounts for the financial year, which will form part of the annual financial report.

The directors of Telefónica, S.A. are responsible for presenting the annual financial report for 2023 financial year in accordance with the formatting requirements established in the Delegated Regulation (EU) 2019/815 of 17 December 2018 of the European Commission (hereinafter the ESEF Regulation). In this regard, the Annual Corporate Governance Report and the Annual Report on Directors' Remuneration have been incorporated by reference in the management report.

Our responsibility is to examine the digital file prepared by the Company's directors, in accordance with legislation governing the audit practice in Spain. This legislation requires that we plan and execute our audit procedures in order to verify whether the content of the annual accounts included in the aforementioned file completely agrees with that of the annual accounts that we have audited, and whether the format of these accounts has been affected, in all material respects, in accordance with the requirements established in the ESEF Regulation.

In our opinion, the digital file examined completely agrees with the audited annual accounts, and these are presented, in all material respects, in accordance with the requirements established in the ESEF Regulation.

Report to the audit and control committee

The opinion expressed in this report is consistent with the content of our additional report to the audit and control committee of the Company dated 20 February 2024.

Appointment period

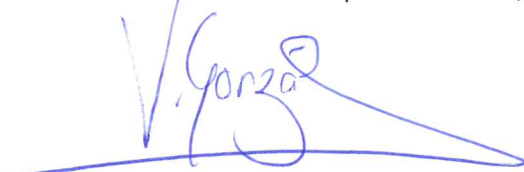
The General Ordinary Shareholders' Meeting held on 31 March 2023 appointed us as auditors for a period of one year, for the year ended 31 December 2023.

Previously, we were appointed by resolution of the General Ordinary Shareholders' Meeting for a period of three years and we have audited the accounts continuously since the year ended 31 December 2017.

Services provided

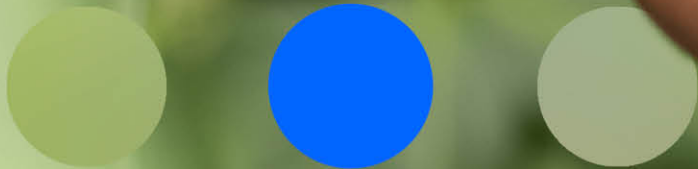
Services provided to the audited entity for services other than the audit of the accounts are disclosed in note 20.g) to the annual accounts.

PricewaterhouseCoopers Auditores, S.L. (S0242)



Vanesa González Prieto (21500)

23 February 2024



Annual financial statements and management report

for the year ended
2023

Index

Balance sheet at December 31	3
Income statements for the years ended December 31	5
Statements of changes in equity for the years ended December 31	6
Cash flow statements for the years ended December 31	7
Note 1. Introduction and general information	9
Note 2. Basis of presentation	10
Note 3. Proposed appropriation of net results	11
Note 4. Recognition and measurement accounting policies	13
Note 5. Intangible assets	16
Note 6. Property, plant and equipment	17
Note 7. Investment properties	18
Note 8. Investments in group companies and associates	19
Note 9. Financial investments	27
Note 10. Trade and other receivables	32
Note 11. Equity	33
Note 12. Financial liabilities	38
Note 13. Bonds and other marketable debt securities	40
Note 14. Interest-bearing debt and derivatives	41
Note 15. Payable to group companies and associates	43
Note 16. Derivative financial instruments and risk management policies	45
Note 17. Income tax	55
Note 18. Trade, other payables and provisions	60
Note 19. Revenue and expenses	62
Note 20. Other information	68
Note 21. Cash flow analysis	77
Note 22. Events after the reporting period	80
Note 23. Additional note for English translation	81
Appendix I: Details of subsidiaries and associates at December 31, 2023	82
Appendix II: Board and Senior Management Compensation	86
Management report 2023	93
Business Model	93
Economic results of Telefónica, S.A.	96
Investment activity	96
Share price performance	96
Contribution and innovation	97
Environment, human resources and managing diversity	98
Liquidity and capital resources	110
Risks factors associated with the issuer	112
Events after the reporting period	126
Annual Corporate Governance Report for Listed Companies	126
Annual Report on the Remuneration of Directors	126

Telefónica, S.A.

Balance sheet at December 31

Millions of euros

ASSETS	Notes	2023	2022
NON-CURRENT ASSETS		57,729	59,929
Intangible assets	5	15	13
Software		10	7
Other intangible assets		5	6
Property, plant and equipment	6	129	131
Land and buildings		76	77
Plant and other property, plant and equipment items		51	50
Property, plant and equipment under construction and prepayments		2	4
Investment property	7	299	309
Land		100	100
Buildings		199	209
Non-current investments in Group companies and associates	8	53,407	55,705
Equity instruments		52,966	55,445
Loans to Group companies and associates		432	245
Other financial assets		9	15
Financial investments	9	2,621	3,288
Equity instruments	9	466	358
Derivatives	16	1,873	2,555
Other financial assets	9	282	375
Deferred tax assets	17	1,224	423
Non current account receivables and other		34	60
CURRENT ASSETS		7,271	8,813
Trade and other receivables	10	500	474
Current investments in Group companies and associates	8	1,694	1,530
Loans to Group companies and associates		1,625	1,470
Derivatives	16	3	5
Other financial assets		66	55
Investments	9	402	1,814
Loans to companies		7	26
Derivatives	16	340	614
Other financial assets		55	1,174
Current deferred expenses		7	6
Cash and cash equivalents		4,668	4,989
TOTAL ASSETS		65,000	68,742

The accompanying Notes 1 to 23 and Appendices I and II are an integral part of these balance sheets.

Millions of euros

EQUITY AND LIABILITIES	Notes	2023	2022
EQUITY		20,077	20,325
CAPITAL AND RESERVES		19,707	19,793
Share capital	11	5,750	5,775
Share premium	11	3,752	3,825
Reserves	11	8,482	11,414
Legal & Statutory		1,110	1,113
Other reserves		7,372	10,301
Treasury shares and own equity instruments	11	(430)	(341)
Profit (Loss) for the year	3	2,153	(880)
UNREALIZED GAINS (LOSSES) RESERVE	11	370	532
Financial assets at fair value with changes through equity		101	(14)
Hedging instruments		269	546
NON-CURRENT LIABILITIES		36,824	37,659
Non-current provisions	18	609	601
Non-current borrowings	12	2,592	3,438
Bank borrowings	14	513	372
Derivatives	16	1,532	1,908
Other debts		547	1,158
Non-current borrowings from Group companies and associates	15	33,482	33,405
Deferred tax liabilities	17	95	189
Long term deferred revenues		46	26
CURRENT LIABILITIES		8,099	10,758
Current provisions	18	36	28
Current borrowings	12	322	458
Bank borrowings	14	141	181
Derivatives	16	179	276
Other financial liabilities	14	2	1
Current borrowings from Group companies and associates	15	7,353	9,950
Trade and other payables	18	371	301
Current deferred revenues		17	21
TOTAL EQUITY AND LIABILITIES		65,000	68,742

The accompanying Notes 1 to 23 and Appendices I and II are an integral part of these balance sheets.

Telefónica, S.A.

Income statements for the years ended December 31

Millions of euros	Notes	2023	2022
Revenue	19	4,362	1,949
Rendering of services to Group companies and associates		464	463
Rendering of services to non-group companies		11	21
Dividends from Group companies and associates		3,859	1,450
Interest income on loans to Group companies and associates		28	15
Impairment and gains (losses) on disposal of financial instruments	8	(1,207)	(1,590)
Impairment losses and other losses		(1,208)	(1,590)
Gains (losses) on disposal and other gains and losses		1	—
Other operating income	19	41	46
Non-core and other current operating revenue - Group companies and associates		33	36
Non-core and other current operating revenue - non-group companies		8	10
Employees benefits expense	19	(232)	(196)
Wages, salaries and others		(199)	(163)
Social security costs		(33)	(33)
Other operational expense		(382)	(313)
External services - Group companies and associates	19	(114)	(92)
External services - non-group companies	19	(258)	(213)
Taxes other than income tax		(10)	(8)
Depreciation and amortization	5, 6 and 7	(25)	(28)
Gains (losses) on disposal of fixed assets		—	(8)
OPERATING PROFIT (LOSS)		2,557	(140)
Finance revenue	19	516	1,429
Finance costs	19	(1,935)	(2,650)
Change in fair value of financial instruments		2	1
Net result on financial assets at fair value with changes through equity	9 and 11	2	1
Exchange rate gains (losses)	19	(11)	(181)
NET FINANCIAL EXPENSE		(1,428)	(1,401)
PROFIT (LOSS) BEFORE TAX	21	1,129	(1,541)
Income tax	17	1,024	661
PROFIT (LOSS) FOR THE YEAR		2,153	(880)

The accompanying Notes 1 to 23 and Appendices I and II are an integral part of these income statements

Telefónica, S.A.

Statements of changes in equity for the years ended December 31

A) Statement of recognized income and expense for the years ended December 31

Millions of euros	Notes	2023	2022
Profit (Loss) for the period		2,153	(880)
Total income and expense recognized directly in equity	11	(210)	888
From valuation of financial assets at fair value with impact in equity		115	37
From cash flow hedges		(432)	1,135
Income tax impact		107	(284)
Total amounts transferred to income statement	11	48	(397)
From valuation of financial assets at fair value with changes through equity		2	1
From cash flow hedges		63	(531)
Income tax impact		(17)	133
TOTAL RECOGNIZED INCOME AND EXPENSE		1,991	(389)

The accompanying Notes 1 to 23 and Appendices I and II are an integral part of these statements of changes in equity.

B) Statements of total changes in equity for the years ended December 31

Millions of euros	Share capital	Share premium and Reserves	Treasury shares	Profit (Loss) for the year	Net unrealized gains (losses) reserve	Total
Balance at December 31, 2021	5,779	17,274	(546)	206	41	22,754
Total recognized income and expense	—	—	—	(880)	491	(389)
Transactions with shareholders and owners	(4)	(1,575)	205	—	—	(1,374)
Capital decreases (Note 11)	(139)	(409)	548	—	—	—
Dividend distributions (Note 11)	135	(1,202)	—	—	—	(1,067)
Other transactions with shareholders and owners	—	36	(343)	—	—	(307)
Other movements	—	(666)	—	—	—	(666)
Appropriation of prior year profit (loss)	—	206	—	(206)	—	—
Balance at December 31, 2022	5,775	15,239	(341)	(880)	532	20,325
Total recognized income and expense	—	—	—	2,153	(162)	1,991
Transactions with shareholders and owners	(25)	(1,706)	(89)	—	—	(1,820)
Capital decreases (Note 11)	(25)	(73)	98	—	—	—
Dividend distributions (Note 11)	—	(1,698)	—	—	—	(1,698)
Other transactions with shareholders and owners (Nota 11)	—	65	(187)	—	—	(122)
Other movements (Note 11)	—	(419)	—	—	—	(419)
Appropriation of prior year profit (loss)	—	(880)	—	880	—	—
Balance at December 31, 2023	5,750	12,234	(430)	2,153	370	20,077

The accompanying Notes 1 to 23 and Appendices I and II are an integral part of these statements of changes in equity.

Telefónica, S.A.

Cash flow statements for the years ended December 31

Millions of euros	Notes	2023	2022
A) CASH FLOWS FROM OPERATING ACTIVITIES		1,720	4,194
Profit (Loss) before tax		1,129	(1,541)
Adjustments to net results:		(1,190)	1,526
Depreciation and amortization	5, 6 and 7	25	28
Impairment of investments in Group companies and associates	8	1,208	1,590
Change in long term provisions		36	(36)
Losses on disposal of fixed and intangible assets		—	8
Dividends from Group companies and associates	19	(3,859)	(1,450)
Interest income on loans to Group companies and associates	19	(28)	(15)
Net financial expense		1,428	1,401
Change in working capital		(15)	(68)
Trade and other receivables		(54)	43
Other current assets		32	(4)
Trade and other payables		7	(107)
Other cash flows from operating activities	21	1,796	4,277
Net interest paid		(1,495)	(1,062)
Dividends received and other		2,835	3,777
Income tax receipts		456	1,562
B) CASH FLOWS (USED IN) / FROM INVESTING ACTIVITIES	21	1,761	(2,769)
Payments on investments		(3,958)	(6,290)
Proceeds from disposals		5,719	3,521
C) CASH FLOWS USED IN FINANCING ACTIVITIES		(3,834)	(2,245)
Proceeds from equity instruments		23	13
(Payments) / Proceeds from financial liabilities	21	(1,933)	(934)
Debt issues		3,425	4,743
Repayment and redemption of debt		(5,358)	(5,677)
Acquisition of treasury shares	11	(223)	(365)
Dividends paid	21	(1,701)	(959)
D) NET FOREIGN EXCHANGE DIFFERENCE		32	2
E) NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS		(321)	(818)
Cash and cash equivalents at January 1		4,989	5,807
Cash and cash equivalents at December 31		4,668	4,989

The accompanying Notes 1 to 23 and Appendices I and II are an integral part of these cash flow statements.

Telefónica, S.A.

Annual financial statements for the ended December 31, 2023

Note 1. Introduction and general information

Telefónica, S.A. (“Telefónica” or “the Company”) is a public limited company incorporated for an indefinite period on April 19, 1924, under the corporate name of Compañía Telefónica Nacional de España, S.A. It adopted its present name in April 1998.

The Company’s registered office is at Gran Vía 28, Madrid (Spain) and its Employer Identification Number (CIF) is A-28/015865.

Telefónica’s basic corporate purpose, pursuant to Article 4 of its Bylaws, is the provision of all manner of public or private telecommunications services, including ancillary or complementary telecommunications services or related services. All the business activities that constitute this stated corporate purpose may be performed either in Spain or abroad and wholly or partially by the Company, either through shareholdings or equity interests in other companies or legal entities with an identical or a similar corporate purpose.

In keeping with the above, Telefónica is currently the parent company of a group that offers both fix and mobile telecommunications with the aim to turn the challenges of the new digital business into reality and being one of the most important players. The objective of the Telefónica Group is positioning as a Company with an active role in the digital business taking advantage of the opportunities of its size and industrial and strategic alliances.

The Company is taxed under the general tax regime established by the Spanish State, the Spanish Autonomous Communities and local governments, and files consolidated tax returns with most of the Spanish subsidiaries of its Group under the consolidated tax regime applicable to corporate groups.

Note 2. Basis of presentation

a) True and fair view

These financial statements have been prepared from Telefónica, S.A.'s accounting records by the Company's Directors in accordance with the accounting principles and standards contained in the Spanish GAAP in force approved by Royal Decree 1514/2007, on November 16 (PGC 2007), modified by Royal Decree (RD) 602/2016, dated December 2, 2016, and by Royal Decree (RD) 1/2021, dated January 12, 2021, and other prevailing legislation at the date of these financial statements, to give a true and fair view of the Company's equity, financial position, income statements and of the cash flows obtained and applied in 2023.

The accompanying financial statements for the year ended December 31, 2023 were prepared by the Company's Board of Directors at its meeting on February 21, 2024 for submission for approval at the General Shareholders' Meeting, which is expected to occur without modification.

The figures in these financial statements are expressed in millions of euros, unless indicated otherwise, and therefore may be rounded. The euro is the Company's functional currency.

b) Comparison of information

Accounting policies applied in 2023 are consistent with those applied in 2022. 2022 figures are included in these financial statements for comparison purposes.

c) Materiality

These financial statements do not include any information or disclosures that, not requiring presentation due to their qualitative significance, have been determined as immaterial or of no relevance pursuant to the concepts of *materiality* or *relevance* defined in the PGC 2007 conceptual framework.

d) Use of estimates

The financial statements have been prepared using estimates based on historical experience and other factors considered reasonable under the circumstances. The carrying value of assets and liabilities, which is not readily apparent from other sources, was established based on these estimates. The Company periodically reviews these estimates.

A significant change in the facts and circumstances on which these estimates are based could have an impact on the Company's results and financial position.

Key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the financial statements of the following year are discussed below.

Provisions for impairment of investments in Group companies and associates

Investments in group companies, joint ventures and associates are tested for impairment at each year end to determine whether an impairment loss must be recognized in the income statement or a previously recognized impairment loss be reversed. The decision to recognize an impairment loss (or a reversal) involves estimates of the reasons for the potential impairment (or recovery), as well as the timing and amount. In note 8.2 it is assessed the impairment of these investments.

There is a significant element of judgment involved in the estimates required to determine recoverable amount and the assumptions regarding the performance of these investments, since the timing and scope of future changes in the business are difficult to predict.

Deferred taxes

The Company assesses the recoverability of deferred tax assets based on estimates of future earnings, and of all the options available to achieve an outcome, it considers the most efficient one in terms of tax within the legal framework the Company is subject to. The ability to recover these taxes depends ultimately on the Company's ability to generate taxable earnings over the period for which the deferred tax assets remain deductible. This analysis is based on the estimated schedule for reversing deferred tax liabilities, the expected outcome from pending lawsuits affecting the estimations as well as estimates of taxable earnings, which are sourced from internal projections and are continuously updated to reflect the latest trends.

The appropriate valuation of tax assets and liabilities depends on a series of factors, including estimates as to the timing and realization of deferred tax assets and the projected tax payment schedule. Actual income tax receipts and payments could differ from the estimates made by the Company as a result of changes in tax legislation, the outcome of ongoing tax proceedings or unforeseen future transactions that could affect tax

balances. The information about deferred tax assets and unused tax credits for loss carryforwards, whose effect has been registered when necessary in balance, is included in note 17.

Note 3. Proposed appropriation of net results

Telefónica, S.A. obtained a profit of 2,153 million euros in 2023.

Accordingly, the Company's Board of Directors will submit the following proposed appropriation of 2023 net results for approval at the General Shareholders' Meeting:

Millions of euros	
Proposed appropriation:	
Profit for the year	2,153
Distribution to:	
Legal reserve	91
Unrestricted reserves	2,062

Note 4. Recognition and measurement accounting policies

As stated in note 2, the Company's financial statements have been prepared in accordance with the accounting principles and standards contained in the Código de Comercio, which are further developed in the Plan General de Contabilidad currently in force (PGC 2007), modified by RD 602/2016 and RD 1/2021 as well as any commercial regulation in force at the reporting date.

Accordingly, only the most significant accounting policies used in preparing the accompanying financial statements are set out below, in light of the nature of the Company's activities as a holding.

a) Intangible assets

Intangible assets are stated at acquisition or production cost, less any accumulated amortization or any accumulated impairment losses.

Intangible assets are amortized on a straight-line basis over their useful lives. The most significant items included in this caption are computer software, which are generally amortized on a straight-line basis over three years.

b) Property, plant and equipment and investment property

Property, plant and equipment is stated at cost, net of accumulated depreciation and any accumulated impairment in value.

The Company depreciates its property, plant and equipment once the assets are in full working conditions using the straight-line method based on the assets' estimated useful lives, calculated in accordance with technical studies which are revised periodically based on technological advances and the rate of dismantling, as follows:

Estimated useful life	Years
Buildings	40
Plant and machinery	3 - 25
Other plant or equipment, furniture and office equipment	10
Other items of property, plant and equipment	4 - 10

Investment property is measured and depreciated using the same criteria described for land and buildings for own use.

c) Impairment of non-current assets

Non-current assets are assessed at each reporting date for indicators of impairment. Where such indicators exist, or in the case of assets which are subject to an annual impairment test, the Company estimates the asset's recoverable amount as the higher of its fair value less costs to sell and its value in use. In assessing value in use, the estimated future post-tax cash flows deriving from the use of the asset or its cash generating unit, as applicable, are discounted to their present value, using a post-tax discount rate reflecting current market assessments of the time value of money and the risks specific to the asset, whenever the result obtained is the same that would be obtained by discounting pre-tax cash flows at a pre-tax discount rate.

Telefónica bases the calculation of impairment on the business plans of the various companies to which the assets are allocated, approved by the Board of Directors' of Telefónica, S.A. The projected cash flows, based on strategic business plans, cover a period of five years not including the present year when the analysis is calculated. Starting with the sixth year, an expected constant growth rate is applied.

d) Financial assets and liabilities

The main future assumptions as well as other uncertainties related to estimations at year end which could cause a significant effect in the financial statements are disclosed below.

Financial investments

"Investments in group companies, joint ventures and associates" are classified into a category of the same name and are shown at cost less any impairment loss (see note 4.c). Group companies are those over which the Company exercises control, either by exercising effective control or by virtue of agreements with the other shareholders. Joint ventures are companies which are jointly controlled with third parties. Associates are companies in which there is significant influence, but not control or joint control with third parties. Telefónica assesses the existence of significant influence not only in

terms of percentage ownership but also in qualitative terms such as presence on the board of directors, involvement in decision-making, the exchange of management personnel, and access to technical information.

Financial investments which the Company intends to hold for an unspecified period of time and could be sold at any time to meet specific liquidity requirements or in response to interest rate movements and which have not been included in the other categories of financial assets defined in the RD 1/2021, which amends PGC 2007, are classified as *financial assets at fair value through equity*. These investments are recorded under "Non-current assets," unless it is probable and feasible that they will be sold within 12 months.

Derivative financial instruments and hedge accounting

When Telefónica chooses not to apply hedge accounting criteria but economic hedging, gains or losses resulting from changes in the fair value of derivatives are taken directly to the income statement.

e) Revenue and expenses

Revenue and expenses are recognized on the income statement based on an accrual basis; i.e. when the goods or services represented by them take place, regardless of when actual payment or collection occurs.

A distribution of unrestricted reserves is considered as dividend distribution, and therefore, is registered as dividend revenue in the accounting of the receiving Company whenever the distributing company and/or any of its group's subsidiaries have gathered profits above the amount of equity distributed.

When the Company receives free-allotment rights, known as scrip dividends, that can be used to acquire new shares at no cost or be sold in the market or to the distributing company, it accounts for the concept as dividend revenue with a counterpart of account receivable on the distribution date.

The income obtained by the Company in dividends received from Group companies and associates, and from the interest accrued on loans and credits given to them, are included in revenue in compliance with the provisions of consultation No. 2 of BOICAC 79, published on September 30, 2009.

f) Related party transactions

In business merger or spin-off transactions involving the parent company and its direct or indirect subsidiary, as well as in the case of non-monetary contributions of business units between Group companies and in the case of in-kind dividend distributions, the valuation of the assets and liabilities should be done in accordance with the Standards on Preparing Consolidated Financial Statements (Spanish "NOFCAC"), at their pre-transaction carrying amount in the consolidated financial statements of the group or subgroup with a Spanish parent company.

In the particular case of a contribution to a group company of the shares of another group company, the pre-transaction carrying amount in the standalone financial statements of the contributing company could be used, unless the net equity amount was higher, in which case this amount was used.

The change in value arising in the contributing company as a result of the above accounting treatment is recognized in reserves.

g) Financial guarantees

The Company has provided guarantees to a number of subsidiaries to secure their transactions with third parties (see note 20.a). Where financial guarantees provided have a counter-guarantee on the Company's balance sheet, the value of the counter-guarantee is estimated to be equal to the guarantee given, with no additional liability recognized as a result.

Guarantees provided for which there is no item on the Company's balance sheet acting as a counter-guarantee are initially measured at fair value which, unless there is evidence to the contrary, is the same as the premium received plus the present value of any premiums receivable. After initial recognition, these are subsequently measured at the higher of:

- i) The amount resulting from the application of the rules for measuring provisions and contingencies.
- ii) The amount initially recognized less, when applicable, any amounts taken to the income statement corresponding to accrued income.

h) Consolidated data

As required under prevailing legislation, the Company has prepared separate consolidated annual financial statements, drawn up in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The balances of the main headings of the Telefónica Group's consolidated financial statements for 2023 and 2022 are as follows:

Millions of euros

Item	2023	2022
Total assets	104,324	109,642
Equity:		
Attributable to equity holders of the parent	21,852	25,088
Attributable to minority interests	5,244	6,620
Revenue from operations	40,652	39,993
Profit for the year:		
Attributable to equity holders of the parent	(892)	2,011
Attributable to minority interests	318	308

Note 5. Intangible assets

The movements in the items composing intangible assets and the related accumulated amortization in 2023 and 2022 are as follows:

2023

Millions of euros	Opening balance	Additions and allowances	Disposals	Transfers	Closing balance
INTANGIBLE ASSETS, GROSS	276	9	—	—	285
Software	172	6	—	2	180
Other intangible assets	104	3	—	(2)	105
ACCUMULATED AMORTIZATION	(255)	(7)	—	—	(262)
Software	(165)	(5)	—	—	(170)
Other intangible assets	(90)	(2)	—	—	(92)
DEPRECIATION ACCRUAL	(8)	—	—	—	(8)
NET CARRYING AMOUNT	13	2	—	—	15

2022

Millions of euros	Opening balance	Additions and allowances	Disposals	Transfers	Closing balance
INTANGIBLE ASSETS, GROSS	269	7	—	—	276
Software	167	4	—	1	172
Other intangible assets	102	3	—	(1)	104
ACCUMULATED AMORTIZATION	(248)	(7)	—	—	(255)
Software	(160)	(5)	—	—	(165)
Other intangible assets	(88)	(2)	—	—	(90)
DEPRECIATION ACCRUAL	—	(8)	—	—	(8)
NET CARRYING AMOUNT	21	(8)	—	—	13

As of December 31, 2023 and 2022 commitments to acquire intangible assets amount to 0.6 and 2.9 million euros, respectively.

As of December 31, 2023 and 2022, the Company had 254 and 243 million euros, respectively, of fully amortized intangible assets.

Note 6. Property, plant and equipment

The movements in the items composing property, plant and equipment (PP&E) and the related accumulated depreciation in 2023 and 2022 are as follows:

2023

Millions of euros	Opening balance	Additions and allowances	Disposals	Transfers	Closing balance
PROPERTY, PLANT AND EQUIPMENT, GROSS	559	6	—	8	573
Land and buildings	199	—	—	8	207
Plant and other PP&E items	356	5	—	3	364
PP&E under construction and prepayments	4	1	—	(3)	2
ACCUMULATED DEPRECIATION	(428)	(10)	—	(6)	(444)
Buildings	(122)	(3)	—	(6)	(131)
Plant and other PP&E items	(306)	(7)	—	—	(313)
NET CARRYING AMOUNT	131	(4)	—	2	129

2022

Millions of euros	Opening balance	Additions and allowances	Disposals	Transfers	Closing balance
PROPERTY, PLANT AND EQUIPMENT, GROSS	551	11	—	(3)	559
Land and buildings	201	—	—	(2)	199
Plant and other PP&E items	348	6	—	2	356
PP&E under construction and prepayments	2	5	—	(3)	4
ACCUMULATED DEPRECIATION	(415)	(13)	—	—	(428)
Buildings	(116)	(6)	—	—	(122)
Plant and other PP&E items	(299)	(7)	—	—	(306)
NET CARRYING AMOUNT	136	(2)	—	(3)	131

Firm commitments to acquire property, plant and equipment at December 31, 2023 and 2022 amounted to 0.5 and 0.2 million euros, respectively.

At December 31, 2023 and 2022, the Company had 353 and 264 million euros, respectively, of fully depreciated items of property, plant and equipment.

Telefónica, S.A. has taken on insurance policies with appropriate limits to cover the potential risks which could affect its property, plant and equipment.

“Property, plant and equipment” includes the net carrying amount of the land and buildings occupied by Telefónica, S.A. at its Distrito Telefónica headquarters, amounting to 61 and 62 million euros at 2023 and 2022 year-ends, respectively. It also includes the net carrying amount of the remaining assets in this site (mainly property, plant and equipment items) of 21 and 22 million euros at December 31, 2023 and 2022, respectively.

Note 7. Investment properties

The movements in the items composing investment properties in 2023 and 2022 and the related accumulated depreciation are as follows:

2023

Millions of euros	Opening balance	Additions and allowances	Disposals	Transfers	Closing balance
INVESTMENT PROPERTIES, GROSS	439	–	–	(2)	437
Land	100	–	–	–	100
Buildings	339	–	–	(2)	337
ACCUMULATED DEPRECIATION	(130)	(8)	–	–	(138)
Buildings	(130)	(8)	–	–	(138)
NET CARRYING AMOUNT	309	(8)	–	(2)	299

2022

Millions of euros	Opening balance	Additions and allowances	Disposals	Transfers	Closing balance
INVESTMENT PROPERTIES, GROSS	436	–	–	3	439
Land	100	–	–	–	100
Buildings	336	–	–	3	339
ACCUMULATED DEPRECIATION	(122)	(8)	–	–	(130)
Buildings	(122)	(8)	–	–	(130)
NET CARRYING AMOUNT	314	(8)	–	3	309

“Investment properties” mainly includes in both 2023 and 2022 the value of land and buildings leased by Telefónica, S.A. to other Group companies at Distrito Telefónica, headquarters in Madrid.

In 2023 the Company has buildings with a total area of 263,325 square meters (290,881 square meters in 2022) leased to several Telefónica Group companies, equivalent to an occupancy rate of 75.21% of the buildings it has earmarked for lease (82.22% in 2022).

Total income from leased buildings in 2023 and 2022 (see note 19.1.a) amounted to 34 and 37 million euros respectively.

Future minimum rentals receivable under non-cancellable leases are as follows:

Millions of euros	2023	2022
	Future minimum recoveries	Future minimum recoveries
Up to one year	29	29
Between two and five years	–	–
Total	29	29

The most significant lease contracts held with subsidiaries occupying Distrito Telefónica have been renewed in 2023 for a non-cancellable period of 12 months.

The main operating leases in which Telefónica, S.A. acts as lessee are described in note 19.5.

Note 8. Investments in group companies and associates

8.1. Detail and evolution of investment in group companies and associates:

2023

Millions of euros	Opening balance	Additions	Disposals	Transfers	Exchange rate impacts	Dividends	Net investment hedges	Closing balance	Fair value
Equity instruments (Net) (1)	55,445	345	(425)	—	—	(2,491)	92	52,966	78,437
Equity instruments (Cost)	92,810	1,553	(515)	—	—	(2,491)	92	91,449	
Impairment losses	(37,365)	(1,208)	90	—	—	—	—	(38,483)	
Loans to Group companies and associates	245	235	(1)	(50)	3	—	—	432	437
Other financial assets	15	26	(3)	(29)	—	—	—	9	9
Total non-current investment in Group companies and associates	55,705	606	(429)	(79)	3	(2,491)	92	53,407	78,883
Loans to Group companies and associates	1,470	1,885	(1,786)	50	6	—	—	1,625	1,624
Derivatives	5	—	(2)	—	—	—	—	3	3
Other financial assets	55	8	(26)	29	—	—	—	66	66
Total current investments in Group companies and associates	1,530	1,893	(1,814)	79	6	—	—	1,694	1,693

(1) Fair value at December 31, 2023 of Group companies and associates quoted in an active market (Telefónica Brasil, S.A. and Telefónica Deutschland Holding, A.G.) was calculated taking the listing of the investments on the last day of the year; the rest of the shareholdings are stated at the value of discounted cash flows based on those entities business plans.

2022

Millions of euros	Opening balance	Additions	Disposals	Transfers	Exchange losses	Dividends	Net investment hedges	Closing balance	Fair value
Equity instruments (Net) (1)	54,929	5,116	(5,231)	—	—	(66)	698	55,445	75,396
Equity instruments (Cost)	93,986	6,706	(8,513)	—	—	(66)	698	92,810	
Impairment losses	(39,057)	(1,590)	3,282	—	—	—	—	(37,365)	
Loans to Group companies and associates	131	—	—	121	(7)	—	—	245	238
Other financial assets	7	27	—	(19)	—	—	—	15	15
Total non-current investment in Group companies and associates	55,067	5,143	(5,231)	102	(7)	(66)	698	55,705	75,649
Loans to Group companies and associates	3,641	2,534	(4,636)	(121)	53	—	—	1,470	1,471
Derivatives	9	—	(4)	—	—	—	—	5	5
Other financial assets	48	10	(22)	19	—	—	—	55	55
Total current investments in Group companies and associates	3,698	2,544	(4,662)	(102)	53	—	—	1,530	1,531

(1) Fair value at December 31, 2022 of Group companies and associates quoted in an active market (Telefónica Brasil, S.A. and Telefónica Deutschland Holding, A.G.) was calculated taking the listing of the investments on the last day of the year; the rest of the shareholdings are stated at the value of discounted cash flows based on those entities business plans.

a) Most significant transactions:

The most significant transactions occurred in 2023 and 2022 as well as their accounting impacts are described below:

2023

On January 18, 2023 the shareholders of Pontel Participaciones, S.L., an affiliated company of Telefónica, S.A. (with a 83.35% ownership as of that date), approved a capital increase of 223 million euros subscribed and paid by its shareholders. Telefónica, S.A. contributed with 111 million euros, decreasing its percentage of ownership in the subsidiary to 70%. The transaction is reflected as Additions in the 2023 chart of movements. On February 7, 2023 the general shareholders' meeting of Pontel Participaciones, S.L. agreed to an additional paid-in capital and reserves distribution of 688 million euros. Telefónica, S.A. received 551 millions of euros and according to the accounting principles, 492 million were registered as investment reimbursement and this movement shown as Dividends in 2023 chart of movements. On March 16, 2023 and accounting effects January 1, 2023 Telxius Telecom, S.A. (absorbing entity) and Pontel Participaciones, S.L. (absorbed entity) carried out a merger. The effect of the transaction, amounting to 403 million euros is shown as Disposals in 2023 chart of movements.

On February 2, 2023 Telefónica, S.A. granted a credit facility of 175 million euros to Pontel Participaciones, S.L.. The credit was cancelled on March 16, 2023, the mentioned merger date. These transactions are shown as Additions and Disposals in 2023 chart of movements and in note 21 of these financial statements.

On January 18, 2023 in order to rebalance the equity situation, Telefónica Innovación Digital, S.L. (previously Telefónica Digital España, S.L.) carried out a capital increase of 45 million euros subscribed and paid in full by Telefónica, S.A. On October 31, 2023 the merger between Telefónica Innovación Digital, S.L. as absorbing entity and Telefónica Investigación y Desarrollo, S.A. (absorbed entity) was filed to the Companies' Register. Telefónica, S.A. was the sole shareholder in both companies. With accounting effects on January 1, 2023 and according to the accounting principles, a disposal was registered and shown as Disposals in 2023 chart of movements (32 million euros of cost and 18 million euros of impairment). The cost of the investment in the absorbing entity was increased by 13 million euros and shown as Additions in 2023 chart of movements.

In January 2023, the Company sold its investment in Telefónica Ingeniería de Seguridad, S.A. to Telefónica Filiales España, S.A. by 6 million euros. The sale is reflected in 2023 chart of movements as Disposals (under the caption cost of the investment by 78 million euros and 72 million euros under the impairment caption).

2022

In June 2022 the Company, as sole shareholder of Telefónica Tech, S.L., decided to increase the share capital in the subsidiary by an in-kind contribution of the shares of Telefónica Cybersecurity & Cloud Tech, S.L. which amounted to 1,122 million euros. The impact of this transaction implied an addition to the investment in Telefónica Tech, S.L. amounting to 839 million euros, which is shown within Additions in the 2022 chart of movements and a disposal of the carrying amount of the contributed investment. Prior to this transaction, Telefónica Cyber Cloud & Tech, S.L. carried out a capital increase of 342 million euros fully subscribed and paid by Telefónica, S.A. also reflected within Additions in the same chart.

On August 10, 2022 the deed of partial segregation of Telefónica, S.A. to Telefónica Latinoamérica Holding, S.L. (TLH) was filed to Madrid Companies' Register. The segregation involved the business consisting in the shares owned by Telefónica, S.A. in Telefónica Móviles Argentina, S.A. and Telefónica de Argentina, S.A. together with some other items associated with the business. This transaction increased the net investment value of TLH by 1,150 million euros, shown as Additions in the 2022 chart of movements as well as the disposal of the investment in Telefónica Móviles Argentina, S.A. and Telefónica de Argentina, S.A., reflected as net Disposals accordingly by 1,006 and 88 million euros, respectively in the already mentioned 2022 chart of movements (Cost of investment by 1,360 million offset by 354 million euros of impairment losses for Telefónica Móviles Argentina, S.A. and Cost of investment by 119 million euros offset by 31 million euros of impairment losses for Telefónica de Argentina, S.A.).

On September 15, 2022, a partial spin-off of TLH took place. This transaction involved the transfer of the business consisting in the shares owned by TLH in Telefónica Móviles Argentina, S.A. and Telefónica de Argentina, S.A. together with some other related items to a newly created subsidiary, TLH HOLDCO, S.L. owned 100% by Telefónica, S.A. This transaction implied an addition of the new company, TLH HOLDCO, S.L. amounting to 1,582 million euros and a net disposal in TLH by 1,561 million euros (2,396 million euros of investment cost offset by 835 million euros of impairment losses). These amounts were reflected as Additions and Disposals, respectively, in the 2022 chart of movements.

On October 31, 2022 the liquidation of Sao Paulo Telecomunicações, Ltda. was completed with the distribution to its shareholders of the assets and liabilities pro-rata their ownership percentage. As a consequence of the liquidation, an amount of 3,493 million euros has been recorded as disposal in the cost of investment line offset by a 2,039 million euros of impairment loss disposal. Telefónica owned 39.40% of the subsidiary and after the liquidation receives an additional 8.06% of the share capital in Telefónica Brasil, S.A. (calculated based on the issued share capital) amounting to 903 million

euros and is shown as Addition in 2022 chart of movements.

All the aforementioned transactions in 2023 and 2022 have been valued in accordance with the accounting principles described in note 2 b).

b) Acquisitions of investments and capital increases (Additions):

Millions of euros

Companies	2023	2022
TLH HOLDCO, S.L.	38	1,646
Telefónica Hispanoamérica, S.A.	380	1,192
Telefónica Latinoamérica Holding, S.L	—	1,150
Telefónica Brasil, S.A.	—	903
Telefónica Tech, S.L.	36	839
Telefónica Infra, S.L.	103	555
Telefónica Cybersecurity & Cloud Tech, S.L	—	342
Telefónica Deutschland, A.G.	813	48
Pontel Participaciones, S.L.	111	—
Telefónica Innovación Digital, S.L. (previously Telefónica Digital España, S.L.)	58	—
Other companies	14	31
Total group and associated companies	1,553	6,706

2023

On March 21, 2023 Telefónica Hispanoamérica, S.A. completed a share capital increase of 380 million euros totally subscribed and disbursed by Telefónica, S.A.

In 2023 the Company has carried out several contributions to the reserves of Telefónica Infra, S.L. in March, June, August, October and December totaling 103 million euros. These contributions to distributable reserves have had no issuance of new shares.

During 2023 the Company has acquired in the stock market shares of Telefónica Deutschland Holding, A.G. (352 million shares for a total amount of 813 million euros) up to a 13.2% of direct ownership as of December 31, 2023 as detailed in Appendix I of these financial statements.

The amount corresponding to Pontel Participaciones, S.L. is framed within the transactions detailed at the beginning of this note.

The figure shown for Telefónica Innovación Digital, S.L. (previously Telefónica Digital España, S.L.) is disclosed at the beginning of this note.

2022

On December 20, 2022 TLH HOLDCO, S.L. carried out a capital increase of 64 million euros, fully subscribed and paid by Telefónica, S.A.. The amount in 2022 Additions chart included not only this amount but also the figure of

the segregation transaction of Argentinian businesses as detailed at the beginning of this note (1,582 million euros).

On February 2, 2022 Telefónica Hispanoamérica, S.A. filed the deed of the capital increase by 1,192 million euros subscribed and paid in full by the Company.

The amounts related to Telefónica Latinoamérica Holding, S.L, Telefônica Brasil, S.A. and Telefónica Tech, S.L. referred to the transactions described at the beginning of this note.

On May 11, 2022 the deed of capital increase carried out by Telefónica Infra, S.L. amounting to 38 million euros was filed to the Companies' Register. It had been fully subscribed and paid by Telefónica, S.A. In addition, during 2022 the Company agreed to fund contributions to Telefónica Infra, S.L. (with no new shares issued) totaling 517 million euros.

During 2022 the Company acquired in the stock market shares of Telefónica Deutschland Holding, A.G. (19.1 million shares) up to a 1.36% of direct ownership as of December 31, 2022.

c) Disposals of investments and capital decreases:

Millions of euros

Companies	2023	2022
Sao Paulo Telecomunicações, Ltda.	—	3,493
Telefónica Latinoamérica Holding, S.L	—	2,396
Telefónica Móviles Argentina, S.A.	—	1,360
Telefónica Cybersecurity & Cloud Tech, S.L	—	1,122
Telefónica de Argentina, S.A.	—	119
Pontel Participaciones, S.L.	403	—
Telefónica Investigación y Desarrollo, S.A.	32	—
Telefónica Ingeniería de Seguridad, S.A.	78	—
Other companies	2	23
Total group and associated companies	515	8,513

2023

The amount referring to Pontel Participaciones, S.L. is related to the merger with Telxius Telecom, S.A. detailed at the beginning of this note.

The disposal of Telefónica Investigación y Desarrollo, S.A. is related to the cost of the investment in the merger with Telefónica Innovación Digital, S.L. (previously Telefónica Digital España, S.L.) detailed at the beginning of the note.

The amount corresponding to Telefónica Ingeniería de Seguridad, S.A. is disclosed at the beginning of this note.

2022

The figure of Sao Paulo Telecomunicações, Ltda. related to the liquidation of the Company detailed at the beginning of the note.

The amounts for Telefónica Latinoamérica Holding, S.L., Telefónica Móviles Argentina, S.A. and Telefónica de Argentina, S.A. referred to the transaction of segregation and unification of the Argentinian business described at the beginning of this note.

The Disposal of Telefónica Cybersecurity & Cloud Tech, S.L. is framed in the in-kind contribution described at the beginning of this note.

Other companies included the liquidation of Corporación Real Time Team, S.L., Centro de Experimentación de la Realidad Virtual, S.L. y Telco TE, which were carried out in 2022. The companies were fully impaired and the same amount was recorded as disposals in the impairment losses line.

d) Other movements:

On December 22, 2023 Telefónica Latinoamérica Holding, S.L. completed a dividend distribution by 1,994 million euros. After completing an accounting assessment, the transaction has been registered as investment reimbursement as Dividends in 2023 chart of movements.

After the sale of the investment in El Salvador, on January 13, 2022, the General Shareholders' Meeting of Telefónica Centroamérica Inversiones, S.L. agreed a dividend distribution to its shareholders pro-rata the ownership percentage. 76 million USD (equivalent to 66 million euros) were distributed to Telefónica, S.A. This proceed was registered as an investment reimbursement and reflected as Dividends in 2022 chart of movements.

"Transfers" of "Loans to Group Companies and Associates" in 2022 included the reclassification from current to long-term of the loan granted in March 2022 to Telefónica Cybersecurity & Cloud Tech, S.L., and whose maturity was extended in June 2022 until 2027 (see note 8.5).

8.2. Assessment of impairment of investments in group companies, joint ventures and associates

At each year end, the Company re-estimates the future cash flows derived from its investments in Group companies and associates. The estimation is calculated based on the subsidiaries' business plans approved by the Board of Telefónica, S.A. In the specific case of the indirect investment in the JV in the United Kingdom, the future cash flows used in the calculation of the value in use carried out by the JV are based on the latest three-year business plan approved by the Board of Directors of VMED O2 UK Limited (VMO2). To complete the five years

of post-closing cash flows, an additional normalization period has been estimated in the operating variables until the perpetuity parameters are reached. A longer time horizon has been used for capital-intensive projects, such as the fiber rollout plan.

The business plan of the subsidiaries covers a four-year period, including the closing year. In order to complete the five years of cash flows after the closing year, an additional normalization period is added to the business plans on the operating ratios until the terminal parameters are reached. The consensus' forecasts are used as a reference. For specific cases, extended business plans are used to cover the five-year period of cash flows, when the normalization period does not properly reflect the expected evolution of the business.

The estimated value is based on the business plans of each subsidiary expressed in its functional currency, discounted using the appropriate rate, net of the liabilities associated with each investment (mainly net debt), considering the percentage of ownership in each subsidiary and translated to euros at the official closing rate of each currency at December 31. The main assessments used to determine the discounted cash flows are the revenue growth, the long term OIBDA margin, the long term investment ratio, the weighted average cost of capital (WACC) and the perpetual growth rate, indicators employed by the Group in its investments valuation.

Moreover, and only for the companies where discounted cash flow analysis is not available due to the specific nature of their businesses, the impairment is calculated by comparing their equity figure as of the end of the period and the net book value of those investments.

As a result of these estimations and the effect of the net investment hedge in 2023, an impairment provision of 1,208 million euros was recognized (write-off of 1,590 million euros in 2022). This amount derives mainly from the following companies:

- a. a write down, net of hedges, of 3,169 million euros for Telefónica O2 Holdings, Ltd. (write down of 1,594 million euros, net of hedges, was registered in 2022) due to the outcome of the impairment test carried out by VMO2 at year-end.
- b. a write down for 660 million euros for TLH HOLDCO, S.L. due to the Argentinian peso devaluation in December 2023. In 2022 no impairment was registered for the investment.
- c. a write down reversal, net of hedges, of 1,215 million euros for Telefônica Brasil, S.A. (449 million euros in 2022). The causes of the reversion are detailed in the next chapter. In 2022 an additional reversal of 15 million euros for Sao Paulo Telecomunicações, Ltda, was registered prior to its liquidation.

- d. a write down by 348 million euros for Telefónica Hispanoamérica, S.A. (1,252 million euros in 2022).
- e. a write down reversal of 1,770 million euros for Telefónica Latinoamérica Holding, S.L. (1,001 million euros in 2022) mainly due to positive performance of its investment in Brazil.
- f. a write down of 8 million euros for Telefónica Innovación Digital, S.L. (previously Telefónica Digital España, S.L.). An impairment of 130 million euros was registered for this investment in 2022.

Main assumptions used for the calculation of the discounted cash flows of investments

United Kingdom

Among the G7 economies, the United Kingdom had the second lowest GDP growth in 2023, and since 2019 the country's per capita income has performed worst. Its economy has entered recession in the second half of 2023, an event not foreseen at the beginning of the year. Growth forecasts for 2024 have also been reduced (0.4% currently vs. almost 1% expected in the first half of 2023 for 2024). Behind this weak performance there are mainly two factors, both related to Brexit: the low growth of the labor force and the lack of dynamic behavior of exports. These factors have also contributed to the fact that the decline in inflation has been slower than expected, and therefore that interest rates have not decreased, which has had a negative impact on the disposable income of families and companies.

During 2023, VMO2 has achieved progressive growth in the number of customers, expanding its mobile, fixed and convergent customer base in a difficult macroeconomic context of high inflation and rationalization of consumer expenditure habits.

The macroeconomic environment is expected to remain challenging, impacting the consumption pattern of the company's customer base, which has a premium ARPU in the market derived from higher speeds and packages with multiple services that are susceptible to optimization by customers, such as television services, basic telephony or maintaining the mobile terminal for a longer period of time. Likewise, the competitive environment has intensified with an acceleration in the deployment of fiber networks threatening VMO2's competitive speed advantage. The B2B market has also been affected by the macroeconomic situation. On the other hand, the company has accelerated the execution of the synergies anticipated by the integration. For all these reasons, the company continues to focus on its pillars of future growth, such as the commitment to convergence, the digitalization and the development of state-of-the-art infrastructure through significant investments that are expected to contribute to future growth.

Long term growth and operational ratios considered in the assessment of the value in use of VMO2 are aligned

within analyst ranges for peer companies in the region. In terms of revenues, despite challenges in the competitive environment, the strategic plan reflects a trend of growth in the long term projections, in line with the estimated industry evolution in the UK. Regarding OIBDA margin over a two-year horizon, analysts' estimates for peer companies in Europe range between 33% to 41%, while the analysts long-term capex to revenue ratio range within 12% to 15%. The WACC (Weighted average cost of capital) used to discount the cash flows is 7.5% as of December 2023. Terminal growth rate is set at 1%, below the real terminal growth forecasted for the UK economy.

Brazil

The macroeconomic scenario in Brazil during 2023 has been better than expected at the beginning of the year for the third year in a row. The economic growth has tripled the estimations. Additionally, there has been a stability of financial assets thanks to the compromise of the government with the tax balance and with the structural reforms improving the medium term prospects of the country. Finally, families and companies have benefited from the interest rate decline and the acceleration of the wages thanks to the continuing process of inflation drop. In terms of revenues, the four-year plan reflects a trend of improvement for the business projections. As for the long-term OIBDA margin three-year estimates of Telefónica Group's analysts for the operator in Brazil, it is in a range within 37% to 45%. Regarding investments, the operator will invest in the horizon of the projected plan a percentage that is aligned with the investment needs planned for the development of its business, which is located in a range between 14% and 19%. The WACC used for year-end 2023 is 12%, showing a drop of 60 basis points since 2022 due to the restraint of the interest rate in the country. The perpetual growth rate has been reduced by 0.5 p.p. aligned with the long-term growth of the business and placing it within the range of analysts' estimates. It is consistent with inflation rate targeted by the Central Bank of Brazil (in a range between 1.5% and 4.5%) and it is below the nominal GDP growth rate, which fluctuates around 5.5%, according to market expectations. Moreover, the appreciation of Brazilian real against euro by 4.11% should also be taken into account as it has an impact, net of hedges, in the value of the investment (see note 19.8).

Argentina

2023 has been a difficult year in the whole environment of the Argentinian economy. Instead of being stagnated as expected, at the beginning of the year, the economic activity shrank due to the extraordinary drought as well as the persistent tax and monetary unbalances which gave birth to a steep acceleration of the inflation rate and a drop of wages. All these factors framed within a highly uncertain political (with presidential elections held in October 2023) and economic (with a more severe control of external payments and imports) scenario, aggravated the financial volatility and the worsening of exchange rate

and country risk. After the official devaluation of the Argentinian peso in December 2023, the local currency has depreciated by 78.84% in comparison with December 2022.

8.3. Detail of subsidiaries and associates

The detail of subsidiaries and associates is shown in Appendix I.

8.4. Transactions protected for tax purposes

Transactions carried out in 2023 that qualify for special tax regime, as defined in Articles 76 and 87, as applicable, of Chapter VII of Title VII of Legislative Royal Decree 27/2014 of November 27 approving the Spanish Corporate Income Tax Law, are detailed in the following paragraphs. Transactions qualified for special tax regime carried out in prior years are disclosed in the financial statements for those years.

On March 16, 2023 the Boards of Telxius Telecom, S.A. and Pontel Participaciones, S.L. approved the merger of the latter entity with the first, with the subsequent dissolution of the absorbed company without liquidation and the full transfer of its equity to the absorbing company, which acquires by universal succession the rights and obligations of the absorbed entity. The deed of the transaction was filed to the Companies' Register on April 5, 2023.

On June 29, 2023 the Boards of Telefónica Innovación Digital, S.L. (previously Telefónica Digital España, S.L.) (absorbing entity) and Telefónica Investigación y Desarrollo, S.A. (absorbed entity) scheme the merger project of the latter company with the first with the subsequent dissolution without liquidation of the absorbed entity and the full transfer of the equity as well as the acquisition by universal succession of the rights and obligations of the absorbed company. Telefónica, S.A., as sole shareholder of both absorbing and absorbed companies, agreed to the merger on July 25, 2023. The deed of the transaction was filed to the Companies Register on November 17, 2023 and legal effects on October 31, 2023.

8.5. Maturity of loans to Group companies and associates

The breakdown and maturity of loans to Group companies and associates in 2023 and 2022 are as follows:

2023

Millions of euros

Company	2024	2025	2026	2027	2028	2027 and subsequent years	Final balance, current and non-current
Telefónica Móviles España, S.A.U.	776	—	—	—	—	—	776
Telefónica Cybersecurity & Cloud Tech, S.L.	4	—	—	116	—	—	120
Telefónica de España, S.A.U.	473	—	—	—	—	—	473
Telxius Telecom, S.A.	50	—	50	—	235	—	335
Telefónica Brasil, S.A.	133	—	—	—	—	—	133
Telefónica Finanzas, S.A.U.	138	—	—	—	—	—	138
Other companies	51	—	—	—	—	31	82
Total	1,625	—	50	116	235	31	2,057

2022

Millions of euros

Company	2023	2024	2025	2026	2027	2026 and subsequent years	Final balance, current and non-current
Telefónica Móviles España, S.A.U.	99	—	—	—	—	—	99
Telefónica Cybersecurity & Cloud Tech, S.L.	1	—	—	—	113	—	114
Telfisa Global, B.V.	16	—	—	—	—	—	16
Telefónica de España, S.A.U.	415	—	—	—	—	—	415
Telxius Telecom, S.A.	—	50	—	50	—	—	100
Telefónica Brasil, S.A.	189	—	—	—	—	—	189
Telefónica Finanzas, S.A.U.	198	—	—	—	—	—	198
Bluevía Fibra, S.L.	527	—	—	—	—	—	527
Other companies	25	—	—	—	—	32	57
Total	1,470	50	—	50	113	32	1,715

The main loans granted to Group and associated companies are described below:

- The outstanding balance with Telefónica Móviles España, S.A.U. in 2023 includes dividends distributed in December 2023, amounting to 677 million euros and uncollected as of the date of these financial statements.

In addition, in 2023 there are 99 million euros of tax balances receivable from this subsidiary for its tax expense declared in the consolidated tax return (99 million euros in 2022).

- On March 21, 2022 the Company granted a credit to its subsidiary Telefónica Cybersecurity & Cloud Tech, S.L. of 140 million pounds sterling and maturity date on June 21, 2022. At maturity date, the credit was partially cancelled and the outstanding amount, 100 million pounds sterling, extended its maturity date until 2027. The equivalent amount of this credit at year end amounts to 116 million euros (113 million euros in 2022). Moreover, there are uncollected interests accounted as

current amounting to 1 million euros both in 2023 and 2022.

In addition, in 2023 there are 3 million euros of tax balances receivable from this subsidiary for its tax expense declared in the consolidated tax return (no tax amounts outstanding in 2022).

- The balance of Telefónica de España, S.A.U. in 2023 includes an amount of 473 million euros of dividends distributed in December 2023 and uncollected as of the date of these financial statements.

In 2022 there were 415 million euros corresponding to tax receivables from the subsidiary for its tax expense declared in the consolidated tax return. There are no outstanding amounts to be collected in 2023 for this concept.

- At year end 2022, the outstanding amount granted to Telxius Telecom, S.A. by 100 million euros corresponded to credits granted in 2016 with maturity date in 2024 and 2026 with the amounts shown in the chart of movements. In 2023 the installment maturing in 2024 euros has been transferred to current.

In December 2023 a new loan has been granted with a total figure of 235 million euros and a variable interest rate. It has been disbursed in two tranches on December 4 and 20, by 153 and 82 million euros, respectively. The maturity date of the loan is December 2028 with an additional one-year extension at grantee request.

- The balance totaling 133 million euros shown in 2023 with Telefônica Brasil, S.A. entirely corresponds to dividends agreed by the subsidiary and unpaid at year end (189 million euros in December 2022).
- The balance of Telefónica Finanzas, S.A.U. in December 2023 includes dividends distributed and uncollected at year end amounting to 118 million euros (182 million euros in 2022).

Moreover, in 2023 there are uncollected balances of 20 million euros of tax balances receivable from this subsidiary for its tax expense declared in the consolidated tax return (16 million euros in 2022).

- On December 20, 2022 Telefónica, S.A. granted a credit facility with maturity in 3 months to Bluevía Fibra, S.L. amounting to 526 million euros. The uncollected interests amounted to 1 million euros and were also shown as current in the 2022 the chart of movements. On February 3, 2023 Bluevía Fibra, S.L. cancelled, prior to maturity, the above mentioned credit facility as well as the uncollected interests. The collected amount was 528 million euros (see note 21).

In the 2023 chart of movements, additions of current loans to group companies and associates comprise 161 million euros (548 million euros in 2022) of loans in connection with the taxation of Telefónica, S.A. as the head of the tax group pursuant to the consolidated tax regime applicable to corporate groups (see note 17). The most significant amounts have already been disclosed through this note. All these amounts fall due in the short term.

Disposals of current loans to group companies and associates includes the cancellation of balances receivable from subsidiaries on account of their membership of Telefónica, S.A.'s tax group totaling 548 million euros (873 million euros in 2022).

Total accrued interest receivable at December 31, 2023 and 2022 included under the caption Current loans to group companies and associates amount to 2.3 and 2.4 million euros, respectively.

8.6. Other financial assets with Group companies and associates

This includes rights to collect amounts from other Group companies related to share-based payment plans involving Telefónica, S.A. shares offered by subsidiaries to their employees.

Invoices of share plans that were already vested and are outstanding at year end are shown as other current financial assets. Amounts derived from the new share plans launched in 2023 and 2022 with a maturity date longer than 2024 are included as other non-current financial assets (see note 19.3).

Note 9. Financial investments

9.1. The breakdown of “Financial investments” at December 31, 2023 and 2022 is as follows:

2023

Millions of euros	Assets at fair value							Assets at amortized cost					
	Financial Assets at fair value with changes through equity	Financial assets at fair value with changes through income statement	Hedges with changes through equity	Subtotal assets at fair value	Measurement hierarchy			Financial assets at amortized cost	Other financial assets at amortized cost	Subtotal financial assets at amortized cost	Fair value	Total carrying amount	Total fair value
					Level 1: quoted prices	Level 2: Estimates based on other directly observable market inputs	Level 3: Estimates not based on observable market data						
Non-current financial investments	466	508	1,365	2,339	466	1,873	—	282	—	282	282	2,621	2,621
Equity instruments	466	—	—	466	466	—	—	—	—	—	—	466	466
Derivatives (Note 16)	—	508	1,365	1,873	—	1,873	—	—	—	—	—	1,873	1,873
Loans to third parties and other financial assets	—	—	—	—	—	—	—	282	—	282	282	282	282
Current financial investments	—	96	244	340	—	340	—	62	—	62	62	402	402
Loans to third parties and other financial assets	—	—	—	—	—	—	—	62	—	62	62	62	62
Derivatives (Note 16)	—	96	244	340	—	340	—	—	—	—	—	340	340
Total financial investments	466	604	1,609	2,679	466	2,213	—	344	—	344	344	3,023	3,023

2022

Millions of euros	Assets at fair value							Assets at amortized cost					
	Financial Assets at fair value with changes through equity	Financial assets at fair value with changes through income statement	Hedges with changes through equity	Subtotal assets at fair value	Measurement hierarchy			Financial assets at amortized cost	Other financial assets at amortized cost	Subtotal assets at amortized cost	Fair value	Total carrying amount	Total fair value
					Level 1: quoted prices	Level 2: Estimates based on other directly observable market inputs	Level 3: Estimates not based on observable market data						
Non-current financial investments	358	738	1,817	2,913	358	2,555	—	—	375	375	375	3,288	3,288
Equity instruments	358	—	—	358	358	—	—	—	—	—	—	358	358
Derivatives (Note 16)	—	738	1,817	2,555	—	2,555	—	—	—	—	—	2,555	2,555
Loans to third parties and other financial assets	—	—	—	—	—	—	—	—	375	375	375	375	375
Current financial investments	—	289	325	614	—	614	—	26	1,174	1,200	1,200	1,814	1,814
Loans to third parties and other financial assets	—	—	—	—	—	—	—	26	1,174	1,200	1,200	1,200	1,200
Derivatives (Note 16)	—	289	325	614	—	614	—	—	—	—	—	614	614
Total financial investments	358	1,027	2,142	3,527	358	3,169	—	26	1,549	1,575	1,575	5,102	5,102

Derivatives are measured using the valuation techniques and models normally used in the market, based on money-market curves and volatility prices available in the market.

Additionally, on this valuation, the credit valuation adjustment or CVA net for counterparty (CVA + DVA), which is the methodology used to measure the credit risk of the counterparties and of Telefónica itself is calculated to adjust the fair value determination of the derivatives. This adjustment reflects the possibility of insolvency or deterioration of the credit quality of the counterparty and Telefónica.

9.2 Financial assets at fair value with changes through income statement and hedges with changes through equity

These two asset categories include the fair value of outstanding derivative financial instruments at December 31, 2023 and 2022 (see note 16).

December 31, 2023

Millions of euros	Opening balance	Disposals	Fair value adjustments	Closing balance
Banco Bilbao Vizcaya Argentaria, S.A.	249	—	114	363
China Unicom (Hong Kong), Ltd.	105	—	(2)	103
Promotora de Informaciones, S.A. (PRISA)	4	(5)	1	—
Total	358	(5)	113	466

December 31, 2022

Millions of euros	Opening balance	Disposals	Fair value adjustments	Closing balance
Banco Bilbao Vizcaya Argentaria, S.A.	232	—	17	249
China Unicom (Hong Kong), Ltd.	80	—	25	105
Promotora de Informaciones, S.A. (PRISA)	36	(36)	4	4
Total	348	(36)	46	358

Banco Bilbao Vizcaya Argentaria, S.A. (BBVA)

At December 31, 2023 and 2022 Telefónica, S.A.'s investment in BBVA represents 0.756% and 0.732%, respectively, of that company's share capital at each year-end.

Promotora de Informaciones, S.A. (Prisa)

On May 19, 2022, Telefónica, S.A. sold 50 million shares of Prisa. The revenue from the sale amounted to 5 million euros and it was reflected under the caption Net result on financial assets at fair value with changes through equity.

In December 2022 the Company registered a write-off on this investment amounting to 4 million euros under the caption Net result on financial assets at fair value with changes through equity caused by the significant drop in the quotation of Prisa's shares.

At December 31, 2022 Telefónica, S.A.'s investment in Prisa represented 1.87% of its share capital.

On June 21, 2023 the Company has sold its total remaining shares in this investment with a profit of 2 million euros accounted under the caption Net result on financial assets at fair value with changes through equity in the profit and loss account.

9.3 Financial assets at fair value with changes through equity

This category mainly includes the fair value of investments in listed companies (equity instruments) over which the Company does not have significant control or influence. The movement of items composing this category at December 31, 2023 and 2022 are as follows:

China Unicom (Hong Kong), Ltd.

The investment in China Unicom (Hong Kong), Ltd. (182 million shares) represents 0.593% of that company's share capital both in 2023 and 2022. The shares are quoted in Hong Kong stock exchange.

The impacts shown in the column Fair value adjustments on both years include the fair value adjustments in the quotation of the three investments. These impacts are registered in the equity of the Company (note 11.2).

The difference between the amount shown as Fair Value adjustments in this note and the Valuation at market value of Financial assets at fair value with changes through equity in 2023 and 2022 chart of movements in note 11 is due to hedges which partially offset the exchange rate impact in the valuation of China Unicom.

9.4 Financial assets at amortized cost

The breakdown of investments included in this category at December 31, 2023 and 2022 is as follows:

Millions of euros	2023	2022
Financial assets at amortized cost, non-current:		
Deposits related to real state properties	6	7
Collateral guarantees	273	365
Marketable debt securities	3	3
Financial assets at amortized cost, current:		
Loans to third parties	5	26
Marketable debt securities	—	939
Collateral guarantees	55	235
Other current financial assets	2	—
Total	344	1,575

Collaterals are classified in both years under the caption Financial assets at amortized cost and classified in accordance with the maturity of the underlying derivative instruments which they relate to.

In 2022, marketable debt securities under the current caption refer to the notes with a total nominal value of 1,000 million US dollars issued by the international issue platform Single Platform Investment Repackaging Entity, S.A. ("Spire"). These notes were deposited in a securities account owned by Telefónica, S.A. The notes have been fully cancelled according to its maturity in 2023 (see note 21).

In relation with collateral contracts, there is an additional guarantee of 51,988 bonds issued by Telefónica Emisiones, S.A.U. deposited in a securities account owned by Telefónica, S.A. with a notional of 47 million euros as of December 31, 2023 (there were 79,034 bonds with a notional of 78 million euros as of December 31, 2022).

In 2023 and 2022 the concept of loans to third parties includes the uncollected amounts from financial entities as a result of the maturity of derivative instruments.

Other current financial assets include in 2023 the uncollected revenues from bank accounts.

Note 10. Trade and other receivables

The breakdown of "Trade and other receivables" at December 31, 2023 and 2022 is as follows:

Millions of euros	2023	2022
Trade receivables	28	—
Trade receivables from Group companies and associates	233	166
Other receivables	1	2
Employee benefits receivable	1	1
Tax receivables (Note 17)	237	305
Total	500	474

"Trade receivables from Group companies and associates" mainly includes amounts receivable from subsidiaries for the impact of the rights to use the Telefónica brand and the monthly office rental fees (see note 7).

Trade receivables and Trade receivables from Group companies and associates in 2023 and 2022 include balances in foreign currency equivalent to 98 and 66 million euros, respectively.

In 2023 and 2022 these amounts relate to receivables in US dollars and pounds sterling.

These balances give rise to positive exchange rate differences in the income statement by 3 million euros in 2023 and 2022.

Note 11. Equity

11.1 Capital and reserves

a) Share capital

2023

As of December 31, 2023, the share capital of Telefónica, S.A. was set at 5,750,458,145 euros and was divided into 5,750,458,145 common shares, of a single series and with a par value of 1 euro each, fully paid in. All the shares of the Company have the same characteristics and carry the same rights and obligations.

The impacts in 2023 share capital are detailed below:

On March 31, 2023 the Board of Directors of Telefónica, S.A. agreed to carry out the capital decrease with treasury share amortization previously approved by the General Shareholders' Meeting, held on the same date.

The share capital was reduced by 24,779,409 euros after the amortization of 24,779,409 treasury shares, with a par value of 1 euro each. The share capital of the Company was set at 5,750,458,145 euros, corresponding to 5,750,458,145 shares with a par value of 1 euro each. As a consequence of this transaction, the share premium reserve was reduced by 73 million euros.

The share capital decrease did not result in a cash distribution to the shareholders, as the amortized shares were treasury shares owned by the Company. Additionally, an unrestricted reserve totaling the par value of the amortized treasury shares (24,779,409 euros) was registered. This reserve for cancelled share capital can only be used if the same requirements as those applicable to the reduction of share capital are met. Therefore, in accordance with the Section 335.c) of the Corporate Enterprises Act, the creditors of the Company can not claim the opposition right disclosed in article 334 of the Corporate Enterprise Act.

On April 17, 2023 the deed of the capital decrease was registered in the Madrid Companies' Register.

The shares of Telefónica, S.A. are represented by book entries that are listed on the Spanish Electronic Market (within the selective Ibex 35 index) and on the four Spanish Stock Exchanges (Madrid, Barcelona, Valencia and Bilbao), as well as on the New York and Lima Stock Exchanges (on these latter two Stock Exchanges through American Depositary Shares (ADSs), with each ADS representing one share of the Company).

2022

As of December 31, 2022, the share capital of Telefónica, S.A. was set at 5,775,237,554 euros and was divided into 5,775,237,554 common shares, of a single series and with a par value of 1 euro each, fully paid in. All the shares of the Company have the same characteristics and carry the same rights and obligations.

The impacts in 2022 share capital are detailed below:

On April 8, 2022 the Board of Directors of Telefónica, S.A. agreed to carry out the capital decrease with treasury share amortization previously approved by the General Shareholders' Meeting, held on the same date.

The share capital was reduced by 139,275,057 euros after the amortization of 139,275,057 treasury shares, with a par value of 1 euro each. The share capital of the Company was set at 5,639,772,963 euros, corresponding to 5,639,772,963 shares with a par value of 1 euro each. As a consequence of this transaction, the share premium reserve was reduced by 409 million euros.

The share capital decrease did not result in a cash distribution to the shareholders, as the amortized shares were treasury shares owned by the Company. Additionally, an unrestricted reserve totaling the par value of the amortized treasury shares (139,275,057 euros) was registered. This reserve for cancelled share capital can only be used if the same requirements as those applicable to the reduction of share capital are met. Therefore, in accordance with the Section 335.c) of the Corporate Enterprises Act, the creditors of the Company can not claim the opposition right disclosed in article 334 of the Corporate Enterprise Act.

On April 22, 2022 the deed of the capital decrease was registered in the Madrid Companies' Register.

On June 24, 2022, the deed was registered for a paid-up capital increase in the amount of 135,464,591 euros, in which 135,464,591 ordinary shares with a par value of 1 euro each were issued against reserves as part of the scrip dividend. Following the share capital increase, the share capital was set at 5,775,237,554 euros.

Authorizations by Shareholders' Meeting

As regards the authorizations conferred in respect of the share capital, the shareholders acting at the Ordinary General Shareholders' Meeting held on June 12, 2020 resolved to delegate to the Board of Directors, as broadly as required by Law, pursuant to the provisions of Section 297.1.b) of the Companies Act, the power to increase the

share capital on one or more occasions and at any time, within a period of five years from the date of adoption of such resolution, by the maximum nominal amount of 2,596,065,843 euros, equal to one-half of the share capital of the Company on the date of adoption of the resolution at the General Shareholders' Meeting, issuing and floating the respective new shares for such purpose with or without a premium, the consideration for which will consist of monetary contributions, with express provision for incomplete subscription of the shares to be issued. The Board of Directors was also authorized to exclude pre-emptive rights in whole or in part, as provided in section 506 of the Corporate Enterprises Act. However, the power to exclude pre-emptive rights is limited to 20% of the share capital on the date on which the resolution is adopted. In accordance with the above-mentioned authorization, as of the end of fiscal year 2023, the Board would be authorized to increase the share capital by the maximum nominal amount of 2,596,065,843 euros.

Furthermore, the Ordinary General Shareholders' Meeting of Telefónica, S.A. held on June 12, 2020 delegated to the Board of Directors, in accordance with the general rules governing the issuance of debentures and pursuant to the provisions of applicable law and the Company's By-Laws, the power to issue securities, including preferred shares and warrants, with the power to exclude the pre-emptive rights of shareholders. The aforementioned securities may be issued on one or more occasions, within a maximum period of five years as from the date of adoption of the resolution. The securities issued may be debentures, bonds, notes and other fixed-income securities, or debt instruments of a similar nature, or hybrid instruments in any of the forms admitted by Law (including, among others, preferred interests) both simple and, in the case of debentures, bonds and hybrid instruments, convertible into shares of the Company and/or exchangeable for shares of the Company, of any of the companies of its Group or of any other company, and/or

giving the holders thereof an interest in the corporate earnings. Such delegation also includes warrants or other similar instruments that may entitle the holders thereof, directly or indirectly, to subscribe for or acquire newly-issued or outstanding shares, payable by physical delivery or through differences. The aggregate amount of the issuance or issuances of instruments that may be approved in reliance on this delegation may not exceed, at any time, 25,000 million euros or the equivalent thereof in another currency. In the case of notes and for purposes of the above-mentioned limits, the outstanding balance of those issued in reliance on the delegation shall be computed. In the case of warrants, and also for the purpose of such limit, the sum of the premiums and exercise prices of each issuance shall be taken into account. Moreover, under the aforementioned delegation resolution, the shareholders at the Ordinary General Shareholders' Meeting of Telefónica, S.A. resolved to authorize the Board of Directors to guarantee, in the name of the Company, the issuance of the aforementioned instruments issued by the companies belonging to its Group of companies, within a maximum period of five years as from the date of adoption of the resolution.

On the other hand, on March 31, 2023, shareholders voted to authorize the acquisition by the Board of Directors of Telefónica, S.A. treasury shares, up to the limits and pursuant to the terms and conditions established at the Shareholders' Meeting, within a maximum five-year period from that date. However, it specified that in no circumstances could the par value of the shares acquired, added to that of the treasury shares already held by Telefónica, S.A. and by any of its controlled subsidiaries, exceed the maximum legal percentage at any time.

At December 31, 2023 and 2022, Telefónica, S.A. held the following treasury shares:

	Number of shares	Euros per share		Market value (*)	%
		Acquisition price	Trading price		
Treasury shares at Dec 31 2022	85,217,621	4.00	3.39	288	1.476 %
Treasury shares at Dec 31 2023	111,099,480	3.87	3.53	393	1.932 %

(*) Millions of euros

The movement in treasury shares of Telefónica, S.A. during the years 2023 and 2022 is as follows:

	Number of shares
Treasury shares at 12/31/21	139,329,370
Acquisitions	90,403,530
Scrip dividend (see Note 11.d)	563,415
Share capital decrease	(139,275,057)
Employee share option plan (See Note 19.3)	(5,391,956)
Other movements	(411,681)
Treasury shares at 12/31/22	85,217,621
Acquisitions	60,070,274
Share capital decrease	(24,779,409)
Employee share option plan (See Note 19.3)	(8,845,558)
Other movements	(563,448)
Treasury shares at 12/31/23	111,099,480

Acquisitions

In 2023 and 2022 acquisition of treasury shares amounting to 223 and 365 million euros respectively, have been registered (see note 21).

Share redemption and disposals

On March 31, 2023 following the agreement of the General Shareholders' Meeting held on the same date, the share capital decrease was carried out with the amortization of 24,779,409 treasury shares with an impact of 98 million euros.

On April 8, 2022 following the agreement of the General Shareholders' Meeting held on the same date, the share capital decrease was carried out with the amortization of 139,275,057 treasury shares with an impact of 548 million euros in this caption.

Employee share option plan

Treasury shares related to share plans redemptions in 2023 and 2022 amount to 35 and 22 million euros, respectively.

Other instruments

The Company also has different derivative instruments, to be settled by offset, on a nominal value equivalent to 193 million of Telefónica shares, mainly contracted through Banco Bilbao Vizcaya, recorded in the balance sheet at December 31, 2023 in accordance with their maturity date and fair value (193 million euros at December 31, 2022).

b) Legal reserve

According to the text of the Corporate Enterprises Act, companies must transfer 10% of profit for the year to a legal reserve until this reserve reaches at least 20% of

share capital. The legal reserve can be used to increase capital by the amount exceeding 10% of the increased share capital amount. Except for this purpose, until the legal reserve exceeds the limit of 20% of share capital, it can only be used to offset losses, if there are no other reserves available. At December 31, 2023 and 2022, this reserve amounted to 1,059 million euros representing 18.42% and 18.34% of the share capital at both year ends, respectively. The proposed appropriation of profits in 2023 to the General Shareholders' Meeting comprises a distribution of 91 million euros to the legal reserve in order to achieve a ratio of 20% of the share capital (1,150 million euros).

c) Other reserves

The concepts included under this caption are:

- The Revaluation reserve which arose as a result of the revaluation made pursuant to Royal Decree-Law 7/1996 dated June 7. The revaluation reserve may be used, free of tax, to offset any losses incurred in the future and to increase capital. From January 1, 2007, it may be allocated to unrestricted reserves, provided that the capital gain has been realized. The capital gain will be deemed to have been realized in respect of the portion on which the depreciation has been recorded for accounting purposes or when the revalued assets have been transferred or derecognized. In this respect, at the end of 2023 and 2022, an amount of 3 and 4 million euros, corresponding to revaluation reserves subsequently considered unrestricted has been reclassified to Other reserves. The balance of this reserve at December 31, 2023 and 2022 was 51 and 54 million euros, respectively.
- Reserve for cancelled share capital: In accordance with Section 335.c) of the Corporate Enterprises Act and to render null and void the right of opposition provided for in Section 334 of the same Act, whenever the Company decreases capital it records a reserve for cancelled share capital for an amount equal to the par value of the cancelled shares, which can only be used if the same requirements as those applicable to the reduction of share capital are met. The cumulative amount of the reserve for cancelled share capital at December 31, 2023 and 2022 totals 978 and 954 million euros, respectively.
- Pursuant to the provisions of Royal Decree 1514/2007, since 2008, after the distribution of profits for each year, the Company set aside a restricted reserve of 2 million euros for goodwill amortization. Pursuant to the provisions of Royal Decree 602/2016 of December 2, 2016 regarding the mandatory amortization of all intangible assets, the goodwill amortization as of January 1, 2015, amounting to 10 million euros was registered with a counterparty in this reserve.
- In addition to the restricted reserves explained above, Other reserves includes unrestricted reserves from

gains obtained by the Company in prior years. In addition, this caption includes the equity impacts of the corporate transactions described in note 8. Thus the reverse merger between Pontel Participaciones, S.L. and Telxius Telecom, S.A. with absorption of the first entity by the latter has generated a negative impact by 418 million euros in the statement of changes in equity under the "other movements" caption. The merger between Telefónica Innovación Digital, S.L. (previously Telefónica Digital España, S.L.) and Telefónica Investigación y Desarrollo, S.A. has an effect of 1 million euros registered under the same caption.

Moreover, in 2022 the segregation of the Argentinian business had a positive impact in reserves amounting to 84 million euros and shown as "Other movements" in the Statements of changes in Equity. On the other hand, the in-kind contribution of the investment in Telefónica Cyber Cloud & Tech, S.L. to Telefónica Tech, S.L. implied a negative impact in reserves of 317 million euros. Finally, the liquidation of Sao Paulo Telecomunicações, Ltda. has raised a negative effect in reserves amounting to 441 million euros shown in the same line item.

d) Dividends

Dividend distribution in 2023

Approval was given at the General Shareholders' Meeting of March 31, 2023 to pay a dividend in cash charge to unrestricted reserves amounting to 0.30 euros per share payable in two tranches.

On June 15, 2023, cash dividend of 0.15 euros per share was paid, for a total amount of 851 million euros, and on December 14, 2023, a second payment of 0.15 euros amounting to 847 million euros.

Dividend distribution in 2022

Approval was given at the General Shareholders' Meeting of April 8, 2022 to pay a dividend in two tranches, for an approximately amount of 0.30 euros per share.

On June 22, 2022, took place the payment of a scrip dividend of approximately 0.15 euros per share consisting of the assignment of free allotment rights with an irrevocable purchase commitment by the Company, after the adoption of the corresponding corporate resolutions.

At its meeting held on May 25, 2022, the Executive Commission of Telefónica, S.A. Board of Directors agreed to carry out the execution of the increase in paid-up capital, related to the shareholders compensation by means of a scrip dividend. Thus, each shareholder received 1 free allotment right for each Telefónica share held. Such free allotment rights were traded on the Continuous Market in Spain during a period of 15 calendar days. Once this trading period ended, the shareholders of 25.54% of the free-of-charge allotment rights accepted the irrevocable purchase commitment assumed by Telefónica, S.A. The payment to these shareholders was made on June 16, 2022. The gross impact of this dividend amounted to 213 million euros.

On the other hand, the shareholders of 74.46% of the free-of-charge allotment rights were entitled, therefore, to receive new shares of Telefónica, S.A. So the final number of shares issued after June 24, 2022 in the capital increase was 135,464,591 shares with a nominal value of 1 euro each.

On December 15, 2022 took place the payment of a dividend of 854 million euros.

11.2 Unrealized gains (losses) reserve

The movements in the items composing “Unrealized gains (losses) reserve” in 2023 and 2022 are as follows:

2023

Millions of euros	Opening balance	Valuation at market value	Tax effect of additions	Amounts transferred to income statement	Tax effect of transfers	Closing balance
Financial assets at fair value with changes through equity (Note 9.3)	(14)	113	–	2	–	101
Cash flow hedges	546	(432)	109	63	(17)	269
Total	532	(319)	109	65	(17)	370

2022

Millions of euros	Opening balance	Valuation at market value	Tax effect of additions	Amounts transferred to income statement	Tax effect of transfers	Closing balance
Financial assets at fair value with changes through equity (Note 9.3)	(52)	37	–	1	–	(14)
Cash flow hedges	93	1,135	(284)	(531)	133	546
Total	41	1,172	(284)	(530)	133	532

Since 2018, the Company includes the fair value hedges, whose impacts are generated and transferred to the income statement in the same period, in the statement of recognized income and expense in equity, and transfers the amounts to the income statement of the same period. The impacts are shown in the column Valuation at market value and with the opposite sign in the column Amounts transferred to income statement of the tables above.

Note 12. Financial liabilities

The breakdown of "Financial liabilities" at December 31, 2023 and 2022 is as follows:

2023

Millions of euros	LIABILITIES AT FAIR VALUE						LIABILITIES AT AMORTIZED COST			
	Financial liabilities with changes through income statement	Hedges with changes through equity	Subtotal financial liabilities at fair value	MEASUREMENT HIERARCHY			Financial liabilities at amortized cost	Fair value of financial liabilities	TOTAL CARRYING AMOUNT	TOTAL FAIR VALUE
				Level 1: quoted prices	Level 2: Estimates based on other directly observable market inputs	Level 3: Estimates not based on other directly observable market data				
Non-current financial liabilities	597	935	1,532	—	1,532	—	34,542	35,556	36,074	35,556
Payable to Group companies and associates	—	—	—	—	—	—	33,482	32,933	33,482	32,933
Bank borrowings	—	—	—	—	—	—	513	544	513	544
Derivatives (Note 16)	597	935	1,532	—	1,532	—	—	1,532	1,532	1,532
Other financial liabilities	—	—	—	—	—	—	547	547	547	547
Current financial liabilities	149	30	179	—	179	—	7,496	7,674	7,675	7,674
Payable to Group companies and associates	—	—	—	—	—	—	7,353	7,351	7,353	7,351
Bank borrowings	—	—	—	—	—	—	141	142	141	142
Derivatives (Note 16)	149	30	179	—	179	—	—	179	179	179
Other financial liabilities	—	—	—	—	—	—	2	2	2	2
Total financial liabilities	746	965	1,711	—	1,711	—	42,038	43,230	43,749	43,230

2022	LIABILITIES AT FAIR VALUE						LIABILITIES AT AMORTIZED COST			
	MEASUREMENT HIERARCHY						Financial liabilities at amortized cost	Fair value of financial liabilities	TOTAL CARRYING AMOUNT	TOTAL FAIR VALUE
	Financial liabilities with changes through income statement	Hedges with changes through equity	Subtotal financial liabilities at fair value	Level 1: quoted prices	Level 2: Estimates based on other directly observable market inputs	Level 3: Estimates not based on other directly observable market data				
Non-current financial liabilities	860	1,048	1,908	–	1,908	–	34,935	32,336	36,843	34,244
Payable to Group companies and associates	–	–	–	–	–	–	33,405	30,772	33,405	30,772
Loans with financial entities	–	–	–	–	–	–	372	406	372	406
Derivatives (Note 16)	860	1,048	1,908	–	1,908	–	–	–	1,908	1,908
Other financial liabilities	–	–	–	–	–	–	1,158	1,158	1,158	1,158
Current financial liabilities	269	7	276	–	276	–	10,132	10,133	10,408	10,409
Payable to Group companies and associates	–	–	–	–	–	–	9,950	9,950	9,950	9,950
Loans with financial entities	–	–	–	–	–	–	181	182	181	182
Derivatives (Note 16)	269	7	276	–	276	–	–	–	276	276
Other financial liabilities	–	–	–	–	–	–	1	1	1	1
Total financial liabilities	1,129	1,055	2,184	–	2,184	–	45,067	42,469	47,251	44,653

Derivatives are measured using the valuation techniques and models normally used in the market, based on money-market curves and volatility prices available in the market.

Additionally, on this valuation, the credit valuation adjustment or CVA net for counterparty (CVA + DVA), which is the methodology used to measure the credit risk of the counterparties and of Telefónica itself is calculated to adjust the fair value determination of the derivatives. This adjustment reflects the possibility of insolvency or deterioration of the credit quality of the counterparty and Telefónica. The calculation of the fair values of the Company's financial debt instruments required an estimate for each currency of a credit spread curve using the prices of the Company's bonds and credit derivatives.

Note 13. Bonds and other marketable debt securities

This caption, at December 31, 2023 and 2022, only includes a promissory notes program.

The features of the 2023 and 2022 programs are the same and the detail is as follows:

Amount	Placement system	Nominal amount of the Promissory notes	Terms of the Promissory notes	Placement
500 millions of euros	Auctions	100,000 euros	30, 60, 90, 180 and 364 days	Competitive auctions
	Tailored	100,000 euros	Between 3 and 364 days	Specific transactions

The balances and movements of the financial instruments included under this caption at December 31, 2023 and 2022 are as follows:

Millions of euros	2023	2022
	Other marketable debt securities (Promissory notes)	Other marketable debt securities (Promissory notes)
Opening balance	–	30
Additions	29	–
Disposals	(29)	(30)
Closing balance	–	–
Details of maturities:		
Non-current	–	–
Current	–	–

There were no promissory notes issuance in 2022. The average interest rate for promissory notes in 2023 has been 3.256%.

Note 14. Interest-bearing debt and derivatives

14.1 Detail of debt balances

The balances at December 31, 2023 and 2022 are as follows:

December 31, 2023

Millions of euros	Current	Non-current	Total
Loans with financial entities (Note 12)	141	513	654
Derivatives (Note 16)	179	1,532	1,711
Total	320	2,045	2,365

December 31, 2022

Millions of euros	Current	Non-current	Total
Loans with financial entities (Note 12)	181	372	553
Derivatives (Note 16)	276	1,908	2,184
Total	457	2,280	2,737

14.2 Disclosure of nominal amount of debts

The nominal values of the main interest-bearing debts at December 31, 2023 and 2022 is as follows:

2023

Description	Value Date	Maturity Date	Currency	Limit 12/31/2023 (millions of local currency)	Balance (millions of euros)
Structured Financing (*)	12/11/2015	03/11/2026	USD	150	136
Structured Financing (*)	12/11/2015	03/11/2026	EUR	101	101
Bilateral Loan	09/26/2022	12/15/2032	EUR	150	150
Bilateral Loan	12/23/2022	06/15/2033	EUR	125	125
Bilateral Loan	02/14/2023	09/29/2033	EUR	150	150

(*) Facilities with amortization schedule, showing in the column "Limit 12/31/2023" the outstanding amount.

2022

Description	Value Date	Maturity Date	Currency	Limit 12/31/2022 (millions of local currency)	Balance (millions of euros)
Structured Financing (*)	02/22/2013	01/31/2023	USD	12	12
Structured Financing (*)	08/01/2013	10/31/2023	USD	27	25
Structured Financing (*)	12/11/2015	03/11/2026	USD	238	223
Structured Financing (*)	12/11/2015	03/11/2026	EUR	161	161
Bilateral Loan	09/26/2022	12/15/2032	EUR	—	150

(*) Facilities with amortization schedule, showing in the column "Limit 12/31/2022" the outstanding amount.

14.3 Maturities of balances

The maturity of balances at December 31, 2023 and 2022 are as follows:

December 31, 2023	Maturity						Closing balance
	2024	2025	2026	2027	2028	Subsequent years	
Millions of euros							
Loans with financial entities	141	46	45	(3)	—	425	654
Derivatives (Note 16)	179	71	58	568	247	588	1,711
Total	320	117	103	565	247	1,013	2,365

December 31, 2022	Maturity						Closing balance
	2023	2024	2025	2026	2027	Subsequent years	
Millions of euros							
Loans with financial entities	181	40	111	77	(5)	149	553
Derivatives (Note 16)	276	109	70	103	515	1,111	2,184
Total	457	149	181	180	510	1,260	2,737

14.4 Interest-bearing debt arranged or repaid in 2023

The most significant transactions in 2023 mainly includes the following:

Description	Limit 12/31/2023 (*) (millions)	Currency	Outstanding balance Dec 31 2023 (million euros)	Arrangement date	Maturity date	Drawdown 2023 (million euros)	Repayment 2023 (million euros)
Telefónica, S.A.							
Bilateral Loan	—	EUR	150	02/14/2023	09/29/2033	150	—
Syndicated (1)	5,500	EUR	—	03/15/2018	01/13/2028	—	—
Bilateral Loan (2)	—	EUR	125	12/23/2022	6/15/2033	125	—

(1) The first one year extension option of the 5,500 million euros syndicated credit facility of Telefónica, S.A., was executed on January 13, 2023 and the second one year extension option on January 13, 2024. The facility had two annual extension options at Telefónica, S.A. request, with a maximum maturity up to 2029.

(2) On June 15, 2023 Telefónica, S.A. draw down 125 million euros of the Bilateral loan signed on December 23, 2022.

(*) Undrawn limit.

14.5 Average interest on loans and borrowings

The average interest rate in 2023 on loans and borrowings denominated in euros was 3.281% (-0.128% in 2022) and 2.6% (2.289% in 2022) for foreign-currency loans and borrowings.

14.6 Unused credit facilities

The balances of loans and borrowings only relate to drawn down amounts.

At December 31, 2023 and 2022, Telefónica had undrawn credit facilities amounting to 9,688 million euros and 9,994 million euros, respectively.

Financing arranged by Telefónica, S.A. at December 31, 2023 and 2022 is not subject to compliance with financial ratios (covenants).

Note 15. Payable to group companies and associates

15.1 Detail of group debts

The breakdown of payable to group companies and associates at the 2023 and 2022 year ends is as follows:

December 31, 2023

Millions of euros	Non-current	Current	Total
Loans	33,473	7,103	40,576
Trade payables to Group companies and associates	9	107	116
Derivatives (Note 16)	—	15	15
Tax Group payables to subsidiaries	—	128	128
Total	33,482	7,353	40,835

December 31, 2022

Millions of euros	Non-current	Current	Total
Loans	33,396	9,381	42,777
Trade payables to Group companies and associates	7	122	129
Derivatives (Note 16)	—	21	21
Tax Group payables to subsidiaries	2	426	428
Total	33,405	9,950	43,355

The maturity of these loans at the 2023 and 2022 year ends is as follows (figures in millions of euros):

December 31, 2023

Company	2024	2025	2026	2027	2028	2029 and subsequent years	Final balance, current and non-current
Telefónica Emisiones, S.A.U.	1,298	2,013	1,853	3,367	1,935	15,049	25,515
Telefónica Europe, B.V.	1,225	1,298	998	997	1,491	4,472	10,481
Telfisa Global, B.V.	4,580	—	—	—	—	—	4,580
Total	7,103	3,311	2,851	4,364	3,426	19,521	40,576

December 31, 2022

Company	2023	2024	2025	2026	2027	2028 and subsequent years	Final balance, current and non-current
Telefónica Emisiones, S.A.U.	1,625	999	2,009	1,840	3,636	16,359	26,468
Telefónica Europe, B.V.	1,466	999	1,297	997	996	4,264	10,019
Telfisa Global, B.V.	6,290	—	—	—	—	—	6,290
Total	9,381	1,998	3,306	2,837	4,632	20,623	42,777

Financing raised by Telefónica, S.A. through its subsidiary Telefónica Europe, B.V. at December 31, 2023 amounting 10,481 million euros (10,019 million euros in 2022). This financing entails a number of loans paying market interest rates calculated on a Euribor plus spread basis, with average interest rates at December 31, 2023 of 4.75% (4.11% in 2022). The main source of this financing was the funds obtained through the issuance of undated deeply subordinated reset rate guaranteed securities amounting to 7,656 million euros (7,564 million euros in 2022), bonds and debentures amounting to 1,656 million euros (1,689 million euros in 2022) and commercial paper amounting to 1,000 million euros (500 million euros in 2022).

Financing raised by Telefónica, S.A. through Telefónica Emisiones, S.A.U. at December 31, 2023 was 25,515 million euros (26,468 million euros in 2022). This financing is arranged as loans between these companies on the similar terms and conditions as those of the notes issued under the debt issuance programs of Telefónica Emisiones, S.A.U. The average interest rate in 2023 was 3.08%% (3.23% in 2022). The financing arranged includes, as a related cost, the fees or premiums taken to the income statement for the period corresponding to the financing based on the corresponding effective interest rates. Telefónica Emisiones, S.A.U. raised financing in 2023 by tapping the European capital markets, issuing bonds totaling 850 million euros (1,100 in 2022).

Part of the amount owed by Telefónica, S.A. to Telefónica Emisiones, S.A.U. and to Telefónica Europe, B.V. includes adjustments to amortized cost at December 31, 2023 and 2022 as a result of fair value interest rate and exchange rate hedges.

Telfisa Global, B.V. centralizes and handles cash management and flows for the Telefónica Group in Latin America, the United States, Europe and Spain. The balance payable to this subsidiary is formalized through several deposit agreements accruing interest at market rates and amounting to 4,580 million euros in 2023 (6,290 million euros in 2022).

15.2 Tax liabilities

The balance of "Payable to subsidiaries due to taxation on a consolidated basis" was 128 and 428 million euros at December 31, 2023 and 2022, respectively. This basically includes payables to Group companies for their contribution of taxable income (tax loss carryforwards) to the tax group headed by Telefónica, S.A. (see note 17). The current or non-current classification is based on the Company's projection of maturities.

The most significant balances in 2023 correspond to Telefónica Latinoamérica Holding, S.L. amounting to 38 million euros and 73 million euros of Telefónica de España, S.A.

The most significant balances in 2022 corresponded to Telefónica Latinoamérica Holding, S.L. amounting to 370 million euros, Telefónica Hispanoamérica, S.A. amounting to 24 million euros and Telefónica Innovación Digital, S.L. (previously Telefónica Digital España, S.L.) amounting 8 million euros.

Note 16. Derivative financial instruments and risk management policies

a) Derivative financial instruments

During 2023, the Group continued to use derivatives to limit interest and exchange rate risk on otherwise unhedged positions, and to adapt its debt structure to market conditions.

At December 31, 2023, the total outstanding balance of derivatives transactions was 64,139 million euros (64,079 million euros in 2022), of which 44,719 million euros are related to interest rate risk and 19,420 million euros to foreign currency risk. In 2022 there were, 42,040 million euros related to interest rate risk and 22,039 million euros to foreign currency risk.

This figure is inflated by the use, in some cases, of several levels of derivatives applied to the nominal value of a single underlying liability. For example, a foreign currency loan can be hedged into floating rate, and then each interest rate period can be fixed using a fixed rate hedge, or FRA (forward rate agreement). The high volume is also due to the fact that when a derivative transaction is cancelled, the Company may either cancel the derivative or take the opposite position, which cancels out the variability thereof. The second option is usually chosen in order to cut costs. Even using such techniques to reduce the position, it is still necessary to take extreme care in the use of derivatives to avoid potential problems arising through error or a failure to understand the real position and its associated risks.

It should be noted that at December 31, 2023, Telefónica, S.A. had transactions with financial institutions to hedge exchange rate risk for other Telefónica Group companies amounting to 636 million euros (631 million euros in 2022). At year-end 2023 and 2022, the Company had no transactions to hedge interest rate risk for other Group companies. These external trades are matched by intragroup hedges with identical terms and maturities between Telefónica, S.A. and Group companies, and therefore involve no risk for the Company. External derivatives not backed by identical intragroup transactions consist of hedges on net investment and future acquisitions that, by their nature, cannot be transferred to Group companies and/or transactions to hedge financing raised by Telefónica, S.A. as parent company of the Telefónica Group, which are transferred to Group subsidiaries in the form of financing rather than via derivative transactions.

The breakdown of Telefónica, S.A.'s interest rate and exchange rate derivatives at December 31, 2023, their notional amounts at year end and the expected maturity schedule is as follows:

2023

Type of risk	Value in Euros	Telefónica receives		Telefónica pays	
		Carrying	Currency	Carrying	Currency
Euro interest rate swaps	31,386				
Fixed to floating	11,208	11,208	EUR	11,208	EUR
Floating to fixed	12,580	12,580	EUR	12,580	EUR
Floating to floating	7,598	7,598	EUR	7,598	EUR
Foreign currency interest rate swaps	13,333				
Fixed to floating					
GBPGBP	460	400	GBP	400	GBP
USDUSD	12,873	14,226	USD	14,226	USD
Exchange rate swaps	12,910				
Fixed to fixed					
GBPEUR	582	500	GBP	582	EUR
Fixed to floating					
JPYEUR	95	15,000	JPY	95	EUR
Floating to floating					
GBPEUR	448	400	GBP	448	EUR
USDEUR	11,785	13,026	USD	11,785	EUR
Forwards	6,510				
BRLEUR	39	210	BRL	39	EUR
EURPEN	95	95	EUR	391	PEN
CZKEUR	95	2,339	CZK	95	EUR
EURBRL	3,194	3,194	EUR	17,088	BRL
EURCLP	58	58	EUR	56,635	CLP
EURGBP	324	324	EUR	282	GBP
EURMXN	1	1	EUR	15	MXN
EURUSD	1,415	1,415	EUR	1,563	USD
GBPEUR	12	10	GBP	12	EUR
USDBRL	26	27	USD	138	BRL
USDCLP	4	5	USD	4,315	CLP
USDCOP	3	3	USD	13,885	COP
USDEUR	1,237	1,358	USD	1,237	EUR
USDPEN	3	3	USD	12	PEN
CLPUSD	1	872	CLP	1	USD
BRLUSD	2	9	BRL	2	USD
COPUSD	1	4,027	COP	1	USD
PENUSD	—	2	PEN	—	USD
Total	64,139				

The breakdown by average maturity is as follows:

Millions of euros

Hedged underlying item	Notional	Up to 1 year	From 1 to 3 years	From 3 to 5 years	Over 5 years
Pension Plans	6,254	1,138	2,627	1,445	1,044
Loans	765	560	111	—	94
In national currency	400	400	—	—	—
In foreign currencies	365	160	111	—	94
Debentures and bonds MtM	42,609	3,298	4,636	7,859	26,816
In national currency	8,650	2,850	125	275	5,400
In foreign currencies	33,959	448	4,511	7,584	21,416
Other underlying (*)	14,511	10,811	—	—	3,700
Forward	6,511	6,511	—	—	—
IRS	8,000	4,300	—	—	3,700
Total	64,139	15,807	7,374	9,304	31,654

(*) Most of these transactions are related to economic hedges of investments, assets and liabilities of subsidiaries.

The breakdown of Telefónica, S.A.'s derivatives in 2022, their notional amounts at year end and the expected maturity schedule is as follows:

2022

Type of risk	Value in Euros	Telefónica receives		Telefónica pays	
		Carrying	Currency	Carrying	Currency
Euro interest rate swaps	25,792				
Fixed to floating	14,439	14,439	EUR	14,439	EUR
Floating to fixed	11,353	11,353	EUR	11,353	EUR
Foreign currency interest rate swaps	16,248				
Fixed to floating					
GBPGBP	451	400	GBP	400	GBP
USDUSD	14,935	15,943	USD	15,943	USD
Floating to fixed					
USDUSD	862	920	USD	920	USD
Exchange rate swaps	16,908				
Fixed to fixed					
EURUSD	2,185	2,185	EUR	2,333	USD
GBPEUR	582	500	GBP	582	EUR
Fixed to floating					
JPYEUR	95	15,000	JPY	95	EUR
Floating to floating					
EURUSD	703	703	EUR	750	USD
GBPEUR	448	400	GBP	448	EUR
USDEUR	12,895	14,403	USD	12,895	EUR
Forwards	5,131				
BRLEUR	209	1,143	BRL	209	EUR
EURPEN	30	30	EUR	122	PEN
CZKEUR	85	2,095	CZK	85	EUR
EURBRL	2,567	2,567	EUR	14,296	BRL
EURCLP	57	57	EUR	52,274	CLP
EURGBP	796	796	EUR	706	GBP
EURMXN	1	1	EUR	30	MXN
EURUSD	750	750	EUR	801	USD
GBPEUR	25	21	GBP	25	EUR
USDBRL	20	21	USD	113	BRL
USDCLP	7	6	USD	6,054	CLP
USDCOP	2	2	USD	11,543	COP
USDEUR	571	609	USD	571	EUR
USDPEN	3	3	USD	11	PEN
Subtotal	64,079				

The breakdown by average maturity is as follows:

Millions of euros					
Hedged underlying item	Notional	Up to 1 year	From 1 to 3 years	From 3 to 5 years	Over 5 years
Pension plans	7,008	754	2,073	2,262	1,919
Loans	2,174	1,004	1,057	18	95
In national currency	1,575	775	800	–	–
In foreign currencies	599	229	257	18	95
Debentures and bonds MtM	44,352	4,866	489	12,705	26,292
In national currency	6,500	2,200	125	100	4,075
In foreign currencies	37,852	2,666	364	12,605	22,217
Other underlying (*)	10,545	8,226	319	–	2,000
CCS	2,185	2,185	–	–	–
Forward	5,132	5,132	–	–	–
IRS	3,228	909	319	–	2,000
Total	64,079	14,850	3,938	14,985	30,306

(*) Most of these transactions are related to economic hedges of investments, assets and liabilities of subsidiaries.

The debentures and bonds hedged relate to both those issued by Telefónica, S.A. and intragroup loans on the same terms as the issues of Telefónica Europe, B.V. and Telefónica Emisiones, S.A.U.

b) Risk management policy

Telefónica, S.A. is exposed to various financial market risks as a result of: (i) its ordinary business activity, (ii) debt incurred to finance its business, (iii) its investments in companies, and (iv) other financial instruments related to the above commitments.

The main market risks affecting Telefónica are as follows:

Exchange rate risk

Foreign currency risk primarily arises in connection with: (i) Telefónica's international presence, through its investments and businesses in countries that use currencies other than euro (primarily in Latin America and in the United Kingdom), and (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) due to those accounts payable or receivable referred to the entity that has registered the transaction.

Interest rate risk

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), (ii) the value of non-current liabilities at fixed interest rates and (iii) financial expenses and principal payments of inflation-linked financial instruments, considering interest rate risk as the impact of changes in inflation rates.

Share price risk

Share price risk arises primarily from changes in the value of the equity investments (that may be bought, sold or otherwise involved in transactions), from changes in the value of derivatives associated with such investments, from changes in the value of treasury shares and from derivatives on treasury shares.

Other risks

Telefónica, S.A. is also exposed to liquidity risk if a mismatch arises between its financing needs (operating and financial expense, investment, debt redemptions and dividend commitments) and its sources of finance (revenues, divestments, credit lines from financial institutions and capital market operations). The cost of finance could also be affected by changes in the credit spreads (over benchmark rates) demanded by lenders.

Credit risk appears when a counterparty fails to meet or delays its payment obligations in accordance with the agreed terms, driving an impairment in an asset due to: (i) solvency issues, or (ii) no intention to pay.

Finally, Telefónica is exposed to country risk (which overlaps with market and liquidity risks). This refers to the possible decline in the value of assets, cash flows generated, or cash flows returned to the parent company as a result of political, economic or social instability in the countries where Telefónica, S.A. operates, especially in Latin America.

Risk management

Telefónica, S.A. actively manages these risks through the use of derivatives (primarily on exchange rates, interest rates, credit and share prices) and by incurring debt in local currencies, where appropriate, with a view to

optimize the financial cost and to stabilizing cash flows, the income statement and investments. In this way, Telefónica attempts to protect its solvency, facilitate financial planning and take advantage of investment opportunities.

Telefónica manages its exchange rate risk and interest rate risk in terms of net debt and net financial debt internally calculated. Telefónica believes that these parameters are more appropriate to understand its debt position. Net debt and net financial debt take into account the impact of the Group's cash and cash equivalents balances including derivative positions with a positive value linked to liabilities. Neither net debt nor net financial debt as calculated by Telefónica should be considered an alternative to gross financial debt (the sum of current and non-current interest-bearing debt).

Exchange rate risk

The fundamental objective of the exchange rate risk management policy is that, in case of depreciation in foreign currencies relative to the euro, any potential losses is hedged in the value of the business investment in foreign currency. The degree of exchange rate hedging employed varies depending on the type of investment. For transactions of purchase or sale of a business in currencies other than euro, additional hedges can be made based on the estimate prices of the transactions or on estimated cash flows.

Telefónica occasionally takes out dollar-denominated debt to hedge the euro-dollar intermediate component in the relation euro-Latin American currencies, either in Spain (where such debt is associated with an investment as long as it is considered to be an effective hedge) or in the country itself, where the market for local currency financing or hedges may be inadequate or non-existent.

At December 31, 2023, net financial debt in pounds sterling was equivalent to 82 million euros (597 million euros at December 31, 2022). The synthetic debt target denominated in pounds sterling will be directly related to

the flows that are expected to be repatriated from VMED O2 UK.

Telefónica also manages its exchange rate risk seeking to significantly reduce the negative impact of any currency exposure on the income statement, both from transactions recognized on the balance sheet and those classified as highly probable, regardless of whether or not open positions are held. Such open position exposure can arise for any of three reasons: (i) a thin market for local derivatives or difficulty in obtaining funding in the local currency, making it impossible to arrange a low-cost hedge (as in Argentina and Venezuela); (ii) financing through intra-group loans, where the accounting treatment of exchange rate risk is different from that for funding through capital contributions, and (iii) as the result of a deliberate policy decision, to avoid the high cost of hedges that are not warranted by expectations or high depreciation risks.

The main transactions that generate or may generate exchange rate risk (regardless of whether or not they have an impact on the income statement) are, among others: bond issuances in currencies other than the euro, which is Telefónica, S.A.'s functional currency, highly probable transactions in other currencies, future cash inflows in other currencies, investments and divestments, provisions for collections or payments and collections in foreign currency, the actual value of the investments (subsidiaries) in currencies other than the euro.

Interest rate risk

Telefónica's financial expenses are exposed to changes in interest rates. In 2023 the euro, Brazilian real, pounds sterling and the US dollar were the short term rates that accounted for most of the exposure. Telefónica manages its interest rate risk by entering into derivative financial instruments, primarily swaps and interest rate options.

Telefónica analyzes its exposure to changes in interest rates at the Telefónica Group level. The table illustrates the sensitivity of finance costs and the balance sheet to variability in interest rates at Group and Telefónica, S.A. level.

	Impact on Consolidated P/L	Impact on Telefónica, S.A. P/L	Impact on Consolidated Equity	Impact on Telefónica, S.A. Equity
+100bp	(25)	(8)	238	64
-100bp	25	8	(238)	(64)

To calculate the sensitivity of the income statement, a 100 basis point rise in interest rates in all currencies in which there are financial positions at December 31, 2023 has been assumed, as well as a 100 basis point decrease in all currencies in order to avoid negative rates. The constant position equivalent to that prevailing at the end of the year has also been assumed.

To calculate the sensitivity of equity to variability in interest rates, a 100 basis point increase in interest rates

in all currencies and terms in which there are financial positions at December 31, 2023 was assumed, as well as a 100 basis point decrease in all currencies and terms. Cash flow hedge positions were also considered as they are the only positions where changes in market value due to interest-rate fluctuations are recognized in equity.

In both cases, only transactions with external counterparties have been considered.

Share price risk

The Telefónica Group is exposed to changes in the value of equity investments, of derivatives associated with such investments, of share-based payments plans, of treasury shares and of equity derivatives over treasury shares.

According to the share-based payments plans (see note 19) the shares to be delivered to employees under such plan may be either the parent company treasury shares, acquired by Telefónica or any of its Group companies; or newly-issued shares. The possibility of delivering shares to beneficiaries of the plan in the future implies a risk since there could be an obligation to hand over the maximum number of shares granted at the end of each cycle, whose acquisition (in the event of acquisition in the market) in the future could imply a higher cash outflow than required on the start date of each cycle if the share price at the vesting date is above the price at the start of the cycle. In the event that new shares are issued for delivery to the beneficiaries of the plan, there would be a dilutive effect for ordinary shareholders of Telefónica as a result of the higher number of shares delivered under such plan outstanding.

In 2018, the General Shareholder's Meeting approved a long-term incentive plan consisting of the delivery of shares of Telefónica, S.A. allocated to executives and managers of the Telefónica Group. In 2021, the General Shareholder's Meeting approved a new long-term incentive plan consisting of the delivery of shares of Telefónica, S.A. allocated to executives and managers of the Telefónica Group.

Additionally, the 2022 Shareholder's Meeting approved a share plan for the incentivized purchase of shares for employees of the Telefónica Group, which was implemented in June 2022. The characteristics of these three plans are described in note 19.

To reduce the risk associated with variations in share price under these plans, Telefónica could acquire instruments that hedge the risk profile of some of these plans.

In addition, part of the treasury shares of Telefónica, S.A. held at December 31, 2023 might be used to hedge the shares deliverable under the new plans. The fair value of the treasury shares at liquidation moment could increase or decrease depending on the variations in Telefónica, S.A.'s share quotation.

Liquidity risk

Telefónica seeks to match the schedule for its debt maturity payments to its capacity to generate cash flows to meet these maturities, while allowing for some flexibility. In practice, this has been translated into two key principles:

1. Telefónica's average maturity of net financial debt is intended to stay above 6 years, or be restored above

that threshold in a reasonable period of time if it eventually falls below it. This principle is considered as a guideline when managing debt and access to credit markets, but not a rigid requirement. When calculating the average maturity for the net financial debt and part of the undrawn credit lines can be considered as offsetting the shorter debt maturities, and extension options on some financing facilities may be considered as exercised, for calculation purposes.

2. Telefónica must be able to pay all commitments over the next 12 months without accessing new borrowing or tapping the capital markets (drawing upon firm credit lines arranged with banks), assuming budget projections are met.

Country risk

Telefónica managed or mitigated country risk by pursuing two lines of action (in addition to its normal business practices):

1. Partly matching assets to liabilities (those not guaranteed by the parent company) in the Latin American companies so that any potential asset impairment would be accompanied by a reduction in liabilities; and,
2. Repatriating funds generated in Latin America that are not required for the pursuit of new, profitable business development opportunities in the region.

Credit risk

The Telefónica Group trades in derivatives with creditworthy counterparties. Therefore, Telefónica, S.A. generally trades with credit entities whose "senior debt" ratings are of at least "A-" or in case of Spanish entities in line with the credit rating of the Kingdom of Spain. In Spain, where most of the Group's derivatives portfolio is held, there are netting agreements with financial institutions, with debtor or creditor positions offset in case of bankruptcy, limiting the risk to the net position. In addition, the CDS (Credit Default Swap) of all the counterparties with which Telefónica, S.A. operates is monitored at all times in order to assess the maximum allowable CDS for operating at any given time. Transactions are generally only carried out with counterparties whose CDS is below the threshold.

CVA or net *Credit Valuation Adjustment* (CVA+DVA) by is the method used to measure credit risk for both counterparties and Telefónica in order to determine the fair value of the derivatives portfolio. This adjustment reflects the probability of default or the deterioration of the credit quality of both Telefónica and its counterparties. The simplified formula to calculate CVA is Expected Exposure times Probability of Default times Loss Given Default (LGD). In order to calculate these variables standard market practices are used.

When managing credit risk, Telefónica considers the use of CDS, novations, derivatives with break clauses and signing CSAs under certain conditions.

For other subsidiaries, particularly those in Latin America, assuming a stable sovereign rating provides a ceiling which is below "A", trades are with local financial entities whose rating by local standards is considered to be of high creditworthiness.

Meanwhile, with credit risk arising from cash and cash equivalents, the Telefónica Group places its cash surpluses in high quality money-market assets. These placements are regulated by a general framework, revised annually. Counterparties are chosen according to criteria of liquidity, solvency and diversification based on the conditions of the market and countries where the Group operates. The general framework sets: the maximum amounts to be invested by counterparty based on its rating (long-term debt rating); and the instruments in which the surpluses may be invested (money-market instruments).

Formal delegation of authority procedures and management practices are implemented in the different Group companies, taking into account benchmark risk management techniques but adapted to the local characteristics of each market. Commercial debtors that may cause a relevant impact on the Telefónica Group consolidated financial statements and increased risk profile products - due to customer target, term, channels or other commercial characteristics - are subject to specific management practices in order to mitigate the exposure to credit risk.

This customer credit risk management model is embedded in the day-to-day operational processes of the different companies, where the credit risk assessment guides both the product and services available for the different customers and the collection strategy.

Telefónica's maximum exposure to credit risk is initially represented by the carrying amounts of the assets (see notes 8 and 9) and the guarantees given by Telefónica (see note 20).

Capital management

Telefónica's corporate finance department takes into consideration several factors for the evaluation of the capital structure of the Company, with the aim of maintaining the solvency and creating value to the shareholders.

The corporate finance department estimates the cost of capital on a continuous basis through the monitoring of the financial markets and the application of standard industry approaches for calculating weighted average cost of capital, or WACC, so that it can be applied in the valuation of businesses in course and in the evaluation of investment projects. Telefónica also uses as reference a certain level of net financial debt (excluding items of a

non-recurring or exceptional nature) that allows a comfortable investment grade credit rating as assigned by credit rating agencies, aiming at protecting credit solvency and making it compatible with alternative uses of cash flow that could arise at any time.

These general principles are refined by other considerations and the application of specific variables, such as country risk in the broadest sense, or the volatility in cash flow generation that are considered, when evaluating the financial structure of the Telefónica Group and its different areas.

Interest rate benchmark reform and associated risks

In 2022, the transition was made to the new reference indexes affected as of December 31, 2022 (GBP Libor and CHF Libor) and in June 2023 the one related to USD Libor. Due to the need to incorporate substitute indexes (known as fallbacks) of the reference rates used in the contracts, in 2021 Telefónica S.A. decided not to adhere to the ISDA Protocol and has since negotiated bilateral contracts with each affected counterparty. Thanks to the decisions agreed in 2021 to manage the changes in Libor, there have been no impacts from these changes, no contractual modifications of derivative instruments nor impact on hedging relationships directly affected by the reform. Thus, since June 2023, all Libor indexes have been replaced by Libor Fallbacks for the entire portfolio outstanding on that date.

Derivatives Policy

Telefónica's derivatives policy emphasizes the following points:

- Derivatives based on a clearly identified underlying.
- Matching of the underlying to one side of the derivative.
- Matching the company contracting the derivative and the company that owns the underlying.
- Ability to measure the derivative's fair value using the valuation systems available to the Telefónica Group.
- Sale of options only when there is an underlying exposure.

Hedge accounting

Hedges can be of three types:

- Fair value hedges.
- Cash flow hedges. Such hedges can be set at any value of the risk to be hedged (interest rates, exchange rates, etc.) or for a defined range (interest rates between 2% and 4%, above 4%, etc.). In this last case, the hedging instruments used are options and only the intrinsic value of the option is recognized as an effective hedge.

The changes in the temporal value of the option are registered in the income statements.

- Net investment hedges in consolidated foreign subsidiaries. Generally, such hedges are arranged by the parent company. Wherever possible, these hedges are implemented through real debt in foreign currency. However, this is not always possible as many Latin American currencies are non-convertible, making it impossible for non-resident companies to issue local currency debt. It might also occur that the local debt market is not deep enough to accommodate the required hedge, or that an acquisition is made in cash with no need for market financing. In these circumstances, derivatives, either forwards or cross-currency swaps, are mainly used to hedge the net investment.

Hedges can comprise a combination of different derivatives.

There is no reason to suppose management of accounting hedges will be static, with an unchanging hedging relationship lasting right through maturity. Hedging relationships may change to allow appropriate management that serves our stated principles of stabilizing cash flows, stabilizing net financial income/expense and protecting our equity. The designation of hedges may therefore be cancelled, before maturity, because of a change in the underlying, a change in the perceived risk on the underlying or a change in market view. The hedges must meet the effectiveness test and be well documented. To gauge the efficiency of transactions defined as accounting hedges, Telefónica analyzes the extent to which the changes in the fair value or in the cash flows attributable to the hedging instrument would offset the changes in fair value or cash flows attributable to the hedged risk using a linear regression model for both forward- and backward-looking analysis.

The possible sources of ineffectiveness that might arise when designing a hedging relationship and that will be considered when establishing the hedging rationale are:

- The hedging instrument and the hedged item have different maturity dates, initial dates, contract dates, repricing dates, etc.
- The hedging instrument starts with initial value and a financing effect is produced.
- When the underlying items have different sensitivity and are not homogeneous, for example EURIBOR 3M versus EURIBOR 6M.

The main guiding principles for risk management are laid down by Telefónica's finance department (who are responsible for balancing the interests of the companies in a standalone basis and those of the Telefónica Group). The Corporate finance department may allow exceptions to this policy where these can be justified, normally when the market is too thin for the volume of transactions required or on clearly limited and small risks.

In 2023 the Company recognized a loss of 2.8 million euros for the ineffective part of cash flow hedges (a loss of 0.3 million euros in 2022).

The fair value of Telefónica, S.A.'s derivatives with third parties amounted to a positive MtM (accounts receivable) of 502 million euros in 2023 (985 million euros in 2022).

The fair value of Telefónica, S.A.'s intragroup derivatives amounted to a negative MtM (accounts payable) of 12 million euros in 2023 (accounts payable of 16 million euros in 2022).

The breakdown of the Company's derivatives with third party counterparties at December 31, 2023 and 2022 by type of hedge, their fair value at year end and the expected maturity schedule of the notional amounts is as follows:

2023

Millions of euros

Derivatives	Fair value (**)	Notional amount maturities (*)				
		2024	2025	2026	Subsequent years	Total
Interest rate hedges	(300)	(1,200)	(302)	–	(3,849)	(5,351)
Cash flow hedges	21	(1,500)	(827)	–	2,627	300
Fair value hedges	(321)	300	525	–	(6,476)	(5,651)
Exchange rate hedges	(381)	(81)	–	582	5,413	5,914
Cash flow hedges	(377)	–	–	582	5,413	5,995
Fair value hedges	(4)	(81)	–	–	–	(81)
Interest and exchange rate hedges	30	80	46	9	751	886
Cash flow hedges	30	80	46	9	751	886
Net investment Hedges	6	(2,965)	–	–	–	(2,965)
Other derivatives	143	(168)	(239)	1,023	(1,032)	(416)
Interest rate	109	(288)	(348)	(738)	(1,657)	(3,031)
Exchange rate	(110)	(687)	–	1,761	625	1,699
Other	144	807	109	–	–	916

(*) For interest rate hedges, the positive amount is in terms of fixed "payment." For foreign currency hedges, a positive amount means payment in functional versus foreign currency.

(**) Positive amounts indicate payables.

2022

Millions of euros

Derivatives	Fair value (**)	Notional amount maturities (*)				
		2023	2024	2025	Subsequent years	Total
Interest rate hedges	(94)	(800)	–	(302)	(5,360)	(6,462)
Cash flow hedges	(17)	–	–	(177)	177	–
Fair value hedges	(77)	(800)	–	(125)	(5,537)	(6,462)
Exchange rate hedges	(972)	(78)	–	–	6,438	6,360
Cash flow hedges	(966)	–	–	–	6,438	6,438
Fair value hedges	(6)	(78)	–	–	–	(78)
Interest and exchange rate hedges	(2)	110	80	46	760	996
Cash flow hedges	(2)	110	80	46	760	996
Net investment Hedges	(18)	(2,474)	–	–	–	(2,474)
Other derivatives	101	(2,624)	(479)	(348)	(49)	(3,500)
Interest rate	174	(1,539)	(688)	(348)	(2,435)	(5,010)
Exchange rate	(244)	(1,792)	–	–	2,386	594
Other	171	707	209	–	–	916

(*) For interest rate hedges, the positive amount is in terms of fixed "payment." For foreign currency hedges, a positive amount means payment in functional versus foreign currency.

(**) Positive amounts indicate payables.

Note 17. Income tax

Pursuant to a Ministerial Order dated December 27, 1989, Telefónica, S.A. has filed consolidated tax returns with certain Group companies. The consolidated tax group in 2023 and 2022 comprised 45 and 47 companies, respectively.

This tax consolidation regime applies indefinitely providing the companies continue to meet the requirements set down in prevailing legislation, and that application of the regime is not expressly waived.

Tax balances as of December 31, 2023 and 2022 are as follows:

Millions of euros	2023	2022
Tax receivables:	1,461	728
Deferred tax assets:	1,224	423
Deferred income tax (income)	371	118
Long-term tax credits for loss carryforwards	658	38
Unused tax deductions	195	267
Current tax receivables (Note 10):	237	305
Withholdings	11	9
Corporate income tax receivable	216	292
VAT and Canary Islands general indirect tax refundable	10	4
Tax payable:	252	347
Deferred tax liabilities:	95	189
Current payables to public administrations (Note 18):	157	158
Personnel income tax withholdings	5	5
Withholding on investment income, VAT and other	150	151
Social security	2	2

Telefónica S.A., considers that unused tax loss carryforwards in Spain, taking into account tax litigation in which the Group is involved, amount to 2,881 million euros at December 31, 2023.

Dec 31 2023	Total carry-forwards	Less than 1 year	More than 1 year	Total recognized
Tax Group tax credits for loss carryforwards	2,633	—	2,633	658
Prior to Tax Group loss carryforwards (*)	248	—	248	—

(*) Unused tax credits for loss carryforwards

Total tax credits based on the taxable income recognized in the balance sheet at December 31, 2023 amounts to 658 million euros (38 million euros in 2022).

During 2023, Telefónica, S.A., as head of the Telefónica tax group, made payments on account of income tax amounting to 198 million euros (289 million euros in 2022).

17.1 Movement in deferred tax assets and liabilities

The balances and movements in deferred tax assets and liabilities for Telefónica, S.A. at December 31, 2023 and 2022 are as follows:

2023

Millions of euros	Tax credits	Temporary differences, assets	Deductions	Total deferred tax assets	Deferred tax liabilities
Opening balance	38	118	267	423	189
Additions	702	273	23	998	4
Disposals	(80)	(19)	(119)	(218)	(96)
Transfers to the tax Group's net position	(1)	—	24	23	(2)
Closing balance	658	371	195	1,224	95

2022

Millions of euros	Tax credits	Temporary differences, assets	Deductions	Total deferred tax assets	Deferred tax liabilities
Opening balance	580	155	274	1,009	91
Additions	58	14	253	325	250
Disposals	(600)	(51)	(286)	(937)	(152)
Transfers to the tax Group's net position	—	—	26	26	—
Closing balance	38	118	267	423	189

The company assesses the recoverability of deferred tax assets based on the future activities carried out by the different companies that conform the Tax Group, on the Spanish tax regulation and on the strategic decisions affecting the companies. At December 31, 2023 the estimate of the recoverability of deferred tax assets has been assessed taking into account, (i) the estimated Tax Group companies result, (ii) the regulatory changes caused by the entry into force of Law 38/2022 setting a limit to the compensation of loss within subsidiaries within Consolidated Tax Groups and (iii) the impacts of RD 3/2016 (see Sentence of the Constitutional Court over the Royal Decree 3/2016 at the end of this note).

Following this analysis, in 2023 an activation of deferred tax assets for loss carryforwards and deductions amounting to 298 million euros has been recorded with a balancing entry in deferred income tax.

As a consequence of the sentence of the EU General Court (TGEU) on September 27, 2023 finally cancelling the Third Decision 2015/314 of the European Commission (see note 17.3 Tax deductibility of financial goodwill in Spain), an addition of tax credits for loss carryforwards has been recorded by 334 million euros with an entry in deferred income tax.

Moreover, in 2023 a long term tax provisions (see note 18) and the related deferred tax assets were reversed by 49 million euros after the decision about the state aid recuperation procedure corresponding to the tax deductibility of financial goodwill from 2019 and 2020 (see note 17.3 Tax deductibility of financial goodwill in Spain).

The disposal in the caption of deferred tax liabilities in 2023 is caused by the accounting of the tax effect in the valuation of financial derivative instruments with changes through equity amounting to 96 million euros. This concept in 2022 was a creation of 250 million euros of deferred tax liability.

In accordance with Law 38/2022, of December 27 which sets up temporary calculation steps for Income Tax Groups limiting the amount of negative loss carryforwards in the tax result to 50% in 2023, an addition under the caption of temporary differences, assets has been registered by 256 million euros.

With respect to the execution of the ruling filed by the Spanish *Audiencia Nacional* on October 29, 2021; as detailed in section 17.3, a Disposal by 512 million euros of deferred tax assets for loss carryforwards and a Disposal of 269 million euros of deductions was registered in 2022.

Moreover, in 2022 an Addition of 58 million euros of tax assets for loss carryforwards and a reversal of 16 million

euros of tax credits from deductions was recorded with a balancing entry in income tax in the income statement.

17.2 Reconciliation of accounting profit (loss) to taxable income and income tax expense to income tax payable

The calculation of the income tax expense and income tax payable for 2023 and 2022 is as follows.

Millions of euros	2023	2022
Accounting profit (loss) before tax	1,129	(1,541)
Permanent differences	(3,102)	(1,853)
Temporary differences:	(7)	(37)
Arising in the year	61	28
Arising in prior years	(68)	(65)
Tax result	(1,980)	(3,431)
Gross tax payable	(495)	(858)
Corporate income tax refundable	(495)	(858)
Activation/Reversal of loss carryforwards and/or deductions	(655)	137
Temporary differences for tax valuation	2	9
Other effects	93	30
Corporate income tax accrued in Spain	(1,055)	(682)
Foreign taxes	31	21
Income tax	(1,024)	(661)
Current income tax	(244)	(761)
Deferred income tax	(780)	100

The permanent differences mainly correspond to the impairment of the investments in Group companies, to the non-taxable dividends received and to the financial goodwill.

The heading Activation/reversion of loss carryforwards and/or deductions mainly includes the activations of loss carryforwards by 702 million euros as described at the beginning of this note (Disposal of loss carryforwards by 410 million euros in 2022) and the reversal of deductions by 70 million euros in 2023 (207 million euros of deduction activations in 2022).

The caption Other effects mainly includes the impact arising from the provision made in relation to the tax deductibility of the financial goodwill.

17.3 Tax inspections and tax-related lawsuits

In July 2019, new inspection proceedings were initiated with respect to several of the companies belonging to tax group 24/90, of which Telefónica, S.A. is the dominant company. The taxes and period being audited were corporate income tax for the years 2014 to 2017.

In January 2022 the tax inspection proceeding was closed after the reception of the resolution agreement. The Company filed an appeal against this resolution to the Economic-Administrative Central court including the non-agreed adjustments, mainly corresponding to the "juros over equity". In December 2022 the Company received a rejected resolution by the Economic-Administrative Central court which was appealed by the Company to the Contencioso-Administrativo court in the Spanish Audiencia Nacional in February 2023.

With respect to the inspection proceedings for the years 2008-2011, in July 2022 a Supreme Court resolution was notified with the dismissal of the appeal filed by the Government lawyers against the resolution of the Spanish Audiencia Nacional dated October 29, 2021, which validated the liquidation usage criteria of negative loss carryforwards and deductions used by Telefónica, S.A. in the inspections agreements of those years.

On October 24, 2022 an execution agreement filed by the Spanish Audiencia Nacional ordered a payment to Telefónica, S.A. amounting to 790 million euros as notional of the taxes as well as 526 million euros of interests (note 19.6). Said amounts were collected on October 28, 2022.

In July 2023 new inspection proceedings were initiated with respect to several of the companies belonging to tax group 24/90, of which Telefónica, S.A. is the dominant company. The taxes and period being audited were as follows: corporate income tax for the years 2018 to 2021 and value added tax for period between May to December 2019 as well as the years 2020 and 2021.

At year-end of 2023, even if there are inspection proceedings ongoing, tax-related lawsuits to be concluded and additional years to be inspected yet, it was determined that there was no need to record additional liabilities in these financial statements.

Tax deductibility of financial goodwill in Spain

The tax regulations added article 12.5 to the Spanish Corporate Income Tax Law, which came into force on January 1, 2002. The article regulated the deductibility of tax amortization of financial goodwill (fondo de comercio) arising from the acquisition of non-Spanish companies, which could be amortized over 20 years at 5% per annum.

Following the entry into force of the Laws 9/2011 of August 19, 2011 and 16/2013 of October 29, 2013, the amount of goodwill amortization deductible for tax purposes under article 12.5 for the years 2011 to 2015 was reduced from 5% to 1%. The effect is temporary because the 4% not amortized for five years (20% 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 amortizing for tax purposes the financial goodwill from its investments, both direct and indirect, in O2, BellSouth and Colombia Telecom (prior to December 21, 2007) and Vivo (acquired in 2010). The positive accumulated effect in the corresponding settlements of corporate income tax from 2004 to the closing of December 31, 2023, was 2,206 million euros.

In relation to this tax incentive, the European Commission (EC) 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 EC itself acknowledged in the first decision the validity of the tax incentive for those investors that invested in European companies for operations carried out before December 21, 2007, and before May 21, 2011 for investments in other countries in the second decision, in its third decision dated October 15, 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.

Furthermore, there are also doubts in the Spanish Courts about the classification of the incentive as a deduction and if this deduction would remain in the case of a subsequent transmission.

On October 6, 2021, the Court of Justice of the European Union concluded that the European Commission correctly classified the Spanish Tax depreciation scheme of financial goodwill as state aid and non-compatible with the internal market for the First and Second decisions.

With regard to the recognition of legitimate expectations for the First and Second decisions, the Court of Justice of the European Union confirms its applicability.

The proceedings initiated on the Third Decision, which was suspended until the resolution of the First and Second Decisions, was reactivated on October 19, 2021 and the final ruling decision implied the cancellation of

the Third Decision (EU) 2015/314 with effects since the date of its publication. However, considering the appeal filed by the European Commission to the highest court on December 14, 2023, the ruling can not be considered as final yet. After the ruling was filed, the Company activated 334 million euros of tax credits, in accordance with the opinion of the company and its advisors as to the likely outcome of the aforementioned appeal.

As a consequence of the sentence as well as the sentence filed by the Constitutional Court over Royal Decree 3/2016, Telefónica might increase the available tax credit loss carryforwards and deductions (additionally to the 334 million euros already mentioned), totally or partially used in the liquidation of those tax years. The amounts are detailed at the end of this note.

The Tax and Customs Control Unit of the Spanish Tax Authority (Dependencia de Control Tributario y Aduanero de la Agencia Tributaria), in compliance with the obligation set out in the EC Decision (EU) 2015/314, recovered in March 2019 and February 2021, the amortization of goodwill for the indirect acquisition of non-resident companies from 2005 to 2015, for the years 2016 to 2018 and informed in December 2022 the recovery for the years ended 2019 and 2020. The result of the settlement, once offset by outstanding tax credits (tax losses carryforward and deductions), resulted in a payment of 13,4 million euros.

Notwithstanding the fact that Telefónica understands that the principle of legitimate expectations in relation to this tax incentive applies, in relation to tax-amortized goodwill through the purchase of some companies for which the applicability of the legitimate expectations principle is questioned, mainly Vivo, the Group applied in 2023 the provision for the recovered part, 49 million, and continue provisioning the amount of the goodwill amortized for tax purposes, and not recovered by the Administration which amounted to 419 million euros as of December 31, 2023 (406 million euros as of December 31, 2022).

The new international tax regulation (Pillar Two)

On December 20, 2023, the Draft Law establishing a complementary tax to guarantee a global minimum level of taxation for multinational groups and large national groups was published in Spain. Said document has been submitted to the public information process for the presentation of observations during the period between December 21, 2023 and January 19, 2024, without it having been approved as of the date of formulation of these financial statements.

Starting in 2024, once the aforementioned Law is approved, the Telefónica Group will be subject in Spain to a complementary tax that will tax the profits obtained in any jurisdiction in which it operates in which the effective

tax rate, calculated at the jurisdictional level, is lower than the minimum rate of 15%.

As the rule that regulates this tax has not yet come into force in Spain, the Group has not recorded any impact on the tax expense for the year. On the other hand, the Group applies the exception to recognize and disclose information on deferred tax assets and liabilities related to this tax, as provided in the amendments to IAS 12 issued in May 2023.

Taking into account the existing regulatory framework at the date of authorization for issuance of these financial statements, it is not yet possible to make a precise and reliable estimate of the impact that the application of the Pillar Two standard will have. However, and in accordance with the analysis carried out on the years prior to the period of application, and except for possible unforeseen events in subsequent years, it is estimated that the new tax will not have a material impact on the Group's income statement.

The Telefónica Group has assumed the commitment to apply the OECD Pillar Two guidelines, is aligned with the principles and actions advocated by the OECD and is working on the analysis of the impact of the new standard, to establish a system of compliance and control and management, which allows to adapt to regulations in a timely manner.

Sentence of the Constitutional Court over the Royal Decree 3/2016

On January 18, 2024 the members of the Constitutional Court (TC) have unanimously declared unconstitutional certain policies set up by RDL 3/2016 of December 2 regarding Income Tax. Precisely, the fixation of more severe limits for the compensation of tax loss carryforwards, the introduction of a new limit in the application of double tax deductions and the obligation of including automatically in the tax base the impairment of investments already deduced in previous years. This sentence, following the TC trend in previous rulings, points out that, based on the legal security principle, the unconstitutional declaration effects are limited.

Telefónica has been raising written requirements requesting for correction of the years 2016 and after, not only of the tax income liquidations (220 Forms) of the consolidated tax Group 24/09 but also of the individual liquidations of tax income (200 Forms) of each and every company affected by the ruling. Because of this, the declaration of unconstitutionality would not applied to the Group.

Although the corporate tax returns of the Tax Group in Spain for the years 2016 to 2022 will be affected by the aforementioned ruling, as of the date of these financial statements, the determination with a sufficient degree of certainty of the effects in Telefónica's tax situation is not possible nor the moment when the administrative sentences in which said effects are recognized will be issued, given the state of the procedures in which Telefónica's claims are elucidated. This is to the extent that various uncertainty factors occur preventing, from the quantitative point of view, these effects from being determined as well as predicting when they might be determined or materialized.

As a result of the implementation of this TC ruling, as well as that of the General Court of the Court of Justice of the European Union regarding the amortization of goodwill, Telefónica could again have available (in addition to the 334 million euros, see *Main changes registered in 2023* above in this note), totally or partially, the following tax credits for tax loss carryforwards and deductions used in the settlements of those years; for tax loss carryforwards for the years: 2002, 247 million euros, 2004, 21 million euros, 2011, 615 million euros and 2015, 1,503 million euros; and, for deductions: for double taxation from 2010 to 2020, 952 million euros, for reinvestment from 2003 and from 2011 to 2013, 23 million euros, for investments from 2003 to 2013, 476 million euros, for donations from 2009 to 2018, 260 million euros, for fixed assets in the Canary Islands from 2010 to 2020, 101 million euros and for reversal of temporary measures from 2015 to 2020, 29 million euros.

Note 18. Trade, other payables and provisions

A) Trade and other payables

The breakdown of "Trade and other payables" is as follows:

Millions of euros	2023	2022
Suppliers	156	84
Accounts payable to personnel	46	49
Other payables	12	10
Other payables to public administrations (Note 17)	157	158
Total	371	301

Information on deferred payments to third parties. Third additional provision, "Information requirement" of Law 15/2010 of July, 5, amended by Law 28/2022 of September, 28

In accordance with the aforementioned Law, the following information corresponding to the Company is disclosed:

	2023	2022
	Number of days	Number of days
Weighted average maturity period	22	26
Ratio of payments	23	25
Ratio of outstanding invoices	20	34

	Millions of euros	Millions of euros
Total Payments	215	266
Outstanding invoices	33	22

Telefónica, S.A. has adapted its internal processes and payment schedules to the provisions of Law 15/2010 (amended by Law 31/2014) and Royal Decree 4/2013, amending Law 3/2004, establishing measures against late payment in commercial transactions. Engagement conditions with commercial suppliers, as contractually agreed with them, in 2023 included payment periods with a maximum of 60 days.

For reasons of efficiency and in line with general practice in the business, the Company has set payment schedules, whereby payments are made on set days.

Invoices falling due between two payment days are settled on the following payment date in the schedule.

Payments to Spanish suppliers in 2023 surpassing the legal limit were due to circumstances or incidents beyond the payment policies, mainly the delay in the billing process (a legal obligation for the supplier), the closing of agreements with suppliers over the delivery of goods or the rendering of services, or occasional processing issues.

Additional information required by Law 18/2022, amending the third additional provision of Law 15/2020 is disclosed below:

	2023	2022
Monetary volume of invoices paid in a period less than the maximum established in the regulations (millions of euros)	183	255
Percentage over total payments	85 %	96 %
Number of invoices paid in a period less than the maximum established in the regulations	4,411	8,537
Percentage over the total number of invoices paid	60 %	92 %

B) Provisions

In 2023 and 2022 the concepts and amounts under the provisions caption are the following:

2023			
Millions of euros	Non-current	Current	Total
Tax Provisions	419	–	419
Termination plans (Note 19)	81	36	117
Other provisions	109	–	109
Total	609	36	645

2022			
Millions of euros	Non-current	Current	Total
Tax Provisions	406	–	406
Termination plans (Note 19)	81	26	107
Other provisions	114	2	116
Total	601	28	629

Movements in the provisions during 2023 and 2022 are disclosed below:

Millions of euros	2023	2022
Opening balance:	629	690
Additions	111	84
Amortization and reversals	(92)	(148)
Fair value adjustments and others	(3)	3
Closing balance:	645	629
Non-current	609	601
Current	36	28

In 2023 and 2022 the caption "Additions" included 62 million euros in both years, of tax provisions for the article 12.5 of the Spanish Corporate Tax Law related to the acquisition of Vivo (see note 17). In 2023, after the recovery of the amortization of financial goodwill made by Spanish Tax Authorities detailed in note 17.3, the Company has amortized an amount of 49 million euros of long term tax accrual for this concept. The amortization is shown as Amortization and reversals in 2023 chart of movements.

In 2019 Telefónica, S.A. launched a new voluntary termination plan for the employees who met certain requirements regarding the age of the employee and the seniority in the Company. The program was implemented during the first months of 2020. In 2022 the programs launched were carried on. Additional expense of 2 million euros was registered in 2022 to cover the programs.

In addition, in 2023 the Company has launched a new voluntary termination plan for the employees who meet certain requirements regarding the age of the employee and the seniority in the Company. The program has been implemented during the first months of 2024. An accrual of 34 million euros corresponding to this plan has been registered in 2023 income statement.

In 2023 and 2022 amortization of 21 and 28 million euros, respectively, related to the different programs launched in previous years have been registered.

Note 19. Revenue and expenses

19.1 Revenue

a) Rendering of services

Telefónica, S.A. has contracts for the right to use the Telefónica brand with Group companies which use the license. The amount each subsidiary must recognize as a cost for use of the license is stipulated in the contract as a percentage of income obtained by the licensor. In 2023 and 2022, "Rendering of services to Group companies and associates" included 399 and 400 million euros, respectively, for this item.

Telefónica, S.A. has signed contracts to provide management support services to Telefónica de España, S.A.U, Telefónica Móviles España, S.A.U., Telefónica UK, Ltd., Telefónica Latinoamérica Holding, S.L., Telefónica Hispanoamérica, S.A., Telxius Telecom, S.A. and Telefónica Germany, GmbH. In September 2022 Telefónica Latinoamérica Holding, S.L. partially transferred the contract signed with Telefónica, S.A. to TLH HOLDCO, S.L. so that Telefónica, S.A. went on to provide these services also to TLH HOLDCO, S.L. from January 1st, 2022. Revenues received for this concept in 2023 and 2022 amount to 26 and 24 million euros, respectively, and are recognized under Rendering of services to Group companies and associates.

Revenues in 2023 and 2022 also include property rental income amounting to 34 and 37 million euros, respectively, mainly generated from the lease of office space in Distrito Telefónica to several Telefónica Group companies (see note 7).

b) Dividends from Group companies and associates

The detail of the main amounts recognized in 2023 and 2022 is as follows:

Millions of euros	2023	2022
Telfisa Global, B.V.	1,042	14
Telefónica de España, S.A.U.	473	—
Telefónica O2 Holdings Limited	1,153	909
Telefónica Móviles España, S.A.U.	677	—
Telefónica Brasil, S.A.	242	309
Sao Paulo Telecomunicações, Ltda	—	18
Telxius Telecom, S.A	140	—
Telefónica Finanzas, S.A.U	118	182
Other companies	14	18
Total	3,859	1,450

c) Interest income on loans to Group companies and associates

This heading includes the return obtained on loans granted to subsidiaries to carry out their business (see note 8.5). The breakdown of the most significant amounts is as follows:

Millions of euros	2023	2022
Telefónica Cybersecurity & Cloud Tech, S.L.	5	5
Telfisa Global, B.V.	13	6
Telxius Telecom, S.A.	4	2
Telefónica Europe, B.V.	2	2
Other companies	4	—
Total	28	15

As described in note 15.1, Telfisa Global, B.V. is in charge of the cash pooling services of the Group. In 2021, and based on the recommendations by the OECD Transfer Pricing Guidance on Financial Transactions, the Company signed an agreement to partially share the financial profit or loss raised by its subsidiary within its operations. In 2023 and 2022 the impact has been a revenue shown in the chart above.

19.2 Non-core and other current operating revenues

Non-core and other current operating revenues – Group companies relates to revenues on centralized services that Telefónica, S.A., as head of the Group, provides to its subsidiaries. Telefónica, S.A. bears the full cost of these services and then charges each individual subsidiary for the applicable portion.

19.3 Personnel expenses and employee benefits

The breakdown of Personnel expenses is as follows:

Millions of euros	2023	2022
Wages, salaries and other personnel expenses	199	163
Pension plans	7	9
Social security costs	26	24
Total	232	196

In 2023 and 2022, Wages, salaries and other personnel expenses includes compensation accruals amounting to 34 million euros (2 million euros in 2022) as described in note 18.

Telefónica has reached an agreement with its staff to provide an Occupational Pension Plan pursuant to Legislative Royal Decree 1/2002, of November 29, approving the revised Pension Plans and Funds Law. The features of this plan are as follows:

- Defined contribution of 4.51% of the participating employees' base salary. The defined contributions of employees transferred to Telefónica from other Group companies with different defined contributions (e.g. 6.87% in the case of Telefónica de España, S.A.U.) will be maintained.
- Mandatory contribution by participants of a minimum of 2.2% of their base salary.
- Individual and financial capitalization systems.

This fund was outsourced to Telefónica's subsidiary, Fonditel Entidad Gestora de Fondos de Pensiones, S.A., which has added the pension fund assets to its Fonditel B fund.

At December 31, 2023, 2,334 participants have signed up for the plan (2,289 participants in 2022). This figure includes both active employees, employees under termination plans and former employees who voluntarily decided to maintain the plan, as provided for in Royal Decree 304/2004 approving the regulations for Pension Plans and Funds. The cost for the Company amounted to 4 and 3 million euros in 2023 and 2022, respectively.

In 2006, a Pension Plan for Senior Executives, wholly funded by the Company, was created and complements the previous plan and involves additional defined contributions at a certain percentage of the executive's fixed remuneration, based on professional category, plus some extraordinary contributions depending on the circumstances of each executive, payable in accordance with the terms of the plan.

Telefónica, S.A. has recorded costs related to the contributions to this executive plan of 7 million euros in both 2023 and 2022. In 2023 and 2022 some executives under this Pension Plan for Senior Executives left the Company, and accordingly their accumulated contributions were retrieved by Telefónica, S.A. and registered as a decrease in the expense totaling 5 and 3 million euros, respectively.

No provision was made for this plan as it has been fully externalized.

The main share-based payment plans in place in the 2023-2022 period are as follows:

Long-term incentive plan based on Telefónica, S.A. shares: Performance Share Plan 2018-2022

At the General Shareholders' Meeting held on June 8, 2018, a long-term incentive plan was approved, consisting of the delivery of shares of Telefónica, S.A. aimed at senior executive officers of the Telefónica Group, including the Executive Directors of Telefónica, S.A. The plan consists of the delivery to the participants of a certain number of shares of Telefónica, S.A. based on compliance with the objectives established for each of the cycles into which the plan is divided. The number of shares to deliver will depend (i) 50% on achievement of the Total Shareholder Return ("TSR") objective for shares of Telefónica, S.A. with regard to the TSRs of a comparison group made up of companies of the telecommunication sector, weighted by its relevance for Telefónica, and (ii) 50% on the generation of free cash flow of the Telefónica Group ("FCF").

The plan was in force for five years and was divided into three cycles of three years each. The first cycle commenced in 2018 and finalized on December 31, 2020. The second cycle commenced in 2019 and finalized on December 31, 2021.

The third and last cycle commenced in 2020 and ended on December 31, 2022. The maximum number of shares assigned as of January 1, 2020 to this cycle of the plan was 5,346,508 shares with a fair value of 3.2136 euros per share for the FCF and 1.6444 euros for the TSR. The outstanding shares at December 31, 2022 were 4,595,621 (1,799,717 shares corresponding to Telefónica, S.A.). Once considered the target fulfillment levels for 2020, 2021 and 2022 a weighted achievement ratio of 50% was reached. Performance assessment was carried out based on the evolution of the stock price and on the audited results of the Company.

Long-term incentive plan based on Telefónica, S.A. shares: Performance Share Plan 2021-2025

At the General Shareholders' Meeting held on April 23, 2021, a long-term incentive plan was approved, consisting of the delivery of shares of Telefónica, S.A. aimed at senior executive officers of the Telefónica Group, including the Executive Directors of Telefónica, S.A. The plan consists of the delivery to the participants of a certain number of shares of Telefónica, S.A. based on compliance with the objectives established for each of the cycles into which the plan is divided.

The number of shares to deliver depends (i) 50% on achievement of the total shareholder return ("TSR") objective for shares of Telefónica, S.A. with regard to the TSRs of a comparison group made up of companies of the telecommunication sector, weighted by its relevance for Telefónica, (ii) 40% on the generation of Free Cash Flow of Telefónica Group ("FCF"), and (iii) 10% on CO2 Emission Neutralization, in line with the goal set by the Company.

The plan has a duration of five years and is divided into three cycles of three years. Performance assessment has been carried out based on the evolution of the stock price and on the audited results of the Company (audited both by internal and external audit teams) prior to the approval by the Appointments, Remunerations and Corporate Governance Committee.

The first cycle commenced on January 1, 2021 and ended on December 31, 2023. The maximum number of shares assigned to this cycle of the plan was 19,425,499 and the outstanding shares at December 31, 2023 were 17,728,523, with the following breakdown:

First cycle	N° of shares assigned	Outstanding shares at 12/31/2023	Unit fair value (euros)
TSR Objective	9,712,749	8,864,262	2.64
FCF Objective	7,770,200	7,091,409	3.15
N.E. CO2 Objective	1,942,550	1,772,852	3.15

The maximum number of shares assigned to Telefónica, S.A.'s employees amounts to 7,831,873 (outstanding shares as of December 31, 2023 amounting to 7,615,700).

Once considered the target fulfillment levels, a weighted achievement ratio of 89.45% has been reached.

The second cycle commenced on January 1, 2022 and it will end on December 31, 2024. The maximum number of shares assigned to this cycle of the plan was 15,069,650 and the outstanding shares at December 31, 2023 were 14,545,706, with the following breakdown:

Second cycle	N° of shares assigned	Outstanding shares at 12/31/2023	Unit fair value (euros)
TSR Objective	7,534,825	7,272,853	2.43
FCF Objective	6,027,860	5,818,282	2.95
N.E. CO2 Objective	1,506,965	1,454,571	2.95

The maximum number of shares assigned to Telefónica, S.A.'s employees amounts to 7,209,211 (outstanding shares as of December 31, 2023 amounting to 7,074,444).

The third cycle commenced on January 1, 2023 and it will end on December 31, 2025. The maximum number of shares assigned to this cycle of the plan was 16,618,564 and the outstanding shares at December 31, 2023 were 16,496,424, with the following breakdown:

Third cycle	N° of shares assigned	Outstanding shares at 12/31/2023	Unit fair value (euros)
TSR Objective	8,309,282	8,248,212	1.77
FCF Objective	6,647,426	6,598,570	2.81
N.E. CO2 Objective	1,661,856	1,649,642	2.81

The maximum number of shares assigned to Telefónica, S.A.'s employees amounts to 7,874,832 (outstanding shares as of December 31, 2023 amounting to 7,814,022).

Long-term incentive plan based on Telefónica, S.A. shares: Talent for the Future Share Plan 2018-2022 (TFSP)

At its meeting on June 8, 2018, the Telefónica, S.A.'s Board of Directors agreed to launch a new installment of the long-term incentive plan "Talent for the Future Share Plan". The term of this plan is also five years and it is divided into three cycles. As in the case of the Performance Share Plan described above, the plan the number of shares to deliver will depend (i) 50% on achievement of the Total Shareholder Return ("TSR") objective for shares of Telefónica, S.A. and (ii) 50% on the generation of free cash flow of the Telefónica Group ("FCF").

The first cycle commenced in 2018 and finalized on December 31, 2020. The second cycle commenced in 2019 and finalized on December 31, 2021.

The third cycle commenced in 2020 and finalized on December 31, 2022. The maximum number of shares assigned to this cycle of the plan was 897,400 shares assigned as of January 1, 2020 with a fair value of 3.2136 euros per share for the FCF and 1.6444 euros for the TSR and there were 761,600 outstanding shares at December 31, 2022 (99,400 shares corresponding to Telefónica, S.A. employees). Once considered the target fulfillment levels for 2020, 2021 and 2022, a weighted achievement ratio of 50% was reached. Performance assessment was carried out based on the evolution of the stock price and on the audited results of the Company.

Long-term incentive plan based on Telefónica, S.A. shares: Talent for the Future Share Plan 2021-2025 (TFSP)

At its meeting on March 17, 2021, the Telefónica, S.A.'s Board of Directors agreed to launch a new installment of the long-term incentive plan "Talent for the Future Share Plan".

The term of this plan is also five years and it is divided into three cycles. As in the case of the Performance Share Plan 2021-2025 described above, the number of shares to deliver will depend (i) 50% on achievement of the total shareholder return ("TSR") objective for shares of Telefónica, S.A. with regard to the TSRs of a comparison group made up of companies of the telecommunication sector, weighted by its relevance for Telefónica, (ii) 40% on the generation of Free Cash Flow of Telefónica Group ("FCF"), and (iii) 10% on CO2 Emission Neutralization, in line with the goal set by the Company.

The first cycle commenced on January 1, 2021 and ended on December 31, 2023. The maximum number of shares assigned to this cycle of the plan was 1,751,500 and the

outstanding shares at December 31, 2023 were 1,557,000, with the following breakdown:

First cycle	N° of shares assigned	Outstanding shares at 12/31/2023	Unit fair value (euros)
TSR Objective	875,750	778,500	2.64
FCF Objective	700,600	662,800	3.15
N.E. CO2 Objective	175,150	155,700	3.15

From this total, the shares assigned to Telefónica, S.A.'s employees are 232,500. The outstanding shares as of December 31, 2023 are 203,000.

Once considered the target fulfillment levels, a weighted achievement ratio of 89.45% has been reached.

The second cycle commenced on January 1, 2022 and it will end on December 31, 2024. The maximum number of shares assigned to this cycle of the plan was 1,646,500 and the outstanding shares at December 31, 2023 was 1,542,000, with the following breakdown:

Second cycle	N° of shares assigned	Outstanding shares at 12/31/2023	Unit fair value (euros)
TSR Objective	823,250	771,000	2.43
FCF Objective	658,600	616,800	2.95
N.E. CO2 Objective	164,650	154,200	2.95

From this total, the shares assigned to Telefónica, S.A.'s employees are 219,000. The outstanding shares as of December 31, 2023 are 197,000.

The third cycle commenced on January 1, 2023 and it will end on December 31, 2025. The maximum number of shares assigned to this cycle of the plan was 1,771,500 and the outstanding shares at December 31, 2023 was 1,745,500, with the following breakdown:

Third cycle	N° of shares assigned	Outstanding shares at 12/31/2023	Unit fair value (euros)
TSR Objective	885,750	872,750	1.77
FCF Objective	708,600	698,200	2.81
N.E. CO2 Objective	177,150	174,550	2.81

From this total, the shares assigned to Telefónica, S.A.'s employees are 239,000. The outstanding shares as of December 31, 2023 are 227,500.

Telefónica, S.A. global share plans: Global Employee Share Plans

The Telefónica, S.A.'s Ordinary General Shareholders' Meeting on April 8, 2022 approved a new voluntary plan for incentivized purchases of shares of Telefónica, S.A. for the employees of the Group. Under this Plan, employees were offered the option to acquire Telefónica, S.A. shares during a twelve-month period, with the company undertaking to deliver a certain number of free shares to participants, subject to certain requirements.

The maximum amount that each employee can invest is limited to 1,800 euros. Nevertheless, the total free shares to be delivered can not exceed 0.38% of the share capital of Telefónica, S.A. as of the approval date in 2022 Ordinary General Shareholders' meeting.

The purchase period commenced in October 2022 and will end in September 2023. In March 2024 the vesting period of the plan will end. As of December 31, 2023 26,590 Group employees were compromised with the Plan, out of which 672 were Telefónica, S.A.'s employees.

19.4 Average number of employees in 2023 and 2022 and number of employees at year-end

2023

Professional category	Employees at 12/31/23			Average no. of employees in 2023		
	Females	Males	Total	Females	Males	Total
Chairman and General Managers	—	1	1	—	1	1
Directors	50	106	156	50	105	155
Managers	141	141	282	144	140	284
Project Managers	137	167	304	140	164	304
University graduates and experts	161	136	297	159	141	300
Administration, clerks, advisors	90	2	92	91	2	93
Total	579	553	1,132	584	553	1,137

2022

Professional category	Employees at 12/31/2022			Average no. of employees in 2022		
	Females	Males	Total	Females	Males	Total
Chairman and General Managers	—	1	1	—	1	1
Directors	50	107	157	48	106	154
Managers	142	133	275	140	138	278
Project Managers	136	157	293	132	150	282
University graduates and experts	155	134	289	150	131	281
Administration, clerks, advisors	93	3	96	94	3	97
Total	576	535	1,111	564	529	1,093

According to the requirement of the Spanish Companies Law established in article 260, the average number of employees with disability of 33% or higher, establishing the categories to which they belong are the following:

Professional category	Average number of employees
Project Managers	2
University graduates and experts	4
Administration, clerks, advisors	2
Total	8

19.5 External services

The items composing External services are as follows:

Millions of euros	2023	2022
Rent	4	4
Independent professional services	127	105
Donations	48	74
Marketing and advertising	158	96
Other expenses	35	26
Total	372	305

In 2023 and 2022 the caption Donations includes funds contributed and paid to Fundación Telefónica amounting to 47 and 71 million euros.

On May 30, 2019, Telefónica, S.A. signed a 10-year contract to rent Diagonal 00 building, owned by the Company until that moment, due in 2029, renewable for another 6 years.

Future minimum rentals payable under non-cancellable operating leases without penalization at December 31, 2023 and 2022 are as follows:

Millions of euros	Total	Up to 1 year	From 1 to 3 years	From 3 to 5 years	Over 5 years
Future compromised payments 2023	23	4	10	8	1
Future compromised payments 2022	26	5	8	8	5

19.6 Finance revenue

The items composing Finance revenue are as follows:

Millions of euros	2023	2022
Dividends from other companies	28	22
Other third parties financial revenues and gains on derivative instruments	488	1,407
Total	516	1429

The caption Other third parties financial revenues and gains on derivative instruments includes the interests amounting to 526 million euros from the proceed executed by Spanish Audiencia Nacional regarding the tax agreement disclosed in note 17.3.

The variation in financial revenue is mainly due to the changes in the fair value of non-hedge derivative instruments caused by the variation of the interest rates.

Other third parties financial revenues and gains on derivative instruments includes the effect of the financial hedges arranged to unwind positions for 2023 and 2022, which have the same amount under *Finance costs payable to third parties and losses on interest rates of financial hedges* and therefore do not have a net impact in the income statement.

19.7 Finance costs

The breakdown of "Finance costs" is as follows:

Millions of euros	2023	2022
Interest on borrowings from Group companies and associates	1,487	1,331
Finance costs payable to third parties and losses on interest rates of financial hedges	448	1,319
Total	1,935	2,650

The breakdown by Group company of debt interest expenses is as follows:

Millions of euros	2023	2022
Telefónica Europe, B.V.	510	417
Telefónica Emisiones, S.A.U.	766	902
Other companies	211	12
Total	1,487	1,331

Other companies includes financial costs with Telfisa Global, B.V. related to current payables for specific cash needs.

The variation in financial expense is mainly due to the changes in the fair value of non-hedge derivative instruments caused by the variation of the interest rates.

The amount included as Finance costs payable to third parties and losses on interest rate of financial hedges refers to fair value effects in the measurement of derivative instruments described in note 16, together with the effect of the debt interest rates' trend during the year.

19.8 Exchange differences

The breakdown of exchange gains recognized in the income statement is as follows:

Millions of euros	2023	2022
On current operations	39	124
On loans and borrowings	1	100
On derivatives	383	986
On other items	23	4
Total	447	1,214

The breakdown of exchange losses recognized in the income statement is as follows:

Millions of euros	2023	2022
On current operations	37	58
On loans and borrowings	8	58
On derivatives	400	1,236
On other items	13	43
Total	458	1,395

The variation in exchange gains and losses is due to the fluctuations in the main currencies the Company works with. In 2023 euro exchange rate has appreciated against US dollar (3.4%). However, euro exchange rate has depreciated against Brazilian real (4.11%) and pound sterling (2.1%).

In 2022 euro exchange rate has depreciated against US dollar (6.10%) and Brazilian real (13.48%). It has revalued against pound sterling (5.31%).

These impacts are offset by the hedges contracted to mitigate exchange rate fluctuations.

Note 20. Other information

a) Financial guarantees

At December 31, 2023, Telefónica, S.A. had provided financial guarantees for its subsidiaries and affiliates to secure their transactions with third parties amounting to 35,374 million euros (36,019 million euros at December 31, 2022). These guarantees are measured as indicated in note 4.g).

Millions of euros		
Nominal Amount	2023	2022
Debentures and bonds and equity instruments	34,778	35,412
Loans and other payables	96	107
Other marketable debt securities	500	500
Total	35,374	36,019

The debentures, bonds and equity instruments in circulation at December 31, 2023 issued by Telefónica Emisiones, S.A.U., and Telefónica Europe, B.V. were guaranteed by Telefónica, S.A. The nominal amount guaranteed was equivalent to 34,778 million euros at December 31, 2023 (35,412 million euros at December 31, 2022). During 2023 Telefónica Emisiones, S.A.U. issued 850 million euros of instruments on capital markets (1,100 million euros in 2022) and 1,705 million euros matured during 2023 (2,787 million euros during 2022).

Other marketable debt securities includes the guarantee of Telefónica, S.A. relating to the commercial paper issue program of Telefónica Europe, B.V. The outstanding balance of commercial paper in circulation issued through this program at December 31, 2023 and 2022 was 500 million euros in both years.

Telefónica, S.A. provides operating guarantees granted by external counterparties, which are offered during its normal commercial activity. At December 31, 2023 and 2022, these guarantees amounted to approximately 31 million euros in both years.

b) Litigation

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 Telefónica Group is present.

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

It is worth highlighting the following aspects relating to the unresolved legal proceedings or those underway during 2023 (see note 17 for details of tax-related cases):

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

Venten Management Limited ("Venten") and Lexburg Enterprises Limited ("Lexburg") were non-controlling shareholders of Český 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 August 5, 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 favorable 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 korunas (approximately 23 million euros) to Venten and 227 million Czech korunas (approximately 8 million euros) to Lexburg, in each case plus interest.

On December 28, 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 unfavorable 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 January 17, 2018, Telefónica filed its response seeking dismissal of such motion for lack of legal basis.

On February 14, 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 August 5, 2016 and remanded the case back to the High Court.

In December 2021, the High Court of Prague confirmed its appointment of an expert in order to produce a new expert report to assess the reliability of market-based price criteria used in the mandatory tender offer and further technical issues discussed in this litigation, including a new discounted cashflow valuation of the shares of Český Telecom in 2005.

After receiving the expert report, Telefónica challenged its findings on April 30, 2023. Hearings with respect to this challenge were held in the High Court of Prague in November and December 2023, and an additional hearing is expected to be held in the first quarter of 2024.

ICSID Arbitration Telefónica, S.A. vs. Republic of Colombia

In the local arbitration brought by Colombia against Colombia Telecomunicaciones ("ColTel"), on July 25, 2017, the local arbitration tribunal ordered ColTel to pay 470 million euros as economic compensation for the reversion of assets related to voice services in relation to the concession granted between 1994 and 2013.

On August 29, 2017, ColTel's share capital was increased in order to make the payment ordered by the local arbitral award; Telefónica, S.A. contributed and disbursed an amount equivalent to 67.5% of the award's amount (317 million euros) and the Colombian Government contributed an amount equivalent to the remaining 32.5% (153 million euros).

On February 1, 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 February 20, 2018.

The ICSID Court was constituted on February 26, 2019, with Mr. José Emilio Nunes Pinto as President, Mr. Horacio A. Grigera Naón appointed by Telefónica, S.A., and Mr. Yves Derains appointed by Colombia.

Colombia filed Preliminary Objections on Jurisdiction on August 5, 2019. Telefónica, S.A. responded to Colombia's objections in its Claimant's Memorial on September 23, 2019, in which it also requested that Colombia pay compensation for damages caused to Telefónica, S.A.

On October 23, 2019, Colombia submitted its Complementary Objections on Jurisdiction as well as a request for Bifurcation, to which Telefónica, S.A. responded on November 29, 2019.

On January 24, 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 July 3, 2020, Colombia filed its reply to the claim filed by Telefónica before the ICSID.

On November 2, 2020, Telefónica presented its response to Colombia's reply.

After the hearing held in April 2021, on July 27, 2021 the hearing of closing arguments was held, and the parties are awaiting the issuance of the arbitration award.

Telefónica's lawsuit against Millicom International Cellular for default in the sale of Telefónica de Costa Rica

Telefónica, S.A. (Telefónica) and Millicom International Cellular, S.A. (Millicom) reached an agreement on February 20, 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 authorizations 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 closing, arguing that the competent Costa Rican administrative authorities had not issued the appropriate authorization.

On May 25, 2020, Telefónica filed a lawsuit against Millicom before the New York Supreme Court, considering that Millicom had 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 June 29, 2020, Millicom filed a Motion to Dismiss, to which Telefónica replied on July 8, 2020.

On August 3, 2020, Telefónica submitted an amendment to the lawsuit, removing 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 to Telefónica.

On January 5, 2021, the Motion to Dismiss filed by Millicom in June 2020 was dismissed by the New York Supreme Court.

On February 24, 2023, both parties filed a "motion for summary judgment" once the discovery period had ended.

On February 13, 2024, the New York Supreme Court issued a decision granting Telefónica's motion for partial summary judgment, concluding that Telefónica is entitled

to compensatory damages and prejudgment interest (approximately 140 million U.S. dollars) from Millicom. The decision remains subject to appeal.

ICSID Arbitration Telefónica, S.A. vs. Republic of Peru

On February 5, 2021, Telefónica filed a request for arbitration against the Republic of Peru at the ICSID, which was formally registered on March 12, 2021.

Telefónica bases its claims on the Agreement for the Promotion and Reciprocal Protection of Investments between the Kingdom of Spain and the Republic of Peru ("APRPI") signed on November 17, 1994. Telefónica argues that the Peruvian tax administration (called Superintendencia Nacional de Aduanas y de Administración Tributaria, known as "SUNAT") and other state bodies have failed to comply with the obligations established in the APRPI, including by adopting arbitrary and discriminatory actions.

It is requested that the defendant be ordered to fully compensate Telefónica for all damages suffered.

Once the Tribunal was constituted, on February 9, 2023, Telefónica filed a request for urgent injunctive relief together with a request for injunctive relief, requesting the suspension of the administrative litigation (acción contencioso-administrativa or ACA) related to the income tax for the years 1998, 2000 and 2001, as well as the extension of the deadline for submission by Telefónica of the memorial or claim. Following response of Peru, on February 16, 2023, the Tribunal ruled to dismiss Telefónica's request for urgent injunctive relief, to establish the procedural calendar to process the request for injunctive relief and to grant Telefonica two additional weeks to file the memorial or claim.

On March 2, 2023, Telefónica filed a memorial on the merits. On that date, the Republic of Peru filed observations on the claimant's request for provisional measures submitted by Telefónica on February 9, 2023.

On March 24, 2023, the Tribunal held a hearing on the claimant's request for provisional measures.

On May 11, 2023, the Tribunal issued Procedural Order No. 5 concerning the defendant's request to address the objections to jurisdiction as a preliminary question. As a result, the objections to jurisdiction were joined to the merits of the dispute.

On September 18, 2023, the defendant filed a counter-memorial on the merits and a memorial on jurisdiction.

On December 22, 2023, the Tribunal issued Procedural Order No. 6 concerning production of documents.

UK High Court claim by Phones 4 U Limited against various mobile network operators and other companies, among others, Telefónica, S.A., Telefonica O2 Holdings Limited and Telefonica UK Limited

In late 2018, Phones 4U Limited (in administration) ("P4U") commenced a claim in the English High Court in London against various mobile network operators: Everything Everywhere, Deutsche Telekom, Orange, Vodafone, Telefónica, S.A., Telefonica O2 Holdings Limited and Telefonica UK Limited (together the "Defendants").

P4U carried on a business of selling mobile phones and connections to the public, such connections being supplied by mobile network operators including the Defendants. In 2013 and 2014, the Defendants declined to extend and / or terminated their contracts to supply connections to P4U.

P4U went into administration in September 2014.

P4U alleges that the Defendants ceased to supply connections because they had colluded between themselves in contravention of the United Kingdom and the European Union competition laws and asserts that it has a basis to claim damages for breach of competition law by all the Defendants. The Defendants deny all P4U's allegations.

The claim commenced on December 18, 2018 by P4U. The Defendants filed their initial Defences in the course of April and May 2019, with P4U filing replies on October 18, 2019. The first case management conference took place on March 2, 2020.

The trial was held between May and July 2022. On November 10, 2023 the court issued a judgment, concluding that none of the Defendants was in breach of either UK or EU competition law. This judgment is subject to appeal.

c) Other contingencies

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.

d) Commitments

Agreement related to the Sale of Customer Relationship Management ("CRM") Business, Atento

As a result of the sale agreement of Atento by Telefónica, announced on October 12, 2012, and ratified on December 12, 2012, both companies signed a Master Service Agreement which regulates Atento's relationship with the Telefónica Group as a service provider for an initial period of P9Y. The agreement has since been amended.

By virtue of this agreement, Atento became Telefónica's preferred Contact Center and Customer Relationship Management ("CRM") service provider. The agreement stipulated annual commitments in terms of turnover that were updated based on inflation and deflation that vary from country to country, pursuant to the volume of services Atento has been providing to the entire Group.

Failure to meet these annual turnover commitments in principle resulted in the obligation of the counterparty to pay additional amounts, which would be calculated based on the difference between the actual amount of turnover and the predetermined commitment, applying a percentage based on the Contact Center's business margin to the final calculation. These minimum annual turnover commitments have been reduced at various points over the life of the Master Service Agreement.

The Master Service Agreement sets forth a reciprocal arrangement, whereby Atento assumes similar commitments to subscribe for certain telecommunications services from Telefónica.

On March 30, 2023, the parties agreed to renew the Master Service Agreement (extending its validity for all applicable jurisdictions (Spain, Brazil and Latin America) until December 31, 2025) but eliminate the minimum annual turnover commitments (and the related penalties) while maintaining, however, Atento's preferred supplier status.

Agreement for the sale of the shares of Telefónica Gestión de Servicios Compartidos España, S.A.U., Telefónica Gestión de Servicios Compartidos Argentina, S.A. and T-Gestiona Servicios Contables y Capital Humano, S.A.C.

On March 1, 2016, a share purchase agreement between, on one hand, Telefónica, S.A., Telefónica Servicios Globales, S.L.U. and Telefónica Gestión de Servicios Compartidos Perú, S.A.C. (as sellers), and, on the other hand, IBM Global Services España, S.A., IBM del Perú, S.A.C., IBM Canada Limited and IBM Americas Holding, LLC (as purchasers) for the sale of the companies Telefónica Gestión de Servicios Compartidos España, S.A.U., Telefónica Gestión de Servicios Compartidos Argentina, S.A. and T-Gestiona Servicios Contables y

Capital Humano, S.A.C., for a total price of approximately 22 million euros, was ratified before Notary Public. This share purchase agreement was subscribed on December 31, 2015.

Following the aforementioned share purchase agreement and in connection with the latter transaction, also, on December 31, 2015, Telefónica subscribed a master services agreement with IBM for the outsourcing of economic-financial and HR activities and functions to be provided to the Telefónica Group during a period of 10, for a total amount of approximately 450 million euros. Most of the Telefónica Group's subsidiary companies have already adhered to that master services agreement.

On March 31, 2021 and March 31, 2022 the master services agreement with IBM for the outsourcing of economic-financial and HR activities and functions to be provided to the Telefónica Group was amended. By virtue of these amendments the term may be extended for those adhered companies that decide to extend their services beyond the initial term.

In addition, on July 29, 2022 and August 31, 2023 a new amendments were executed by virtue of which the term may be extended for those adhered companies in Latinoamérica that decide to extend some of their services beyond the initial term.

Contracts for the provision of IT services with Nabiax

In 2019 Telefónica, S.A. signed an agreement for the sale of a portfolio of eleven data center businesses to a company (hereinafter "Nabiax") controlled by Asterion Industrial Partners SGEIC, S.A.

At the same time as this sale, agreements were entered into with Nabiax to provide housing services to the Telefónica Group, allowing Telefónica to continue providing housing services to its customers, in accordance with its previous commitments. Such service provision agreements have an initial term of ten years and include minimum consumption commitments in terms of capacity. These commitments are consistent with the Group's expected consumption volumes, while prices are subject to review mechanisms based on inflation and market reality.

On May 7, 2021, Asterion Industrial Partners SGEIC, S.A. and Telefónica Infra (T. Infra), the infrastructure unit of the Telefónica Group, reached an agreement for the contribution to Nabiax of four additional data centers owned by the Telefónica Group (two of them located in Spain and two in Chile). In exchange for the contribution of these four data centers, T. Infra will receive a 20% equity stake in Nabiax. Once the relevant authorizations and other conditions precedent to the contribution of the two data centers located in Spain were obtained, the partial closing of the transaction took place as of July 21, 2021, whereby Telefónica Group contributed those data

centers to Nabiax, with T. Infra receiving in exchange a 13.94% stake in Nabiax at this stage. The agreement was complemented by the signing of a contract for the provision to Telefónica of housing services from those two data centers under terms and conditions equivalent to those established in the transaction executed in 2019, for an initial period of ten years.

Once the conditions related to the contribution of the two data centers located in Chile were fulfilled, on May 24, 2022, the complete closing of the transaction took place, and T. Infra reached a 20% stake in Nabiax. The agreement was complemented by the signing of a contract for the provision to Telefónica of housing services from those two data centers under terms and conditions equivalent to those established in the transaction executed in 2019, for an initial period ending in 2031.

On June 13, 2023, the data centers owned by Nabiax located in the Americas were sold to the investment fund Actis. Telefónica Infra, S.L.U. owns a 20% of Nabiax. After this transaction, Nabiax only owns data centers in Spain.

The data centers sold to Actis continue to provide housing services to the Telefónica Group under the terms of the contracts signed in 2019, as Telefónica, S.A. waived its right to terminate the housing services contracts upon the sale of the data centers.

50:50 joint venture with Liberty Global for the combination of both groups' businesses in the United Kingdom

On May 7, 2020, Telefónica agreed to enter into a joint venture with Liberty Global plc ("Liberty Global") pursuant to a contribution agreement (as amended from time to time, the "Contribution Agreement") between Telefónica, Telefonica O2 Holdings Limited, Liberty Global, Liberty Global Europe 2 Limited and a newly formed entity of which, after closing, each of Telefónica and Liberty Global would hold 50% of its share capital named VMED O2 UK Limited.

After having obtained the clearance from the Competition and Market Authority (the antitrust authority in the UK) to complete this transaction and having fulfilled all the other pre-closing conditions included in the Contribution Agreement, the transaction was completed on June 1, 2021. From such date, Telefónica and Liberty Global each hold an equal number of shares in VMED O2 UK Limited; after: (i) Telefónica having contributed to VMED O2 UK Limited its O2 mobile business in the United Kingdom and (ii) Liberty Global having contributed its Virgin Media business in the United Kingdom to VMED O2 UK Limited.

The corporate governance of VMED O2 UK Limited is regulated by a shareholders' agreement, which was entered into by the parties to the Contribution Agreement on June 1, 2021 and was amended on

November 15, 2023 (as amended from time to time, (the "Shareholders' Agreement").

On the date of closing of the transaction, Telefónica, Liberty Global, and certain companies belonging to each shareholder's corporate group entered into certain services, reverse services, licensing and data protection agreements with VMED O2 UK Limited and certain entities belonging to the VMED O2 UK Limited group. In particular, Telefónica and Liberty Global agreed that each shareholder's group would provide certain services, either on a transitional or ongoing basis to VMED O2 UK Limited and its group and that, for a limited period of time. Finally, VMED O2 UK Limited and its group would also provide certain services to specific companies belonging to the corporate group of each of its shareholders.

Pursuant to the terms of the above referred services agreements, the transitional services that are to be provided by the Telefónica Group to VMED O2 UK Limited shall be provided for terms initially ranging from 7 to 24 months (later extended in some cases to terms up to 40 months) while the ongoing services that are to be provided by the Telefónica Group to VMED O2 UK Limited will be provided for periods of two to six years, depending on the service. The services provided by the Telefónica Group to VMED O2 UK Limited consist primarily of technology and telecommunication services that will be used by or will otherwise benefit VMED O2 UK Limited. In addition to providing VMED O2 UK Limited with such services, the mobile operators of the Telefónica Group and VMED O2 UK Limited will maintain their roaming commercial relationships in order to reciprocally provide roaming services for their respective customers.

Likewise, as of closing of the transaction Telefónica granted certain trademark license agreements to VMED O2 UK Limited (the "VMED O2 UK Limited Trademark Licenses"). Pursuant to the VMED O2 UK Limited Trademark Licenses, Telefonica Group licensed the use of Telefónica and O2 brand rights to VMED O2 UK Limited.

e) Directors' and Senior executives' compensations and other benefits

The compensation of the members of Telefónica's Board of Directors is governed by article 35 of the Company's By-Laws, which provides that the annual amount of the compensation to be paid thereby to all of the Directors in their capacity as such, i.e., as members of the Board of Directors and for the performance of the duty of supervision and collective decision-making inherent in such body, shall be fixed by the shareholders at the General Shareholders' Meeting. The Board of Directors shall determine the exact amount to be paid within such limit and the distribution thereof among the Directors, taking into account the duties and responsibilities assigned to each Director, their membership on Committees within the Board of Directors and other

objective circumstances that it deems relevant. Furthermore, Executive Directors shall receive such compensation as the Board determines for the performance of executive duties delegated or entrusted to them by the Board of Directors. Such compensation shall conform to the Director compensation policy approved by the shareholders at the General Shareholders' Meeting.

In accordance with the foregoing, the shareholders, acting at the Ordinary General Shareholders' Meeting held on April 11, 2003, set at 6 million euros the maximum amount of annual gross compensation to be received by the Board of Directors as a fixed allotment and as attendance fees for attending the meetings of the Advisory or Control Committees of the Board of Directors. Thus, as regards fiscal year 2023, the total amount of compensation accrued by the Directors of Telefónica, in their capacity as such, was 2,871,801 euros for the fixed allocation and for attendance fees.

The compensation of the Directors of Telefónica in their capacity as members of the Board of Directors, of the Executive Commission and/or of the Advisory or Control Committees, consists of a fixed amount payable monthly, and of attendance fees for attending the meetings of the Advisory or Control Committees.

The amounts established in fiscal year 2023 as fixed amounts for belonging to the Board of Directors, the Executive Commission and the Advisory or Control Committees of Telefónica, and the attendance fees for attending meetings of the Advisory or Control Committees of the Board of Directors, are indicated below:

Compensation of the Board of Directors and of the Committees thereof

Amounts in euros

Position	Board of Directors	Executive Commission	Advisory or Control Committees (*)
Chairman	240,000	80,000	22,400
Vice chairman	200,000	80,000	—
Executive Member	—	—	—
Proprietary Member	120,000	80,000	11,200
Independent Member	120,000	80,000	11,200
Other external	120,000	80,000	11,200

(*) In addition, the amount of the attendance fee for each of the meetings of the Advisory or Control Committees is 1,000 euros. It is also noted that the Board of Directors, at its meeting held on December 13, 2023, approved, following a favourable report from the Nominating, Compensation and Corporate Governance Committee, a new configuration of the Company's Consultative or Control Committees, specifically: (i) to abolish the Strategy and Innovation Committee; and (ii) to integrate the Regulation and Institutional Affairs Committee and the Sustainability and Quality Committee, which now constitute a single Committee, under the name of Sustainability and Regulation Committee.

In this regard, it is noted that the Executive Chairman, Mr. José María Álvarez-Pallete López, waived the receipt of the above amounts (i.e., 240,000 euros as Chairman of the Board of Directors and 80,000 euros as Chairman of the Executive Commission).

Likewise, the fixed remuneration of 1,923,100 euros established for the 2024 financial year related to executive roles carried out by Executive Chairman, Mr. José María Álvarez-Pallete López is equal to that received in the previous eight years (i.e. 2023, 2022, 2021, 2020, 2019, 2018, 2017 and 2016), which was set in his capacity as Chief Operating Officer, remaining invariably after his appointment as Chairman in 2016.

The fixed remuneration, for his executive roles, of 1,600,000 euros that the Chief Operating Officer (C.O.O.), Mr. Ángel Vilá Boix, has established for the 2024 financial year is equal to the one received in the years 2023, 2022, 2021, 2020 and 2019.

Individualized description

Appendix II provides an individual breakdown by item of the compensation and benefits that the members of the Board of Directors of the Company have accrued and/or received from Telefónica, S.A., and from other companies of the Telefónica Group during fiscal year 2023. Likewise, the compensation and benefits accrued and/or received, during such year, by the members of the Company's Senior Management are broken down.

f) Related-party transactions

1. Significant shareholders with representation on the Board of Directors of Telefónica S.A.

General Information

In 2023, the Company's shareholders represented on the Board of Directors of Telefónica, S.A. were Banco Bilbao Vizcaya Argentaria, S.A. (BBVA) and CaixaBank, S.A.

Based on the information provided by CaixaBank, S.A. for the 2023 Annual Report on Corporate Governance, as of December 31, 2023, the shareholding of CaixaBank, S.A. in Telefónica's share capital were 3.51%.

Based on the information provided by Banco Bilbao Vizcaya Argentaria, S.A. (BBVA) for the 2023 Annual Report on Corporate Governance, as of December 31, 2023, the shareholding of BBVA in Telefónica's share capital were 4.86%. Likewise, and according to the aforementioned information provided by BBVA, the percentage of economic rights attributed to Telefónica, S.A. shares owned by BBVA as of December 31, 2023, would increase by 0.168%. without voting rights of the Company's share capital.

Participated companies

Telefónica, S.A. holds a 50% interest in Telefónica Consumer Finance, E.F.C., S.A., a company controlled by CaixaBank. (see Appendix I).

Telefónica, S.A. holds a 50% interest in Telefónica Factoring España and a 40.5% interest in its subsidiaries in Peru, Colombia and México as well as a 40% interest in its subsidiary in Brazil, in which BBVA and CaixaBank have minority interests. (see Appendix I).

On July 21, 2022, Telefónica, S.A. and CaixaBank Payments and Consumer E.F.C., E.P., S.A. incorporated the company Telefónica Renting, S.A. 50% each. This company is controlled by CaixaBank (see Note 10). (see Appendix I).

As of December 31, 2023 and 2022, Telefónica S.A. neither has outstanding balances nor has carried out any transactions with the associated companies and joint ventures owned by BBVA and CaixaBank mentioned above, except for the proceeds from dividends as a result of its percentage of ownership.

Derivatives

In addition, the nominal outstanding value of derivatives held with BBVA and CaixaBank in 2023 amounted to 8,970 and 707 million euros, respectively (5,286 million euros held with BBVA and 264 million euros with CaixaBank in 2022). The fair value of these derivatives in the balance sheet is 78 and 27 million euros, respectively, in 2023 (227 and 41 million euros, respectively, in 2022). As explained in Derivatives policy in note 16, this figure is inflated by the use in some cases of several levels of derivatives applied to the nominal value of a single underlying.

The Company maintains various derivative financial instruments settled by differences contracted with BBVA (see note 11).

Moreover, in 2023 collateral guarantees on derivatives from BBVA and CaixaBank have been received, amounting to 46 million euros (net asset position) and 31 million euros (net liability position), respectively (134 and 43 million euros (net liability position), respectively, in 2022).

Others operations

The impact on the balance sheet and income statement of Telefónica, S.A. of the rest of the operations with BBVA and CaixaBank in 2023 and 2022 are as follows:

BBVA	2023	2022
Financial expenses	3	4
Receipt of services	–	1
Total expenses	3	5
Financial revenues	20	2
Dividends received (1)	21	15
Total revenues	41	17
Financing transactions	600	1
Time deposits	27	289
Other Financing transactions	–	–
Dividends distributed	84	77

(1) As of December 31, 2023 Telefónica holds 0.756% (0.732% in 2022) investment in BBVA (See note 9.3).

2022	BBVA	la Caixa
Financial expenses	3	1
Receipt of services	–	2
Total expenses	3	3
Financial revenues	–	–
Dividends received (1)	–	–
Total revenues	–	–
Financing transactions	–	–
Time deposits	–	–
Dividends distributed	61	69

The heading "Finance arrangements: loans and capital contributions (lender)" for 2023 mainly includes a deposit set up by Telefónica, S.A. of 600 million euros maturing in January 2024.

2. Other significant shareholders

During fiscal year 2023, the significant shareholders of the Company without representation on the Board of Directors of Telefónica, S.A. were BlackRock, Inc. and Public Investment Fund. These shareholders are not considered a related party as they do not have representation on the Board of Directors of Telefónica, S.A. nor exert significant influence on the company.

Based on the information notified by BlackRock, Inc to the CNMV on March 31, 2020, as updated per the share capital of Telefónica, S.A. as of December 31, 2023, the shareholding of BlackRock, Inc in Telefónica's share capital were 4.50%. Based on the Schedule 13G/A filed with the SEC, on October 7, 2022, BlackRock, Inc. beneficially owned 4.98% of Telefónica, S.A. shares (4.51% of voting rights), updated per the share capital of Telefónica, S.A. as of December 31, 2023.

According to the information contained in the communication sent by Public Investment Fund to the CNMV on September 8, 2023, it is indicated that Green Bridge Investment Company SCS (a company controlled by Saudi Telecom Company which in turn is controlled by

Public Investment Fund): (i) acquired shares representing 4.90% of the share capital of Telefónica, S.A. and (ii) entered into a conditional sale and purchase agreement for 5.00% of the shares of Telefónica, S.A., subject, among other matters, to the approval of the Spanish Council of Ministers. In addition, on September 11, 2023, Morgan Stanley notified the CNMV of a 12.178% interest in voting rights attributed to shares 0.007% and through financial instruments 12.171% including a financial instrument (put/call option) on 9.90% of the share capital of Telefónica, S.A., related to the risk management of the position under the financial operation on the same shares as those referred to in the Public Investment Fund referred to above. According to the communication sent to the CNMV, this financial instrument would not imply an incremental or additional participation in the share capital of Telefónica, S.A.

3. Balances with Group and Associated companies

Telefónica, S.A. is a holding company for various investments in companies in Latin América, Spain and the rest of Europe which do business in the telecommunications, media and entertainment sectors.

The balances and transactions between the Company and these subsidiaries (Group and associated Companies) at December 31, 2023 and 2022 are detailed in the notes to these individual financial statements.

4. Directors and senior executives

During the financial year to which these accompanying financial statements refer, the Directors and senior executives did not perform any transactions with Telefónica, S.A. or any Telefónica Group company other than those in the Group's normal trading activity and business.

Compensation and other benefits paid to members of the Board of Directors and senior executives are detailed in note 20 e) and Appendix II of these financial statements.

Telefónica contracted a civil liability insurance scheme (D&O) for Directors, managers and staff with similar functions in the Telefónica Group, with standard conditions for these types of insurance and a premium attributable to 2023 of 5,565,728.82 euros (6,598,467.33 euros in 2022). This scheme provides coverage for Telefónica, S.A. and its subsidiaries in certain cases. Out of this amount, Telefónica, S.A. has paid 2,854,063.13 euros in 2023 (3,622,176.07 euros in 2022).

g) Auditors' fees

The services commissioned to PricewaterhouseCoopers Auditores, S.L., the Principal Auditor of Telefónica, S.A. for the years 2023 and 2022, meet the independence requirements stipulated by the Spanish Audit Law

22/2015, July 20, the US SEC rules and the Public Company Accounting Oversight Board (PCAOB).

The expenses accrued refer to the fees for services rendered by the various member firms of the PwC network, of which PricewaterhouseCoopers Auditores, S.L. forms part, amount to 4.18 and 3.94 million euros in 2023 and 2022, respectively.

The detail of these amounts is as follows:

Millions of euros	2023	2022
Audit services	3.39	3.12
Audit-related services	0.79	0.82
Total	4.18	3.94

"Audit services" mainly includes audit fees for the individual and consolidated financial statements, as well as reviews of interim financial statements. These Audit services also incorporate the integrated audits of the financial statements for the annual report Form 20-F to file with the US SEC and the internal control audit over the financial information to comply with the requirements of the Sarbanes-Oxley 2002 Act (Section 404).

Audit-related services: mainly services related to the issuance of comfort letters, the report on the information relating to the system of the internal control over financial reporting (ICFR) and the verification of the non-financial information of the Consolidated Management Report.

During the years 2023 and 2022, the principal auditor has not performed services, other than the audit services or the audit-related services in Telefónica, S.A.

h) Environmental matters

Commitment to protect the environment is part of the Company's general strategy and is the responsibility of the Board of Directors. The performance in this area is regularly supervised by the Sustainability and Regulation Committee as well as by the Global Sustainability (ESG) Office in coordination with the global areas responsible for executing this strategy alongside the business units.

The Group has global environmental and energy management policies, and externally certified environmental management systems in accordance with ISO 14001 in all Group companies. The environment is a central issue throughout the Company, involving both operational and management areas as well as business and innovation areas.

The Telefónica Group contracted, both locally and globally, several insurance programs in order to mitigate the possible occurrence of an incident stemming from the risks of environmental liability and/or natural disasters, to guarantee the continuity of its activity.

Managing environmental impact and energy consumption is a strategic priority and carbon reduction targets are part of the variable remuneration of all Company employees, including the Senior Management. In addition, Telefónica, S.A.'s long-term share-based incentive plans 2021-2025 (see note 19) include CO2 Emission Neutralization targets, in line with the target set by the Company.

Sustainable financing is a key tool to support the transformation of the business through investment in projects with positive environmental and social impact. In 2018, the Company published its first Sustainable Financing Framework. The most updated version is from July 2023, and it has a second party favorable opinion from Sustainalytics. The framework is linked to the United Nations Sustainable Development Goals and is aligned with the International Capital Markets Association (ICMA) Green, Social and Sustainable Bond Principles, as well as the Green Lending Principles and the the Social Loans of the LMA (Loan Market Association), the APLMA (Asian Pacific Loan Market Association) and the LSTA (Loan Syndications and Trading Association).

Telefónica was the first issuer of senior green bonds and hybrid instruments (green and sustainable) in the telecommunications sector. The funds that were obtained have been mainly allocated to projects to transform the network from copper to fiber, more efficient and with fewer breakdowns; and the deployment and improvement of mobile connectivity in rural areas. Even if the above mentioned bond and hybrid instrument issuances have not been carried out by the Company but by other holding Group subsidiaries, they are guaranteed by Telefónica, S.A.

In addition to senior green bonds and hybrid instruments, the Group uses other sustainable banking financing tools, such as loans and credits linked to sustainability objectives that allow continued progress on objectives such as emissions reduction or gender equality. Also in this case, the Group's main syndicated loan is linked to sustainability criteria in line with the corporate Sustainability Linked Loan Framework, prepared at the end of 2021 and with a second opinion from Sustainalytics.

In 2023, the Company has maintained an active presence in the capital market with several issues, successfully raising a total of 2,600 million euros of debt in green format throughout the year. In January 2023, Telefónica opened the sustainable debt market with the placement of a green hybrid instrument for an aggregate principal amount of 1,000 million euros and in September, another green hybrid instrument was issued for an amount of 750 million euros. The third operation was carried out in November, a green bond for an amount of 850 million euros (see note 15). The funds will be allocated to projects related to the transformation of telecommunications networks, both fixed and mobile, as well as to promote the deployment in rural areas.

In terms of bank financing, the emissions indicator linked to the Telefónica Group's 5,500 million euros has been updated. The interests are linked to compliance with a more demanding emission reduction path.

i) Trade and other guarantees

The Company is required to issue trade guarantees and deposits for concession and spectrum tender bids and in the ordinary course of its business. No significant additional liabilities in the accompanying financial statements are expected to arise from guarantees and deposits issued (see note 20.a).

Note 21. Cash flow analysis

Cash flows from/(used in) operating activities

The net result before tax in 2023 amounts to a profit of 1,129 million euros (see income statement), adjusted by items recognized in the income statement that did not require an inflow or outflow of cash in the year, or are included within the investing and financing activities.

These adjustments relate mainly to:

- The impairment of investments in Group companies, associates and other investments of 1,208 million euros (in 2022 a write down of 1,590 million euros).
- Declared dividends as income in 2023 for 3,859 million euros (1,450 million euros in 2022), interest accrued in 2023 on loans granted to subsidiaries of 28 million euros (15 million euros in 2022) and a net financial expense of 1,428 million euros (1,401 million euros in 2022), adjusted initially to include only movements related to cash inflows or outflows during the year under "Other cash flows from operating activities."

Other cash flows from operating activities amount to 1,796 million euros (4,277 million euros in 2022). The main items included are:

a) Net interest paid:

Payments of net interest and other financial expenses amounted to 1,495 million euros (1,062 million euros in 2022), including:

- Net proceeds from external credit entities, net of hedges, for 21 million euros, (212 million euros in 2022 offset by their hedges), and
- Interest and hedges paid to Group companies of 1,516 million euros (1,274 million euros in 2022).

b) Dividends and other distributions from reserves and paid-in capital received:

Millions of euros	2023	2022
Telefónica Móviles España, S.A.U.	—	560
Telefónica O2 Holdings, Ltd.	1,153	2,106
Telefónica de España, S.A.U.	—	301
Telfisa Global, B.V.	1,056	357
Telefónica Finanzas, S.A.U. (TELFISA)	182	67
Telxius Telecom, S.A.	125	—
Telefónica Brasil, S.A.	277	332
Other dividend collections	42	54
Total	2,835	3,777

In addition to the dividends declared in 2023 (see note 19.1) and collected in the same period, this caption also includes dividends from previous periods collected in 2023.

c) Income tax collected: Telefónica, S.A. is the parent of its consolidated Tax Group (see note 17) and therefore it is liable for filing income tax with the Spanish Tax Authorities. It subsequently informs companies included in the Tax Group of the amounts payable by them. Payments totaling 198 million euros on account of income tax were made in 2023 (289 million euros in 2022) as disclosed in note 17. In December 2023, after the execution of a credit sale signed with a financial entity, proceeds by 285 million euros have been received related to 2022 income tax.

In this regard, the main amounts passed on to subsidiaries of the tax group were as follows:

- Telefónica Móviles España, S.A.U.: total collection of 207 million euros, corresponding to: 78 million euros for the 2022 income tax settlement and 129 million euros in payments on account of 2022 and 2023 income tax.

In 2022, there was a total collection of 295 million euros, corresponding to: 186 million euros for the 2021 income tax settlement and 109 million euros in payments on account of 2022 income tax.

- Telefónica de España, S.A.U.: collection of 499 million euros, corresponding to: 411 million euros for the 2022 income tax settlement and 88 million euros in payments on account of 2022 and 2023 income tax.

In 2022 there was a collection of 199 million euros, corresponding to: 53 million euros for the 2021 income tax settlement refund, 207 million euros in collections on account of 2022 income tax partially offset by the 31 million euros collection for the 2020 income tax settlement and 30 million euros collection for the Tax inspection 2014-2017 carried out by the Tax Authorities.

- Telefónica Latinoamérica Holding, S.L.: collection of 304 million euros, corresponding to: A payment for the 2022 income tax by 351 million euros partially offset by proceeds of 47 million euros corresponding to payments on account of 2022 and 2023 income tax.

In 2022 there was an income collection of 15 million euros, corresponding to: A payment of account for the 2022 income tax by 52 million euros partially offset by proceeds of 23 million euros raised by the Decision 117/2022 of Audiencia Nacional regarding 2008 to 2018 fiscal years and 14 million euros of proceeds from the 2021 income tax.

- Telefónica Hispanoamérica, S.A.: There has been a total payment of 57 million euros corresponding to: 24 million euros related to 2022 income tax and 33 million euros corresponding to payments on account of 2022 and 2023 income tax.

In 2022 there was a total net collection of 354 million euros corresponding to: 392 million euros due to the Inspection process carried out by the Tax Authorities for the fiscal years 2014-2017 partially offset by the payments for 2021 income tax by 31 million euros and the payments of account of 2022 income tax amounting to 7 million euros.

Cash flows from/(used in) investing activities

Payments on investments under Cash flows from/ (used in) investing activities included a total payment of 3,958 million euros (6,290 million euros in 2022). The main transactions to which these payments refer are as follows:

- Capital increases: the main disbursements correspond to Telefónica Hispanoamérica, S.A. amounting to 380 million euros, Telefónica Infra, S.L. amounting to 103 million euros and Pontel Participaciones, S.L. amounting to 111 million euros. These capital increases, as well as other minor disbursements of this same concept are disclosed in note 8.1.a.
- New credits granted: The main payments have been disbursed to Telxius Telecom, S.A. and Pontel Participaciones, S.L. totaling 410 million euros (note 8.1.a.) and to Pegaso PCS, S.A. de C.V. totaling 700 million Mexican pesos equivalent to 37 million euros.

- Acquisition of Telefónica Deutschland, A.G.'s shares for a total sum of 813 million euros as detailed in note 8.1.a.
- Payments of financial investments related to the reinvestment of treasury overage amounting to 466 million euros.
- Payments of collaterals related to financial derivative instruments amounting to 1,402 million euros.

Proceeds from disposals totaling 5,719 million euros in 2023 (3,521 million euros in 2022) includes:

- Proceeds from reserves distributed by Telefónica Latinoamérica Holding, S.L. amounting to 1,994 million euros and Pontel Participaciones, S.L. amounting to 492 million euros (see note 8).
- The cancellation of credits granted to Bluevía Fibra, S.L. by 528 million euros (including uncollected interest) and to Pontel Participaciones, S.L. by 175 million euros as described in note 8.1.a. as well as the credit granted to Pegaso PCS, S.A. de C.V. amounting to 700 million Mexican pesos equivalent to 38 million euros as of cancellation date.
- Proceeds from financial investments related to the reinvestment of treasury overage amounting 466 million euros.
- In 2023 the financial instruments Spire have been cancelled according to their maturity schedule amounting to 921 million euros as indicated in note 9.4.
- Proceeds from collaterals related to financial derivative instruments amounting to 1,088 million euros.

Cash flows from/(used in) financing activities

This caption mainly includes the following items:

- Proceeds from financial liabilities:
 - Debt issues: The main collections comprising this heading are as follows:

Millions of euros	2023	2022
Telefónica Emisiones, S.A.U. (Note 15)	850	1,100
Bank loans (Note 14)	275	150
Telfisa Global, B.V. (Note 15)	—	2,710
Telefónica Europe B.V. (Note 15)	1,750	750
Telefónica Europe, B.V. promissory notes (Note 15)	488	—
Other collections	62	33
Total	3,425	4,743

b) Prepayments and redemption of debt: The main payments comprising this heading are as follows:

Millions of euros	2023	2022
Bilateral loans with several entities (Note 14.4)	178	1,279
Telfisa Global, B.V. (Note 15)	1,710	—
Telefónica Europe, B.V. (Note 15)	1,750	750
Telefónica Europe, B.V. promissory notes (Note 15)	—	504
Promissory notes redemption (Note 13)	—	30
Telefónica Emisiones, S.A.U. (Note 15)	1,705	2,787
Telefónica de Argentina, S.A. (Note 15)	—	173
Credit (Note 14.4)	—	100
Other payments	15	54
Total	5,358	5,677

Debt redemption of loans in 2022 mainly referred to a bank loan signed in December 2021, amounting to 1,000 million euros. The maturity date of the loan was March 2022 and it was redeemed accordingly.

The commercial paper transactions with Telefónica Europe, B.V. are stated at their net balance as recognized for the purposes of the cash flow statement, being high-turnover transactions where the interval between purchase and maturity never exceeds six months.

The financing obtained by the Company from Telfisa Global, B.V. relates to the Group's integrated cash management (see note 15). These amounts are stated net in the cash flow statement as new issues or redemptions on the basis of whether or not at year-end they represent current investment of surplus cash or financed balances payable.

- ii. Acquisition of treasury shares, as indicated in note 11.a.
- iii. Payments of dividends amount to 1,701 million euros (959 million euros in 2022). The figure differs from the one shown in note 11.1.d) because of the withholding taxes deducted in the payment to certain major shareholders, which will be paid to Tax Authorities in 2024 and also the withholding taxes referred to the dividend distribution made in December 2022 which have been paid to the Tax Authorities in January 2023.

Note 22. Events after the reporting period

The following events regarding the Company took place between the reporting date and the date of preparation of the accompanying financial statements:

Financing

- On January 13, 2024, the second annual extension of the sustainability-linked syndicated loan facility for 5,500,000,000 million euros of Telefónica, S.A. was exercised. The new expiration date is January 13, 2029.
- On January 17, 2024, Telefónica, S.A., through its wholly-owned subsidiary Telefónica Emisiones, S.A.U. launched under the EMTN Programme a new issuance of notes guaranteed by Telefónica, S.A. in an aggregate principal amount of 1,750 million euros. This issue was split into two tranches. The first tranche, with an aggregate principal amount of 1,000 million euros, due on January 24, 2032, pays an annual coupon of 3.698% and was issued at par. The second tranche, with an aggregate principal amount of 750 million euros, due on January 24, 2036, pays an annual coupon of 4.055% and was also issued at par. The settlement of the transaction took place on January 24, 2024. An amount equivalent to the net proceeds will be allocated towards eligible investments in accordance with Telefónica's 2023 Sustainable Financing Framework, including the transformation and modernization of telecommunications networks based on high-speed fixed and mobile networks, including supporting infrastructure and software to improve the energy efficiency of the networks, as well as the implementation of Telefónica's Renewable Energy Plan, and development and implementation of digital products and services with a focus on saving energy and/or natural resources.
- On February 5, 2024, Telefónica Emisiones, S.A.U. redeemed 1,000,000,000 million euros of its notes issued on February 5, 2019. These notes were guaranteed by Telefónica, S.A.

Investments

- On January 22, 2024, regarding the voluntary public acquisition offer in the form of a partial offer (the "Offer") launched by Telefónica—through Telefónica Local Services GmbH—for shares of Telefónica Deutschland Holding AG ("Telefónica Deutschland") announced on November 2023, the Company reported that following the expiry of the acceptance period that the Offer has been accepted by shareholders holding 233,732,773 Telefónica Deutschland shares, representing approximately 7.86% of its share capital and voting rights, for an approximate amount of 549 million euros. In addition, Telefónica has made direct market purchases, from January 1, 2024 to January 26, 2024, for a total of 113,999,566 shares of the aforementioned subsidiary, for an approximate amount of 268 million euros. Thus, as of January 26, 2024 Telefónica owns, directly and indirectly, 2,799,576,769 shares which represent 94.12% of the share capital and voting rights of Telefónica Deutschland.
- On January 22, 2024 Telefónica Local Services, GmbH carried out a capital increase 550 million euros integrally subscribed and paid in full by Telefónica, S.A.

Note 23. Additional note for English translation

These annual financial statements were originally prepared in Spanish and were authorized for issue by the Company's Directors in the meeting held on February 21, 2024. In the event of a discrepancy, the Spanish language version prevails.

Appendix I: Details of subsidiaries and associates at December 31, 2023

Name and corporate purpose	% Ownership					Income (loss)		Net carrying amount
	Direct	Indirect	Capital	Rest of equity	Dividends	From operations	For the year	
Telefónica Latinoamérica Holding, S.L.U. (SPAIN) Holding Company Distrito Telefónica. Ronda de la Comunicación s/n 28050 Madrid	100%	—	291	9,441	—	21	343	11,147
Telefónica Móviles España, S.A.U. (SPAIN) Wireless communications services provider Distrito Telefónica, Ronda de la Comunicación s/n 28050 Madrid	100%	—	209	307	677	782	524	5,561
Telefónica O2 Holdings Limited (UNITED KINGDOM) Holding Company Highdown House, Yeoman Way, Worthing, West Sussex, BN99 3HH	99.99%	0.01%	13	10,491	1,153	(3,413)	(2,247)	8,319
Telefónica Móviles México, S.A. de C.V. (MEXICO) Holding Company Prolongación Paseo de la Reforma 1200 Col. Cruz Manca, México D.F. CP.05349	100%	—	601	(551)	—	—	(1)	49
Telefónica de España, S.A.U. (SPAIN) Telecommunications service provider in Spain Gran Vía, 28 - 28013 Madrid	100%	—	1,024	3,667	473	(367)	(371)	2,455
O2 (Europe) Ltd. (UNITED KINGDOM) Holding Company Highdown House, Yeoman Way, Worthing, West Sussex, BN99 3HH	100%	—	6,896	1,598	—	520	602	8,421
Telefónica Filiales España, S.A.U. (SPAIN) Organization and operation of multimedia service- related activities and businesses Distrito Telefónica, Ronda de la Comunicación s/n, Madrid 28050	100%	—	226	955	—	(24)	42	1,223
Telfisa Global, B.V. (NETHERLANDS) Integrated cash management, consulting and financial support for Group companies Strawinskylaan 1259; tower D; 12th floor 1077 XX - Amsterdam	100%	—	—	(322)	1,042	(1)	1,051	712
O2 Oak Limited (UNITED KINGDOM) Holding Company Highdown House, Yeoman Way, Worthing, West Sussex, BN99 3HH	100%	—	—	—	—	—	—	—
Telefónica Hispanoamérica, S.A. (SPAIN) Holding Company Ronda de la Comunicación, s/n - 28050 Madrid	100%	—	97	7	—	(95)	(273)	1,517
TIS Hispanoamérica, S.L. (SPAIN) Holding Company Ronda de la Comunicación, s/n Distrito Telefónica Edificio Central - 28050 Madrid	100%	—	—	6	—	(2)	(3)	3
Telefónica Soluciones de Criptografía, S.A. (SPAIN) Engineering, development, production, sale and maintenance of telecommunication and electronic equipment Gran Vía 28, 28013 Madrid	100%	—	1	11	—	1	—	12

Name and corporate purpose	% Ownership			Income (loss)			Net carrying amount	
	Direct	Indirect	Capital	Rest of equity	Dividends	From operations		For the year
Telefónica Tech , S.L. (SPAIN) Promotion of business initiatives and holding for securities Gran Vía, 28 - 28013 Madrid	100%	—	67	880	—	(2)	2	941
O2 Worldwide Limited (UNITED KINGDOM) Private Limited Company C/O Stobbs Building 1000, Cambridge Research Park, Cambridge, CB25 9PD	100%	—	—	—	—	—	—	—
Telefónica Capital, S.A.U. (SPAIN) Finance Company Gran Vía, 28 - 28013 Madrid	100%	—	7	209	—	—	10	110
TLH HOLDCO, S.L. (SPAIN) Holding Company Ronda de la Comunicación, s/n Distrito Telefónica Edificio Central - 28050 Madrid	100%	—	87	1,583	—	(650)	(645)	1,024
Lotca Servicios Integrales, S.L. (SPAIN) Ownership, operation and aircraft leases Gran Vía, 28 - 28013 Madrid	100%	—	17	36	—	1	(2)	51
Telefónica Local Services GmbH (GERMANY) Holding company Adalbertstrasse 82-86 85737, Ismaning	100%	—	—	—	—	—	—	—
Telefónica Infra, S.L. (SPAIN) Portfolio Company (Holding) Ronda de la Comunicación S/N - 28050 Madrid	100%	—	12	829	—	(26)	(27)	814
Telefónica Finanzas, S.A.U. (TELFISA) (SPAIN) Integrated cash management, consulting and financial support for Group companies Ronda de la Comunicación, s/n - 28050 Madrid	100%	—	3	(95)	118	(4)	119	13
Telefónica Global Solutions, S.L.U. (SPAIN) International services provider Ronda de la Comunicación, s/n - 28050 Madrid	100%	—	1	47	—	(26)	(17)	30
Telefónica Innovación Digital, S.A.U. (previously Telefónica Digital España, S.L.U) (SPAIN) Carrying out activities and research projects in the field of telecommunications Ronda de la Comunicación S/N - 28050 Madrid	100%	—	7	7	—	(2)	(2)	330
Telefónica Luxembourg Holding S.à.r.L. (LUXEMBOURG) Holding Company 26, rue Louvingny, L-1946- Luxembourg	100%	—	3	175	—	—	—	4
Telefónica Servicios Globales, S.L.U. (SPAIN) Management and administrative services provider Ronda de la Comunicación, s/n - 28050 Madrid	100%	—	1	81	—	(4)	(4)	79
Telefónica Participaciones, S.A.U. (SPAIN) Issues of preferred shares and/or other debt financial instruments Gran Vía, 28 - 28013 Madrid	100%	—	—	1	—	—	—	—
Telefónica Emisiones, S.A.U. (SPAIN) Issues of preferred shares and/or other debt financial instruments Gran Vía, 28 - 28013 Madrid	100%	—	—	15	—	(2)	2	—
Telefónica Europe, B.V. (NETHERLANDS) Fund raising in capital markets Strawinskylaan 1259; tower D; 12th floor 1077 XX - Amsterdam	100%	—	—	4	2	(2)	2	—
Toxa Telco Holding, S.L. (SPAIN) Holding Company Ronda de la Comunicación s/n Madrid 28050	100%	—	—	—	—	—	—	—

Name and corporate purpose	% Ownership					Income (loss)		Net carrying amount
	Direct	Indirect	Capital	Rest of equity	Dividends	From operations	For the year	
Telxius Telecom, S.A. (SPAIN) Telecommunications Services Ronda de la Comunicación, s/n- 28050 Madrid	70%	—	260	125	140	(7)	105	—
Telefónica Centroamérica Inversiones, S.L (SPAIN) Holding Company Ronda de la Comunicación, s/n. - 28050 Madrid	60%	—	1	2	—	(3)	(2)	—
Telefónica Factoring España, S.A. (SPAIN) Factoring Zurbano, 76, 8 Plta. - 28010 Madrid	50%	—	5	2	5	11	10	3
Telefónica Consumer Finance E.F.C., S.A. (SPAIN) Lending and consumer loans c/Caleruega, 102 -28033 Madrid	50%	—	5	29	2	2	1	15
Aliança Atlântica Holding B.V. (NETHERLANDS) Portfolio Company Strawinskylaan 1725 – 1077 XX – Amsterdam	50%	37.65 %	40	4	—	—	1	22
Telefónica Renting, S.A. (SPAIN) Purchase, sales and leasing of all kind of movable and provision of office ancillary. Av. de Manoteras, 20, Hortaleza, 28050 Madrid	50%	—	—	2	—	—	—	1
Telefónica Brasil, S.A. (BRAZIL) (1) (*) Telecommunication operator in Brazil Av. Luis Carlos Berrini, 1.376 – Brooklin São Paulo 04571-000	38.39%	36.90%	23,268	(10,184)	242	1,494	957	9,199
Telefónica Telecomunicaciones México, S.A. de C.V. (MÉXICO) Factoring Prolongación Paseo de la Reforma 1200 Col. Cruz Manca, México D.F. CP.05349	49%	51%	—	—	—	—	—	—
Telefónica Factoring Do Brasil, Ltd. (BRAZIL) Factoring Rua Desembargador Eliseu Guilherme, 69 Pt. 6 Paraíso Sao Paulo	40%	10%	2	(1)	2	(1)	3	1
Telefónica Factoring México, S.A. de C.V. SOFOM ENR (MEXICO) Factoring Prolongación Paseo de la Reforma 1200 Col. Cruz Manca, México D.F. CP.05349	40.50%	9.50%	2	—	—	—	—	1
Telefónica Factoring Perú, S.A.C. (PERÚ) Factoring Avenida República de Panamá Nro 3030 piso 6to. San Isidro Lima, Perú	40.50%	9.50%	1	2	—	(1)	2	1
Telefónica Factoring Colombia, S.A. (COLOMBIA) Factoring Calle 93 No. 15-73 Oficina 502 Bogotá	40.50%	9.50%	1	—	1	2	1	1
Telefónica Correduría de Seguros y Reaseguros Compañía de Mediación, S.A. (SPAIN) Insurance contracts, operating as a broker Ronda de la Comunicación S/N - 28050 Madrid	16.67%	83.33%	—	—	1	10	10	—
Torre de Collçerola, S.A. (SPAIN) Operation of telecommunications mast and technical assistance and consulting services. Ctra. Vallvidrera-	30.40%	—	5	—	—	—	—	1
Telefónica Deutschland Holding, A.G. (*) (GERMANY) Telecommunications business holding company Georg-Brauchle-Ring 23-25 MUENCHEN, Germany 80992	13.20%	69.23%	2,975	2,630	2	(7)	(8)	907

Name and corporate purpose	% Ownership					Income (loss)		Net carrying amount
	Direct	Indirect	Capital	Rest of equity	Dividends	From operations	For the year	
Wayra Argentina, S.A. (ARGENTINA) Telecommunications activities Av. Corrientes 707, Planta Baja, Ciudad de Buenos Aires, Argentina	5%	95%	23	(22)	—	1	2	—
Telefónica Global Solutions Argentina, S.A. (ARGENTINA) Telecommunications services Avenida Ingeniero Huergo 723, 1107 Buenos Aires	5%	95%	3	—	—	2	(5)	—
Total group companies and associates					3,859			52,966

(1) Consolidated data.

(*) Companies listed on international stock exchanges at December 31, 2023.

(**) % of ownership calculated over share capital offset by treasury shares.

Appendix II: Board and Senior Management Compensation

TELEFÓNICA, S.A.

(Amounts in euros)

Directors	Salary ¹	Fixed remuneration ²	Allowances ³	Short-term variable remuneration ⁴	Remuneration for belonging to the Board Committees ⁵	Other items ⁶	Total
Mr. José María Álvarez-Pallete López	1,923,100	—	—	3,717,737	—	6,207	5,647,044
Mr. Isidro Fainé Casas	—	200,000	—	—	80,000	—	280,000
Mr. José María Abril Pérez	—	200,000	10,000	—	91,200	—	301,200
Mr. José Javier Echenique Landiribar	—	200,000	24,000	—	113,600	—	337,600
Mr. Ángel Vilá Boix	1,600,000	—	—	2,577,600	—	27,383	4,204,983
Ms. Carmen García de Andrés	—	120,000	35,000	—	33,600	—	188,600
Ms. María Luisa García Blanco	—	120,000	33,000	—	44,800	—	197,800
Mr. Peter Löscher	—	120,000	24,000	—	113,600	—	257,600
Ms. Verónica Pascual Boé	—	120,000	11,000	—	11,200	—	142,200
Mr. Francisco Javier de Paz Mancho	—	120,000	33,000	—	124,800	—	277,800
Mr. Alejandro Reynal Ample ⁷	—	—	—	—	—	—	—
Mr. Francisco José Riberas Mera	—	120,000	—	—	—	—	120,000
Ms. María Rotondo Urcola	—	120,000	24,000	—	22,400	—	166,400
Ms. Claudia Sender Ramírez	—	120,000	20,000	—	22,400	—	162,400
Ms. Solange Sobral Targa ⁷	—	—	—	—	—	—	—

¹Salary: Regarding Mr José María Álvarez-Pallete López and Mr Ángel Vilá Boix, the amount includes the non-variable remuneration earned from their executive functions.

²Fixed remuneration: Amount of the compensation in cash, with a pre-established payment periodicity, whether or not it can be consolidated over time, earned by the member for his/her position on the Board, regardless of the effective attendance of the member to board meetings.

³ Allowances: Total amount of allowances for attending Advisory or Steering Committee meetings.

⁴Short-term variable remuneration (bonuses): Variable amount linked to the performance or achievement of a series of individual or group objectives (quantitative or qualitative) within a period of time equal to or less than a year, corresponding to the year 2023 and to be paid in the year 2024. In reference to the bonus corresponding to 2022, which was paid in 2023, Executive Board Member Mr José María Álvarez-Pallete López received 4,198,897 euros and Executive Board Member Mr Ángel Vilá Boix received 2,911,200 euros.

⁵Remuneration for belonging to the Board Committees: Amount of items other than allowances, which the directors are beneficiaries through their position on the Executive Commission and the Advisory or Steering Committees, regardless of the effective attendance of the board member such Committee meetings. It is also noted that the Board of Directors, at its meeting held on December 13, 2023, approved, following a favorable report from the Nominating, Compensation and Corporate Governance Committee, a new configuration of the Company's Consultative or Control Committees, specifically: (i) to abolish the Strategy and Innovation Committee; and (ii) to integrate the Regulation and Institutional Affairs Committee and the Sustainability and Quality Committee, which now constitute a single Committee, under the name of Sustainability and Regulation Committee.

⁶Other concepts: This includes, among others, the amounts received as remuneration in kind (general medical and dental coverage and vehicle insurance), paid by Telefónica, S.A.

⁷Mr. Alejandro Reynal Ample and Ms. Solange Sobral Targa were appointed Directors of the Company on December 13, 2023.

Mr. Peter Erskine and Mr. Juan Ignacio Cirac Sasturain stood down as Board Members on December 13, 2023, reflecting below the payment received and/or accrued by them in 2023:

(Amounts in euros)

Directors	Salary¹	Fixed remuneration²	Allowances³	Short-term variable remuneration⁴	Remuneration for belonging to the Board Committees⁵	Other items⁶	Total
Mr. Juan Ignacio Cirac Sasturain	—	120,000	33,000	—	33,600	—	186,600
Mr. Peter Erskine	—	120,000	20,000	—	113,600	—	253,600

1 to 6: Definitions of these concepts are those included in the previous table.

The following table breaks down the amounts accrued and/or received from other companies of the Telefónica Group other than Telefónica, S.A. individually, by the Board Members of the Company, by the performance of executive functions or by their membership to the Board of Directors of such companies:

OTHER COMPANIES OF THE TELEFÓNICA GROUP

(Amounts in euros)

Directors	Salary ¹	Fixed remuneration ²	Allowances ³	Short-term variable remuneration ⁴	Remuneration for belonging to the Board Committees ⁵	Other items ⁶	Total
Mr. José María Álvarez-Pallete López	—	—	—	—	—	—	—
Mr. Isidro Fainé Casas	—	—	—	—	—	—	—
Mr. José María Abril Pérez	—	—	—	—	—	—	—
Mr. José Javier Echenique Landiribar	—	90,000	—	—	—	87,500	177,500
Mr. Ángel Vilá Boix	—	—	—	—	—	—	—
Ms. Carmen García de Andrés	—	—	—	—	—	—	—
Ms. María Luisa García Blanco	—	—	—	—	—	87,500	87,500
Mr. Peter Löscher	—	119,000	—	—	—	—	119,000
Ms. Verónica Pascual Boé	—	51,667	—	—	—	65,000	116,667
Mr. Francisco Javier de Paz Mancho	—	177,935	—	—	—	155,000	332,935
Mr. Alejandro Reynal Ample ⁷	—	—	—	—	—	—	—
Mr. Francisco José Riberas Mera	—	—	—	—	—	—	—
Ms. María Rotondo Urcola	—	—	—	—	—	—	—
Ms. Claudia Sender Ramírez	—	—	—	—	—	132,500	132,500
Ms. Solange Sobral Targa ⁷	—	—	—	—	—	—	—

¹ Salary: Amount of non-variable remuneration earned by the Director from other companies of the Telefónica Group for his/her executive functions.

² Fixed remuneration: Amount of the compensation in cash, with a pre-established payment periodicity, subject to consolidation over time or not, earned by the member for his/her position on the boards of other companies of the Telefónica Group.

³ Allowances: Total amount of the allowances for attending the board meetings of other companies of the Telefónica Group.

⁴ Variable short-term remuneration (bonuses): Variable amount linked to the performance or achievement of a series of individual or group objectives (quantitative or qualitative) within a period of time equal to or less than a year, corresponding to the year 2023 and to be paid in the year 2024 by other companies of the Telefónica Group.

⁵ Remuneration for belonging to the Board Committees of other companies of the Telefónica Group: Amount of items other than allowances, which the directors are beneficiaries through their position on the Advisory or Steering Committees of other companies of the Telefónica Group, regardless of the effective attendance of the board member such Committee meetings.

⁶ Other concepts: This includes, among others, the amounts received as remuneration in kind (general medical and dental coverage and vehicle insurance), paid by other companies of the Telefónica Group. Also included are the amounts received for membership of the Advisory Boards of Telefónica España, Telefónica Hispanoamérica, Telefónica Tech and Telefónica de Ingeniería de Seguridad.

⁷ Mr. Alejandro Reynal Ample and Ms. Solange Sobral Targa were appointed Directors of the Company on December 13, 2023.

Likewise, Mr. Peter Erskine and Mr. Juan Ignacio Cirac Sasturain stood down as Board Members on December 13, 2023, reflecting below the payment received and/or accrued by them in 2023:

(Amounts in euros)

Directors	Salary ¹	Fixed remuneration ²	Allowances ³	Short-term variable remuneration ⁴	Remuneration for belonging to the Board Committees ⁵	Other items ⁶	Total
Mr. Juan Ignacio Cirac Sasturain	—	—	—	—	—	95,000	95,000
Mr. Peter Erskine	—	80,000	—	—	—	—	80,000

1 to 6: Definitions of these concepts are those included in the previous table.

Additionally, as mentioned in the Remuneration Policy section, the Executive Board Members have a series of Assistance Services. Below, the contributions made during 2023 are detailed for the Company to long-term savings systems (Pension Plans and Social Welfare Plan):

LONG-TERM SAVINGS SYSTEMS

(Amounts in euros)

Directors	Contributions for fiscal year 2023
Mr. José María Álvarez-Pallete López	673,085
Mr. Ángel Vilá Boix	560,000

The breakdown of the long-term saving systems includes contributions to Pension Plans, to the Benefit Plan and to the Unit link-type Insurance, as set out below:

(Amounts in euros)

Directors	Contribution to Pension Plans	Contribution to Executive Social Welfare Plan ¹	Contributions to Unit link-type Insurance/Pension Plan Surplus ²
Mr. José María Álvarez-Pallete López	7,574	540,968	124,543
Mr. Ángel Vilá Boix	6,721	487,840	65,439

1. Contributions to the Executive Social Welfare Plan established in 2006, financed exclusively by the Company, to complement the current Pension Plan, which involves defined contributions equivalent to a certain percentage of the fixed remuneration of the Director, depending on the professional levels in the organization of the Telefónica Group.

2. Contributions to Unit link-type Insurance/Pension Plan Surplus: In 2015 and 2021, applicable law reduced the financial and tax limits of the contributions to Pension Plans; for this reason, in order to compensate for the difference in favor of the Beneficiaries, a Unit-link type group insurance policy was arranged to channel such differences that occur during each fiscal year.

This Unit-link type insurance is arranged with the entity Occident GCO, S.A.U. de Seguros y Reaseguros (as the legal successor of Plus Ultra, Seguros Generales y Vida, S.A. de Seguros y Reaseguros), and covers the same contingencies as those of the "Pension Plan" and the same exceptional liquidity events in case of serious illness or long-term unemployment.

LIFE INSURANCE

The 2023 amounts for life insurance premiums were as follows:

(Amounts in euros)

Directors	Life insurance premiums
Mr. José María Álvarez-Pallete López	23,156
Mr. Ángel Vilá Boix	18,574

REMUNERATION PLANS BASED ON SHARES

As regards to remuneration plans based on shares (involving Executive Directors), the following long-term variable remuneration plans were in existence during the year 2023:

The so-called Performance Share Plan ("PSP"), made up of three cycles (2021-2023; 2022-2024; 2023-2025), approved by the General Shareholders' Meeting held on April 23, 2021.

During the financial year 2023, the Plan consisted of 3 cycles. The first cycle, whose target measurement period started on January 1, 2021 and ended on December 31, 2023.

In this cycle, a maximum of 1,913,000 shares were allocated to the Executive Directors on January 1, 2021, with a unit fair value of 3.1598 euros per share for FCF ("Free Cash Flow"), 2.6465 euros for TSR ("Total Shareholder Return") and 3.1598 euros for the CO2 Emission Neutralisation and Reduction target.

At the end of the cycle, Kepler provided the Nominating, Compensation and Corporate Governance Committee with the calculation of Telefónica's Total Shareholder Return, which was 37.9% at the end of the period, ranking sixth in the comparison group, i.e. between the median and the 75th percentile according to the established scale of achievement, and generating a weighted payout ratio of 39.45% linked to relative TSR.

With regard to the Free Cash Flow, after taking into account the partial annual payments for 2021, 2022 and 2023, previously audited and approved by the Board at the proposal of the Nominating, Compensation and Corporate Governance Committee, the weighted payout ratio is 40%. The assessment of the level of compliance was based on the results of the audit by the Company's external and internal auditors, which were first analysed by the Audit and Control Committee before being validated by the Nominating, Compensation and Corporate Governance Committee and approved by the Board of Directors.

Finally, in relation to the CO2 Emission Neutralisation and Reduction target, the Appointments, Remuneration and Corporate Governance Committee has regularly monitored the level of CO2 Emissions Neutralisation and, after analysing the report from the Corporate Affairs and Sustainability Department, has determined the level of achievement. The Nominating, Compensation and Corporate Governance Committee was supported in this evaluation function by the Sustainability and Quality Committee (now the Sustainability and Regulation Committee) and the Audit and Control Committee. In this respect, the minimum CO2 emission reduction threshold that triggers the possibility of assessing the degree of compliance with the CO2 Neutralisation target has been met and therefore the weighted payout ratio linked to CO2 Neutralisation was 10%.

Taking into account the Relative TSR, Free Cash Flow and CO2 Neutralisation results, the weighted payout ratio increased to 89.45%. Thus, at the end of the Plan's First Cycle, Executive Directors are entitled to receive 978,583 gross shares in the case of the Executive Chairman, Mr. José María Álvarez-Pallete López, and 732,596 gross shares in the case of the Chief Operating Officer (COO) Mr. Ángel Vilá Boix.

Similarly, during the 2023 financial year, the second cycle and third cycle of the Plan were in force, starting on January 1, 2022 and January 1, 2023 respectively and ending on December 31, 2024 and December 31, 2025 respectively.

In both cycles, the number of Telefónica, S.A. shares that could be delivered to the participants, within the established maximum, is conditioned and determined by the compliance with the established objectives: 50% of the compliance with the Total Shareholder Return (TSR) objective of Telefónica, S.A. shares, 40% of the Telefónica Group's Free Cash Flow (FCF) and 10% of the Neutralisation and Reduction of CO2 Emissions.

To determine compliance with the TSR target and calculate the specific number of shares to be delivered for this concept, the performance of the TSR on Telefónica, S.A.'s shares will be measured during the measurement period of each three-year cycle, in relation to the TSRs experienced by certain companies in the telecommunications sector, weighted according to their

relevance to Telefónica, S.A., which for purposes of the Plan will constitute a comparison group (hereinafter the "Comparison Group"). The companies included in the Comparison Group are listed below: América Móvil, BT Group, Deutsche Telekom, Orange, Telecom Italia, Vodafone Group, Proximus, Koninklijke KPN, Millicom, Swisscom, Telenor, TeliaSonera, TIM Brasil, and Liberty Global.

With regard to complying with the TSR objective, the number of shares to be delivered associated with meeting this objective will range from 15% of the number of theoretical shares assigned, assuming that the TSR performance of Telefónica, S.A. shares is at least the median of the comparison group, to 50% if the performance is in the third quartile or above in the comparison group, with the percentage calculated by linear interpolation for cases falling between the median and third quartile.

In order to determine the compliance with the FCF objective and calculate the specific number of shares to be delivered for this concept, the FCF level generated by the Telefónica Group during each year will be measured and compared to the value set in the budgets approved by the Board of Directors for each financial year.

With regard to the FCF, for each of the cycles in force during the financial year 2023, the Board of Directors, at the proposal of the Appointments, Remunerations and Corporate Governance Committee, determined a scale of achievement that includes a minimum threshold of 90% compliance, below which no incentive is paid and compliance with which will entail the delivery of 20% of the theoretical shares assigned, and a maximum level of 100% compliance, which will entail the delivery of 40% of the theoretical shares assigned.

In order to determine compliance with the CO2 Emission Neutralisation and Reduction target and to calculate the specific number of shares to be delivered for this item, the level of CO2 Emissions Neutralisation achieved at the end of the cycle will be measured, with the incentive being paid upon reaching a certain level of scope 1 + 2.

The level of direct and indirect CO2 emissions from our daily activity shall be calculated according to the following:

CO2 Emission = Activity Data x Emission Factor, where:

- Activity: Amount of energy, fuel, gas, etc. consumed by the Company.

- Emission Factor: Amount of CO2 emitted to the atmosphere by the consumption of each unit of activity.

The emission factor provided by official sources (European Union, Ministries, CNMC, International Energy Agency, etc.) is used for electricity and the GHG Protocol emission factors are used for fuels.

At the beginning of both cycles, the Board of Directors, at the proposal of the Appointments, Remunerations and Corporate Governance Committee, determined a scale of achievement that includes a minimum threshold of 90% compliance, below which no incentive is paid and compliance with which will entail the delivery of 5% of the theoretical shares assigned, and a maximum level of 100% compliance, which will entail the delivery of 10% of the theoretical shares assigned. In addition, a minimum level of emission reductions of Scope 1 + 2 will need to be achieved for the incentive to be paid.

In any case, 100% of the shares delivered under the Plan to the Executive Directors and other Participants as determined by the Board of Directors shall be subject to a two-year holding period.

In addition, in accordance with the provisions of the Remuneration Policy for Directors of Telefónica, SA, the Executive Directors must maintain (directly or indirectly) a number of shares (including those delivered as remuneration) equivalent to two years of their Gross Fixed Remuneration, as long as they continue to belong to the Board of Directors and perform executive functions. Until such time as this requirement is met, the holding period for any shares delivered under the Plan to Executive Directors will be three years. The maximum number of allocated shares to be delivered in the event of maximum compliance with the TSR (Total Shareholder Return), FCF (Free Cash Flow) and CO2 Emission Neutralisation and Reduction targets set for the Second and Third Cycles of the Plan is shown below.

PSP - Second cycle / 2022-2024

Directors	Maximum number of shares (*)
Mr. José María Álvarez-Pallete López	995,000
Mr. Ángel Vilá Boix	745,000

(*) Maximum possible number of shares to be received in case of maximum completion of TSR, FCF and Neutralization of CO2 Emissions target.

In any case, it is noted that no shares have been delivered to Executive Directors under the second cycle of the PSP and that the above table only reflects the number of potentially deliverable shares, without in any way implying that all or part of the shares will actually be delivered.

PSP - Third cycle / 2023-2025

Directors	Maximum number of shares (*)
Mr. José María Álvarez-Pallete López	1,100,000
Mr. Ángel Vilá Boix	831,000

(*) Maximum possible number of shares to be received in case of maximum completion of TSR, FCF and Neutralization of CO2 Emissions target.

In any case, it is noted that no shares have been delivered to Executive Directors under the third cycle of the PSP

and that the above table only reflects the number of potentially deliverable shares, without in any way implying that all or part of the shares will actually be delivered.

On the other hand, Telefónica, S.A. General Meeting of Shareholders held on April 8, 2022, approved a new Global Telefónica, S.A. Incentive Share Purchase Plan for Telefónica Group Employees, in which the Executive Directors participate as a token of their commitment to the Company and in order to encourage other employees to participate in the Global Plan. The Plan will end in March 2024, and the maximum amount that each employee can allocate to it is 1,800 euros. As a result, each Executive Director is entitled to receive 589 gross shares upon termination of the Plan.

In addition, it should be noted that the external directors of the company do not perceive nor have perceived remuneration during the year 2023 in concept of pensions or life insurance, nor do they participate in compensation plans referenced to the value of the share price.

Furthermore, the company does not grant nor has granted during the year 2023, an advance, loan or credit in favor of its Board Members or its Senior Management, complying with the requirements of the Sarbanes-Oxley Act published in the United States, which is applicable to Telefónica as a listed company in this market.

Remuneration of the Company's Senior Management

As for the Directors who made up the Senior Management¹ of the company in the year 2023, excluding those who form an integral part of the Board of Directors, have accrued a total amount of 8,749,939 euros during the 2023 fiscal year.

In addition, and in terms of long-term savings systems, the contributions made by the Telefónica Group during the year 2023 to the Social Security Plan described in the "Income and expenditure" note with regard to these directors increased to 947,676 euros; the contributions corresponding to the Pension Plan increased to 212,281 euros; the contributions to the Seguro Unit link-Excess Pension Fund increased to 113,293 euros.

Furthermore, the amount related to the remuneration in kind (which includes the fees for life insurance and other insurance, such as the general medical and dental coverage, and vehicle insurance) was 122,315 euros.

On the other hand, regarding share-based remuneration plans, during the year 2023, there were in force the following long-term variable remuneration plans:

The so-called Performance Share Plan ("PSP"), made up of three cycles (2021-2023; 2022-2024; 2023-2025),

approved by the General Shareholders' Meeting held on April 23, 2021.

The target measurement period of the first cycle started on January 1, 2021 and ended on December 31, 2023. The maximum number of shares allocated to be delivered in the event of maximum compliance with the TSR ("Total Shareholder Return"), FCF ("Free Cash Flow") and CO2 Emission Neutralisation and Reduction targets set for the First Cycle for all the Company's Senior Executives was 1,333,081.

At the end of the First Cycle, Kepler provided the Nominating, Compensation and Corporate Governance Committee with the calculation of Telefónica's Total Shareholder Return, which was 37.9% at the end of the period, ranking sixth in the comparison group, i.e. between the median and the 75th percentile according to the established scale of achievement, and generating a weighted payout ratio of 39.45% linked to relative TSR.

In terms of Free Cash Flow, after taking into account the partial annual payments for 2021, 2022 and 2023, the weighted payout ratio is 40%. The assessment of the level of compliance was based on the results of the audit by the Company's external and internal auditors, which were first analysed by the Audit and Control Committee before being validated by the Nominating, Compensation and Corporate Governance Committee and approved by the Board of Directors.

Finally, in relation to the CO2 Emission Neutralisation and Reduction target, the Appointments, Remuneration and Corporate Governance Committee has regularly monitored the level of CO2 Emission Neutralisation and, after analysing the report from the Corporate Affairs and Sustainability Department, has determined the level of achievement. The Nominating, Compensation and Corporate Governance Committee was supported in this evaluation function by the Sustainability and Quality Committee (now the Sustainability and Regulation Committee) and the Audit and Control Committee. In this respect, the minimum CO2 emission reduction threshold that triggers the possibility of assessing the degree of compliance with the CO2 Neutralisation target has been met and therefore the weighted payout ratio linked to CO2 Neutralisation was 10%.

Taking into account the Relative TSR, Free Cash Flow and CO2 Neutralisation results, the weighted payout ratio increased to 89.45%. Thus, at the end of the first cycle of the Plan, the Company's Senior Executives are entitled to receive 1,192,442 gross shares.

The target measurement period for the second and third cycles started on 1 January 2022 and 1 January 2023 respectively, and will end on December 31, 2024 and December 31, 2025 respectively. The maximum number of shares allocated to be delivered in the event of maximum compliance with the TSR (Total Shareholder Return), FCF (Free Cash Flow) and CO2 Emission Neutralisation and Reduction targets set for the second and third cycles for all the Company's Senior Executives is 1,241,015 in the second cycle of the Plan and 1,378,418 in the third cycle of the Plan.

On the other hand, Telefónica, S.A. General Meeting of Shareholders held on April 8, 2022, approved a new Global Telefónica, S.A. Incentive Share Purchase Plan for Telefónica Group Employees, in which the Senior Management participate as a token of their commitment to the Company and in order to encourage other employees to participate in the Plan. The Plan will end in March 2024, and the maximum amount that each employee can allocate to it is 1,800 euros. Thus, at the end of the first cycle of the Plan, the Company's Senior Executives are entitled to receive 2936 gross shares.

(1) For these purposes, Senior Management is understood to be those persons who perform, de jure or de facto, senior management functions reporting directly to the Board of Directors or Executive Committees or Managing Directors of the Company, including, in all cases, the person responsible for Internal Audit.

Management report 2023

This Management Report has been prepared taking into consideration the 'Guidelines on the preparation of annual corporate governance reports for listed companies', published by CNMV in July 2013.

In accordance with Law 11/2018 of December 28, and following the amendment of the article 262 of Commerce Law, the Company is not obliged to include non-financial information in the Management Report. The disclosure of this information can be found in the Consolidated Management Report of the Telefónica Group (whose parent Company is Telefónica, S.A.) which will be filed as well as the consolidated financial statements in the Companies' Register of Madrid.

Business Model

Towards a new paradigm for the telecommunications industry

The traditional telecommunications operator value chain includes assets, which are tangible and intangible resources developed through investment; services, which are developed based on the assets deployed (or operators may offer third-party services); and customers, the portfolio of which is usually very diverse depending (residential, corporate, public administrations, etc.).

Today's networks are moving towards models more akin to software platforms. This allows telecommunications operators to create new business models aimed at making the main capabilities of our networks available to different stakeholders (not only end customers) through connectors or Application Programming Interfaces (APIs).

Changing the traditional business model entails several layers of transformation:

- Moving from copper, 2G, 3G and 4G networks to all-IP, fibre and 5G networks will give us a more streamlined business model.
- Evolving from reactive, hardware-based networks to software-based ones will enable more agile and adaptive management and execution of functions.
- From customised, tailor-made integrations to interconnected global platforms with open APIs, the new business model will facilitate smooth and efficient communication between different systems and services.

- The traditional telco experience is evolving towards an AI-driven customer relationship, allowing companies to anticipate and meet customer needs faster and more accurately.
- Gone are the days of one-size-fits-all offerings; we are now effectively a digital supermarket, offering products from sectors as diverse as entertainment, security and fintech.

As a result, telcos have become more important in the eyes of customers and can now operate much more efficiently. Operations are more agile, efficient and future-proof.

Transformation of telecommunications networks towards earth computing

In recent years, profound and disruptive innovation has been unfolding across multiple intersecting technologies in a similar way to when mobile internet converged with computing. That convergence transformed a device intended to support voice functionalities into a smartphone, ushering in digital native companies and radically changing market dynamics.

We are now in the midst of an era change, driven by the convergence of telcos, computing, artificial intelligence (AI) and Web3. This change has led to radical disruption on all four fronts, giving rise to a new wave of digital services requiring mass communication solutions, full interoperability and real-time computing.

Against this backdrop, Telefónica has the unique opportunity to improve people's lives by offering products and services through our networks. However, with that opportunity comes the responsibility of managing the increase in data traffic and delivering high-performance connectivity, overcoming technological challenges such as latency, capacity and personalisation to do so.

Personalisation must be prioritised in order to address customers' diverse needs. The increase in traffic will require high-performance connectivity and distributed computing capacities, while solutions beyond cloud technology will need to be explored in order to ensure optimal efficiency and performance for our products and services.

Connectivity is the foundation of all things digital, both today and tomorrow. The telco of the future will rely on networks that are:

- UBB and low latency
- Programmable and AI-based
- Cloud-connected

To adopt technology that promotes efficiency and a good customer experience, it is crucial to move towards a simpler approach, continuing to shut down legacy networks, simplifying the next wave of operations and scaling down our infrastructure. It will also be crucial to step up efforts in the area of hyper-automation, with a focus on operations and content management, contactless network management and next generation customer acquisition.

The transition towards increasingly automated networks requires the implementation of new AI-based technologies. For Telefónica, AI is a key element of the digital customer experience and is a prime contributor to efficiency. There are many practical examples of how AI and machine learning techniques have been applied in our networks. Telefónica has created a specific program for the move towards autonomous networks (the Autonomous Network Journey Program) that seeks to deliver greater speed (improved deployment and response times), intelligence (predictive networks), improved quality (for our customers), efficiency (in costs) and sustainability (mainly in the area of energy consumption).

New connectivity-based services (NaaS)

Today's networks are not only generating efficiencies; they are also providing new business opportunities. Network and IT components are being broken down into individual microservices, which can be sold through a developer-centric marketplace within the cloud ecosystem.

Software developers and integrators can access code through these marketplaces, allowing them to integrate microservices into their applications, such as device location. They will also be able to create configurable and scalable products based on information and network quality.

This change is a collective industry effort, collaborating to define a new standard within GSMA and CAMARA. Standardisation and simplicity are essential to unlocking the enormous value that lies hidden in connectivity.

The industry is ready to serve a platform that reaches 5,400 million people daily. This readiness demonstrates the sector's ability to meet the challenges and seize the opportunities presented by this new era of digital connectivity.

The implementation of next generation infrastructure is underway, with UBB connectivity already deployed and

our networks undergoing a transformation towards softwarisation and hyper-automation. The data- and API-based abstraction layer helps orchestrate this infrastructure and seamlessly connect it to the digital world. In building an earth computing stack coordinated by telecommunications, all the necessary intelligence is being deployed.

Automation and data management will streamline innovative service offerings, providing high-quality digital connectivity and services to B2C customers, driving digital transformation in B2B and facilitating wholesale connectivity to a variety of partners, from other telcos to developers.

This large scale transformation we have undertaken, which has improved networks and customer interactions, streamlined operations and ensured the sustainability of the business, puts the Company in a significantly better position than the rest of the industry.

Telefónica's organization

As part of its strategy based on five decisions and implemented in 2019, Telefónica focused on its core markets (Spain, Brazil, Germany and UK) and launched its global businesses (T-Tech and T-Infra). Following the new strategic approach announced on Capital Markets Day, the Group continues to strengthen its organisation with the aim of improving customer service in the following segments: Residential, Corporate (including companies and the public sector) and Wholesale (operators and other partners in new businesses).

Domestic telecommunications operators

Telecommunications businesses operate relatively autonomously, deploying infrastructure and serving their customers within their given territories:

- **Telefónica Spain** (100% owned by Telefónica, not individually listed): Spanish convergent operator, domestic network leader and leader in all customer segments (individuals, households, corporate and wholesale), with almost 41 million accesses and a fibre network reaching over 29 million homes.
- **Telefónica Brazil** (74.8% owned by Telefónica, a company listed on the Brazilian Stock Exchange): leading convergent operator in Brazil, where it operates a network with over 113 million customer accesses. Regional leader in fibre-to-the-home (FTTH) deployment, with over 25 million homes reached.
- **Telefónica Deutschland** (93.1% owned by Telefónica): it is one of the leading mobile operators in Germany, where it operates under the O2 brand and other specialised brands and has almost 50 million accesses.

- **VMED O2 UK** (VMO2) (50% joint venture with Virgin Media, not listed): leading domestic convergent operator after the largest provider. Created from the merger of Liberty Media's fixed assets and O2 UK's mobile assets. It currently manages over 57.6 million total accesses (fixed, mobile and TV) and operates a cable network of 17 million homes reached (in the process of transformation to fibre).
- **Telefónica Hispam**: groups together Telefónica's businesses in eight Latin American countries (Argentina, Chile, Peru, Colombia, Mexico, Ecuador, Venezuela and Uruguay), with nearly 112.6 million customer accesses.

Global businesses

In November 2019, Telefónica changed its business strategy, making five key decisions for the Company's future development. These included the creation of two independent global businesses, with the aim of accelerating growth and maximising the value of our infrastructure.

- **Telefónica Tech**: a leading provider of advanced NextGen solutions designed to power companies' digital transformations, Telefónica Tech (T-Tech) offers cutting-edge solutions in areas such as cybersecurity, the cloud, Internet of Things (IoT), big data, artificial intelligence (AI) and blockchain, all with the aim of improving the efficiency, sustainability and resilience of companies', organisations' and public administrations' processes and businesses.

With a global presence and a team of over 6,300 highly qualified professionals representing more than 60 nationalities and holding over 4,000 digital skills certifications between them, Telefónica Tech has the capacity to serve more than 5.5 million B2B customers worldwide. Since its creation, Telefónica Tech has been achieving double-digit growth and consistently outperforming market indices year after year.

Telefónica Tech has developed an extensive portfolio of over 100 products and services, 58% of which has been verified with the Eco Smart seal, for their potential environmental benefits. These products and services cover key areas such as cybersecurity, the cloud, IoT, big data, AI and blockchain.

In terms of IoT solutions, Telefónica Tech leads the field with its advanced platform and AI offerings. We work closely with our customers to optimise the efficiency of production resources in various sectors.

With regard to cybersecurity and cloud solutions, Telefónica Tech combines the potential of both technologies to guarantee that all our cloud solutions have a cybersecurity component embedded therein. This integration has enabled us to excel globally in cloud communications and managed security solutions. We

offer end-to-end consulting and managed services and have established ourselves as a leader in this area.

In the field of cloud services, Telefónica Tech has designed a hybrid multi-cloud model that encompasses solutions in both the private and public cloud. Telefónica Tech builds partnerships with major providers and industry leaders in order to integrate and migrate the main business applications (Platform as a Service, or PaaS) to the cloud.

Cybersecurity is central to Telefónica Tech's philosophy and is of paramount importance to us. That is why we have incorporated security as a fundamental part of all our solutions and enhanced our ability to safeguard the continuity of our business and that of our customers.

We have over 4,000 certifications, two Digital Operational Centres (DOCs) in Spain and Colombia and a network of Security Operational Centres (SOCs) distributed strategically throughout Europe and the Americas. From these centres we closely monitor potential threats and apply preventive and corrective measures in order to proactively guarantee security.

- **Telefónica Infra** is a subsidiary of the Telefónica Group and operates as a portfolio manager, owning and rotating stakes in infrastructure vehicles alongside financial investors. Telefónica Infra focuses on creating value through specialized infrastructure management, selectively monetizing assets, and partnering with key financial investors to co-invest in growth opportunities (through partnership structures and flexible business models).

Telefónica Infra contributes to enhancing the competitive position of Telefónica's business units, crystallizes the value of the company's assets and capabilities, and captures future value increases through stakes in infrastructure vehicles. Currently, Telefónica Infra's investment portfolio encompasses three types of assets: Submarine cable (Telxius), Data Centers (Nabix), and Fiber (Bluevía, FiBrasil, Unsere Grüne Glasfaser, and Nexfibre).

Key Enablers and Global Units

In addition to our operational businesses, the Telefónica Group, which has a direct relationship with customers in all the regions in which it operates, centrally carries out certain activities that provide value for operators and develop common capabilities in important areas for the future of the Group, establishing a common framework:

- Develops **key technologies** for the Group, in a sector strongly impacted by technological advances. Telefónica makes decisions regarding the development of its networks and systems in a centralised manner. This is a crucial factor for its leading connectivity offer, constitutes the foundations of the customer experience

and is underpinned by common criteria of efficiency and profitability.

- In terms of **people**, Telefónica actively manages the attracting, retention and promotion of internal talent in a group comprising over 100,000 employees spread across all the regions in which it is present.
- Optimises the allocation of **capital** among the various existing investment alternatives. Telefónica establishes clear criteria to increase growth and profitability, strengthen cash generation and ensure the Group's investment quality (rating position) and commitments to our shareholders.
- In the field of **regulations** and external relations, we establish the Telefónica Group's position in the sector's main forums and participate in the development of the regulatory agenda for the future.
- Other **global units** include activities that harness the scale of the Telefónica Group to obtain significant competitive advantages (marketing, procurement, etc.) as well as staff and legal and regulatory compliance units.

Economic results of Telefónica, S.A.

Telefónica, S.A. obtained positive net results of 2,153 million euros in 2023. Highlights of the 2023 income statement include:

- Revenue from operations, amounting to 4,362 million euros, higher than 2022 figure due to the increase in dividends registered as revenues (disclosed in note 19).
- The figure of "Impairment losses and other losses" amounting to a write down of 1,208 million euros in 2023 (a write down of 1,590 million euros in 2022).
- Net financial expense totaled 1,428 million euros in 2023 (1,401 million euros of financial expense in 2022). This figure is mainly due to finance costs with Group companies and associates, principally from Telefónica Europe, B.V. amounting to 510 million euros (417 million euros in 2022) and Telefónica Emisiones, S.A.U. totaling 766 million euros (902 million euros in 2022). Net exchange rate losses amount to (11) million euros (181 million of exchange rate losses in 2022).
- Income tax caption amounts to positive 1,024 million euros (see note 17). As a consequence of the ruling filed by the EU General Court cancelling the Third Decision 2015/314, a positive amount of 334 million euros have been registered, decreasing the figure of income tax. The impact of the Sentence of the Constitutional Court over the Royal Decree 3/2016 has reduce the income tax figure by 298 million euros.

Investment activity

The investment activity of the Company regarding additions, sales, valuation criteria and impact of this valuation in 2023 is described in note 8 of these financial statements.

Share price performance

European and US equity markets ended with strong gains thanks to a very positive performance in the last quarter of the year as the market started to discount future interest rate cuts already announced by some central banks for 2024, leaving behind the restrictive monetary policy to address high inflation, avoiding recession in both the US economy and the main European economies.

Among the main European markets (EStoxx-50 +19.2%), the best performers were peripheral markets (Ibex-35 +22.7%, MIB +28%) with Ibex-35 recording its best performance since 2009, followed by the DAX (+20.3%), and the CAC 40 (+16.5%), while the FTSE-100 closed with a modest gain (+3.8%). On the other hand, US markets also closed the year with significant gains, reaching levels close to all-time highs, driven mainly by the exceptional performance of technology stocks (Nasdaq +43.4%, S&P +24.2% and Dow Jones +13.7%). The MSCI World index in euros rose by +17.9%. In the bond market, prices continued to fall for most of the year, with the US 10-year Treasury yield reaching 5%, the highest since 2007, until the end of October when yields declined, as the downward trend in inflation and thus the pause in rate hikes was confirmed.

The telecom sector performed well in the first quarter of the year (+14.7% vs. Stoxx 600 +7.8%) but lost its lead over the market at the end of the year (+3.8% vs. Stoxx 600 +12.7%) despite continued positive news from companies, which led to a 40% improvement in annual guidance in the third quarter. This provides a positive scenario for 2024, with the prospect of cash flow growth outperforming the market, underpinned by sustained revenue growth coupled with a reduction in operating costs and capex, which has passed its peak, and which will translate into above-inflation cash generation growth. In addition, telecoms' refinancing needs are also limited, with debt largely at fixed rates, reinforcing the sector's defensive qualities. There is also optimism about consolidation moves in Europe, and the opportunities for themes such as artificial intelligence to improve returns.

Telefónica has continued its transformation process in 2023 which has allowed it to present a more ambitious company plan for the next three years, based on growth, profitability and sustainability, coupled with a strict capital allocation, to create significant value for shareholders. In 2023, results were solid, meeting all the announced

targets, which were improved in the first half results, growing revenues and OIBDA and reducing capital intensity compared to the previous year. Telefónica ended 2023 with a market capitalization of 20,323 million euros, with a share price of 3.53 euros, +4.4% in the year, and a total shareholder return of 13.0%, above an 8.9% average for the sector.

Regarding dividend payments, €0.30 per share was paid in 2023 (€0.15 per share in June and €0.15 per share in December, both in cash). The 2023 shareholder remuneration policy consists of a €0.3 per share cash dividend (€0.15 per share paid in December 2023 and €0.15 per share to be paid in June 2024). The 2023 dividend yield stood at 8.5%. In addition, in April 2023, 24.7 million treasury shares were cancelled.

Sustainable offer and innovation

For Telefónica, putting in place measures to encourage innovation and product development has been an integral part of our business throughout our 100-year history.

We view innovation as the ability to anticipate the future and to understand the needs and challenges our customers and society as a whole are dealing with.

Our strategy is built on two pillars:

- **Incremental innovation**, which is about pursuing the continuous improvement of existing technologies to adapt them to new societal demands, thus allowing us to develop more efficient and sustainable solutions.
- **Disruptive innovation**, which enables us to identify new business models capable of transforming the market and contributing to social development.

This innovation strategy is underpinned by a two-pronged approach:

- First, seeking to boost internal and cross-cutting activity throughout the Company, especially from the units of networks and IT systems and the digital service development..
- Secondly, and based on open innovation, seeking to promote the entrepreneurial ecosystem through the support and financing of startups. In addition, we encourage collaboration with technology partners with the aim of attracting the best external innovation available on the market.

Core innovation

Our priority in this area is to develop new digital services that improve people's lives, and we leverage the

Company's main assets, such as its telecommunications networks, digital platforms and information systems to do so. Our current business units – which include IoT, big data and video – have their roots in projects that were developed years ago by the core innovation teams.

Some of the projects that were developed as part of core innovation projects in previous years and began to be marketed in 2023 are:

- **Web3**, which provides a financial layer on top of the traditional web and facilitates frictionless economic transactions online, creating opportunities for innovative business models.
- **NFT marketplace**, a platform for the creation and sale of digital art on which we collaborated with Fundación Telefónica and other social organisations.
- **Digital identity**, a project aligned with the proposed European digital wallet, which seeks to introduce a single Digital Identity system in the EU. With this project, we are creating the necessary capacity to facilitate management of the future digital identity scheme.
- **New Living Apps**, apps available through our television platform that enable innovative marketing schemes such as live shopping, which offers the possibility of incorporating commercial streaming content and providing incentives for shopping as part of the consumer experience. We also moved ahead with including payment capabilities in the Living Apps environment.
- **Cognitive digital marketing**, applying AI algorithms to data. The aim is to achieve better marketing results while ensuring consumer privacy, complying with our ethical commitments in the development of algorithms and AI, and covering our customers' needs. This initiative has led to the creation of UTIQ, a joint venture involving a number of telcos, through which we are fostering an advertising ID solution that enables customers to retain control over when, how and with whom they share their data.

Lastly, in addition to our role as pioneers in the technological world, we devote a certain amount of our innovation efforts to improving existing technologies. We also work with private and public organisations and with the world of academia on projects that we develop in conjunction with universities at a national and international level.

Open Gateway

The new technologies incorporated into networks in recent years have opened the door to innovative services being developed and new business models being built around them.

Combining cloud computing with the softwarisation of network elements and functions allows for the development of new business models based on Network as a Service (NaaS). At the same time, telecommunications companies have been upgrading the information systems and software platforms that operate the networks.

All this allows us to make certain functions securely available through standardised interfaces (Application Programmable Interfaces, or APIs) so that other companies can develop end services that are far more optimised and better adapted to the demands of the current market.

The driving force behind this strategic project is the GSMA. By November 2023, 39 mobile operator groups had signed up to the project, representing more than 200 mobile networks and over 60% of global mobile connections.

GSMA Open Gateway was introduced at the Mobile World Congress in Barcelona in 2023. In November, in cooperation with two other leading operators in Brazil, we launched the first three APIs: Number Verify, SIM Swap and Device Location.

Open Innovation

For the past 15 years, Telefónica Open Innovation has been supporting the Group as it searches for and invests in innovative startup solutions that will enable us to meet our challenges as a company, as a sector and as a key player in social progress.

Our open innovation strategy pursues three objectives:

- To internally transform Telefónica by incorporating startup-developed technology and products (digitalisation, automation and cultural change).
- To identify disruptive trends and opportunities for growth (game changers).
- To generate new revenue streams and financial returns from investments.

Today, of the more than 1,100 enterprises we have invested in, over 370 startups have ended up working with Telefónica, generating an approximate value of over €800 million for the Company. Most importantly, we have taken their innovative solutions to our customers as well, to help them with their digital transformations and to enable them to generate efficiencies internally.

We firmly believe in the transformative potential of innovation and technology to forge a sustainable future. We are signatories to the United Nations Principles for Responsible Investment (UN PRI), which entails integrating ESG targets and factors into all our

investment decisions. Our vision is to lead the way to responsible, inclusive and sustainable digitalisation, while also boosting responsible investment in the venture capital community.

Environment

Vision

Companies play a key role in protecting the environment. By integrating sustainability strategically throughout their operations, they not only contribute to reducing their impacts, but also mitigate risks and increase their value as a company.

Customers, investors and employees are significantly more environmentally conscious, which is reflected in their need to carry out their activities in a more sustainable way and to seek partnerships with companies that have incorporated these values into their strategy.

At Telefónica, we strive at all levels of the organisation to minimise our impact and decouple the growth of our business from our environmental footprint.

Furthermore, we believe it is vital to enhance the synergies between the digital, green and energy transition in order to achieve a competitive, resilient and sustainable economy. This is why digitalisation becomes a crucial tool in facing environmental challenges: climate change, circular economy, water management and biodiversity.

This commitment forms part of the Company's general strategy for which the Board of Directors is ultimately responsible.

The corresponding performance levels are regularly monitored by the Board's Sustainability and Regulation Committee, as well as by the Responsible Business Office, which is also responsible for coordinating it.

We see the environment as a cross-cutting issue that involves operational and management areas as well as business and innovation areas. The Climate Action Plan is a good example of this. Not only does this Plan define actions for the operational model, but it also defines actions for the business and financial strategy, the commitment to customers, the supply chain and society as a whole.

In this regard, it is worth highlighting that carbon emissions reduction targets are part of the variable remuneration of all the Company's employees, including the Executive Committee.

Impacts, risks and opportunities

The Company's environmental and climate change risks are managed under the Telefónica Group's global risk management framework.

The major risk focus regarding these issues lies in the wide geographical spread of our infrastructure. As a result, we carry out supervision and monitoring based on standardised procedures, under the scope of ISO 14001-certified EMSs.

We take the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) as a starting point for the analysis of climate change risks.

In 2023 the Telefónica Group contracted, locally and globally, several insurance policies to mitigate the possible occurrence of any incident arising from the risks of environmental liability and/or natural disasters, so as to guarantee business continuity.

We have fully comprehensive monetary loss and lost profits cover in place to protect against material losses, damage to assets and loss of income and/or customers, among other things, due to acts of nature. We also have coverage for environmental liabilities as required by applicable laws and regulations. This coverage consists of limits, sublimits and hedges appropriate to the risks and exposures of Telefónica and its group of companies.

By being proactive, establishing preventive measures and including environmental criteria in our decision making, we have been able to:

- Increase the Company's sustainable financing.
- Reduce our dependence on fossil fuels.
- Reduce our CO₂ emissions, in absolute terms, despite the increase in network traffic.
- Seize the opportunities offered by the circular economy.
- Help minimise our customers' environmental footprint thanks to our Eco Smart products and services.

Action plans

Our environmental strategy seeks to minimise our impact on the planet and maximise the environmental benefits generated by our digital products and services. It is built around three levels, which will be discussed throughout this report:

- The first level is related to the responsibility we assume as a company that is committed to our environment, by ensuring compliance with environmental legislation, managing our risks and opportunities, implementing management systems, establishing strict environmental targets, and engaging in **proactive advocacy for the environment**.

- The second level concerns the Company's decarbonisation and circularity, the protection of biodiversity and integral management of water. This is done through the use of renewable energy, energy efficiency projects, circular economy practices and biodiversity management.
- Lastly, the third level is linked to our *raison d'être*, the digitalisation of our customers, through services that have a positive impact on the environment thanks to connectivity technologies such as the Internet of Things (IoT), the cloud and big data.

In addition, as part of the integration of the environment into our strategy, we continue to increase the day-to-day sustainable financing of the Company.

Targets

The Telefónica Group's main environmental targets are to:

- Achieve net zero emissions by 2040, including our value chain. To do this, we will reduce all our emissions by at least 90% and neutralise the remaining emissions through nature-based solutions.
- Consume 100% renewable electricity in all our markets by 2030.
- Be a Zero-waste company in 2030, through the design of equipment, reuse and recycling.
- Reduce emissions in our value chain (scope 3) 39% by 2025 and 56% by 2030 compared to 2016 levels.
- Continue to use 100% renewable electricity in Europe, Brazil, Chile and Peru, and throughout our operations by 2030.
- Neutralise 100% of our operational emissions (scopes 1+2) in our main markets from 2025.
- Improve energy consumption per unit of traffic (MWh/PB) by 90% in 2025 compared to 2015.
- Accelerate our customers' decarbonisation processes by fostering development of new digital solutions.

Management policies and systems

We have several policies to bring the organisation into line with our environmental targets:

- Environmental Policy.
- Energy Management Policy.
- Supply Chain Sustainability Policy.

As well as our policies, we have internal standards that serve as a common reference framework for all Group

companies. These global standards guide the Company in improving its environmental performance and incorporate a life-cycle perspective.

To control the impact of our activities on the environment, we have chosen to implement an Environmental Management System (EMS) in accordance with the ISO 14001 standard. All our operators have an externally certified EMS. Operating under a certified EMS ensures adequate control and compliance with the applicable environmental legislation in each of our markets. It is therefore directly linked to the preventive environmental compliance model, which forms part of the Company's comprehensive compliance process.

Our EMS(s) enable(s) us to manage our most critical environmental aspects, such as energy and waste, as well as others that are less important due to the nature of our operations (biodiversity, water, noise). It is worth mentioning that we were not subject to any significant environmental penalties in 2023.

Responsible network and biodiversity

We have an environmental risk and impact monitoring system in place to manage the network throughout its life cycle. Monitoring allows us to offer a top quality service and to promote care for the environment. Therefore, in 2023, we invested around 17 million euros towards this goal (similar to the investment in 2022).

We foster the circular economy across all our assets to make our network as eco-efficient and environmentally responsible as possible. Thanks to our energy efficiency and renewable energy plans, we have managed to stabilise our electricity consumption, despite the rise in digitalisation. In addition, our circular economy strategy enabled us to reuse 313,805 pieces of network equipment and recycle 97% of our waste in 2023.

In order to both optimise land use and reduce visual impact, energy consumption and waste generation, we apply the best practices available. Among many other actions, we introduce soundproofing measures when necessary and prioritise locating our facilities in co-located sites with other operators, which allows us to reduce the impact caused by network deployment.

The trend of our environmental performance is displayed in the following summary of indicators:

Responsible network life cycle

Planning and construction

Environmental licences and permits	1,492
Visual impact reduction measures	64
Base stations with renewable energy	484

Operation and maintenance

Energy efficiency and managements projects	170
Renewable electricity in own facilities (%)	84
GHG emissions (Scopes 1+2) (tCO ₂ eq)	337,119
Energy consumption per traffic (MWh/PB)	41

Dismantling

Network equipment reused (pieces)	313,805
Hazardous waste (t)	3,576
Total waste recycled (%)	97

At Telefónica we understand the importance of biodiversity protection and efficient water management. Although these environmental aspects are not relevant to our operations, it is important for us to manage them responsibly and to continue working to minimise their impacts.

We seek to take a holistic approach that promotes a sustainable digitalisation. This being a process which is compatible with biodiversity preservation, water efficiency and protection of the environment as a whole.

The relationship between climate and biodiversity is key for maintaining climate stability and for protecting soil, air and water. In addition to achieving net zero emissions, we must also protect the health of the ecosystems.

At Telefónica we have externally certified Environmental Management Systems (ISO 14001), which allow us to monitor all the environmental aspects associated with our activities, such as energy and waste, and others, such as biodiversity, water, paper consumption and noise.

Our fundamental aim is to manage all natural resources efficiently, thereby contributing to the protection and conservation of biodiversity. This means optimising the consumption of energy, water and other resources used in our daily operations.

We set ourselves the following targets:

- Identify and assess nature-related impacts, dependencies, risks and opportunities, both in our direct operations and in our value chain.
- Apply the **mitigation hierarchy** (avoid, minimise, restore and offset) for limiting the potential adverse impacts on biodiversity from network deployment projects and the operation of our infrastructure.
- Establish partnerships and share best practices with other companies in the telecommunications sector to

maximise the positive impact on biodiversity conservation.

- Improve employee awareness to encourage responsible and efficient use of resources.

Human Capital

Vision

Our employees are crucial in bringing to fruition our new strategic plan: Growth, Profitability and Sustainability (GPS). This program raises our level of ambition and calls for a shift in culture at all levels.

The need for renewal is heightened by the fact that we are on the verge of celebrating our centenary, with our sights set on building the Telefónica of the next 100 years. Furthermore, from the talent perspective, we are experiencing disruptions that require the development of new capabilities and ways of working.

We have redesigned our culture around four aspects which are going to be our GPS, our navigation system:

- **Impact:** execution continues to be essential for the sustainability of our business.
- **Collaboration:** working together as a team – employees, customers and partners – maximises our impact.
- **Transformation:** in a digital and dynamic world, we must ensure that our processes and the way we work evolve constantly to become more agile.
- **Growth:** the new context requires us to update our skills in a very dynamic way through lifelong learning.

In order to implant this updated culture model, we are going to boost our talent management model, designed around managing skills. We empower our people to take the reins in defining their own learning roadmap by using the training and development tools available to them. We are enhancing this talent model with a new performance appraisal method to be implemented from 2024 with the goal of helping each of our employees maximise their potential and create the best version of themselves. It is based on ongoing, honest conversations, geared towards supporting development and maximising the impact of each of our employees. It will measure all aspects of our culture: impact, collaboration, transformation and growth.

Another element we have incorporated is our strong commitment to internal mobility, in order to accelerate professional growth and the acquisition of new skills. We are keen for mobility to be something that occurs at all levels of the organisation, starting at the executive level, encouraging changes in roles on at least a five-yearly basis (although this period may be shorter in the early

stages of an employee's career and longer in the latter stages). We understand internal mobility to mean a switch from one business area to another, a different country (while performing the same role), or a significant change of role. There will be initiatives to recognise mobility and it will be taken into account regarding promotions to executive positions.

We are committed to diversity as a source of talent and to the creation of inclusive and accessible environments to ensure all our professionals can give their best.

Lastly, in order to sustain our corporate plan, we must become more dynamic by reducing the complexity of the organisation. This involves adapting the skills of our workforce to the Company's needs and having a simpler operating model. Digitalisation helps us to improve both our network operation processes and those of our customers and internal processes.

Targets

- Achieve 37% of our executive positions filled by women by 2027. Reaching this target is linked to the variable remuneration of our employees and is one of our sustainable financing indicators.
- Achieve an adjusted gender pay gap of +/-1% by 2024. This was achieved in 2022. This is the basis for progression towards a zero gross pay gap.
- Achieve gender parity in the Company's highest governance bodies by 2030 (parity is defined as no more than 60% and no less than 40% representation of each gender).
- Continue to be included in the Bloomberg Gender-Equality Index.
- Maintain a score of at least 70% in the employee motivation survey with regard to work-life balance.
- Double the number of employees with disabilities within the workforce by 2024, in line with the commitments made to The Valuable 500.
- Attain an Employee Net Promoter Score (eNPS) of at least 70.
- Obtain an internal mobility rate among our executives of 15% per year by 2026 (10% in 2024).

Management

The strategic lines of action for global talent management and the applicable targets are defined by the Global Human Resources Committee. Meeting on a monthly basis, this committee is made up of the heads of the People department at Telefónica's main businesses and operations.

In addition, the Global Executive Committee analyses and monitors key aspects of global employee management, from skills and critical talent for the future to Telefónica's remuneration and organisational strategy.

People-related issues are also regularly reported to three Board committees:

- Sustainability and Regulation Committee: key performance indicators linked to company targets, as well as global and local progress on talent management and diversity, in line with the Group's ESG strategy, are presented to the committee once a year.
- Nominating, Compensation and Corporate Governance Committee: among other roles, this committee provides reports on appointment proposals for the role of Chairman of the Board, the executive directors and senior executives of the Company. This committee also reviews and supervises the remuneration for these positions.
- Audit and Control Committee: among other responsibilities, this committee supervises the financial and non-financial risk management and control systems at the Company (including operational, technological, legal, social, environmental, political and reputational risks, as well as corruption-related risks).

We also have specific bodies and roles for managing our diversity strategy. We have set ourselves an annual target of 10% for internal mobility among our executives in 2024, which will increase to 15% by 2026.

Policies and principles

Many of our internal rules and policies are related to the human capital. The following are the most important:

- Regulation of the Nominating, Compensation and Corporate Governance Committee.
- Regulation covering the Hiring of Former Executives and Former Employees of the Telefónica Group.
- Remuneration Policy of the Directors of Telefónica S.A.: in line with the Company's long-term strategy and the interests of its stakeholders, and complying with best practices in good governance.
- Agreement on the right to digitally disconnect: signed in 2019 with the most representative trade unions in the various countries where we operate.
- Supply Chain Sustainability Policy: establishing the supplier's obligation not to discriminate against any group in its hiring, training and promotion policies.
- Global Occupational Health, Safety and Well-being Regulation.

- Global Human Rights Policy: this sets out the Company's commitment against forced labour, slavery and child labour.

Our Company also has specific policies and protocols on issues related to diversity, inclusion and gender equality.

Impacts, risks and opportunities

The impact of managing human capital cuts across all areas of the Company and is essential to our business, affecting productivity, employee satisfaction, performance and Telefónica's reputation.

The main risks are related to the constantly evolving needs for new skills within the workforce, which stem from continual technical innovation and the shortage of technological talent in the market.

In order to ensure that we have the capabilities necessary to execute our strategy, we regularly conduct a strategic skill-related planning process (Skills Workforce Planning). We also work to ensure a diverse, inclusive and accessible work environment, which allows us to empathise better with our customers, innovate and reflect their diversity in our commercial value proposition. Our hybrid and agile working models represent an opportunity for professional development and for attracting digital talent. Our commitment to health, well-being and work-life balance helps to increase the motivation of our employees and thereby improve our business results.

Telefónica's people strategy aims to transform and adapt our teams to the context of permanent change in which we operate.

In this regard, our main lines of action (further explained in the following chapters) are focused on:

- Attraction, retention and skill development: we are shifting towards a model that can guarantee business sustainability and allow our people to thrive and grow. To that end, we foster lifelong learning with large-scale reskilling and upskilling programs, and talent management that is based on skills, including leadership skills.
- Diversity, equality and inclusion by fostering an inclusive work culture and leadership style, including accessible workplaces, to ensure a working environment in which all our people can give their best and develop on an equal footing.
- Flexible ways of working and agile high-performance ecosystems capable of improving team effectiveness; boosting motivation, talent attraction and a sense of belonging; and fostering innovation and corporate transformation.
- Occupational health, safety and well-being from a comprehensive vision of the individual that considers

mental, emotional and physical factors as the pillars of well-being while encouraging autonomy and responsibility.

Attraction, retention and capacities' development

Attracting, developing and retaining talent is key for the success of our Company. To achieve this, we foster dynamic, inclusive and innovative workplaces in which people feel valued, well-prepared and supported in their professional growth and personal well-being. We aim to be a catalyst in developing talent, by providing opportunities for lifelong learning, upskilling and through the creation and promotion of a community of motivated and high-performance individuals to drive the future of our Company.

The starting point to organise our talent management strategies is our Skills Workforce Planning. This plan seeks to ensure alignment between the skills we have within the organisation and those we need in order to allow for the growth of our businesses. The process enables us to make the right decisions to close the skills gap, by combining internal skill development with the incorporation of external talent.

- For internal skill development, we promote large-scale reskilling and upskilling programs that can develop critical skills for our business while improving the employability of our professionals. We have updated the learning model to personalise and adapt the range of training we offer to the preferences and skills pool of each professional through the SkillsBank platform and artificial intelligence (AI) engines (learning on demand).
- Attracting the best talent begins by developing an employer brand, communicating our values, vision and commitment, and looking for alignment with these values and our corporate culture in potential candidates. We use digital platforms, social media and networking events, including trade fairs and events at universities specialising in technology, to boost our visibility. The competitive remuneration packages offered, flexible working and an inclusive and diverse corporate culture contribute to creating an attractive and appealing environment for potential new talents.

We also strengthen our pool of young talent through various programs such as Talentum.

Main initiatives for talent retention

- A purpose-driven company (for example, we connect people; remuneration tied to ESG).
- A complete remuneration package (for example, a salary well above the minimum, with benefits in every country).
- Flexible working hours (for example, a hybrid work model for all eligible employees).
- Work-life balance (for example, agreement on the right to disconnect).

→ Lifelong training program, under which 70% of employees are on skill development programs (for example, Universitas, free programming courses at Campus 42).

→ Involvement in innovative and transformative programs tied to new technologies (for example, metaverse, Web 3.0, NaaS).

→ Well-being (for example, 81% of employees believe that Telefónica promotes well-being, according to our motivation survey).

→ Social implication (for example, the largest corporate volunteering program of any company worldwide).

→ Diverse and inclusive environment where difference is valued and empowered (for example, a commitment to double the number of employees with disabilities).

→ Team building with international festivals, activities and events (for example, Sondersland).

a) Development of capacities:

We have moved on from a traditional learning model to one focusing on developing skills and abilities through our SkillsBank tool.

On one hand, we are evolving the profiles and skills of our professionals to meet specific business-related challenges. We offer profile specialisation so our people can remain at the cutting edge (robotisation, cloud, IT sales, data, web developer, 5G, etc.).

On the other hand, we provide an open choice of training options so that each employee can play a leading role in their own development. The formats (videos, podcasts, video games, interviews, role play sessions, articles, etc.) are tailored to the needs of each person in hybrid and collaborative environments.

This approach also helps us to improve the career prospects of our employees in an environment of transitioning towards a climate-neutral economy. We are working to achieve net zero emissions by 2040 and, as part of this ambition, we are replacing our networks with more efficient ones. This may mean that some jobs are affected. However, our reskilling programs help by retraining and preparing our workforce in line with how our business is evolving.

In line with the commitment of the company, in 2022, the Chairman of Telefónica was elected as Chair of the Jobs, Skills and Impact Working Group of the European Business Round Table (ERT), an organisation made up by 60 of the largest companies in Europe. Reskilling for Employment (R4E) is one of the most important projects being undertaken by this committee. It is aimed at helping to professionally reskill one million Europeans by 2025.

b) Internal mobility

In our new corporate strategic plan GPS, internal mobility has become one of the most important tools to accelerate professional growth, capture new skills and retain talent. Internal mobility can be understood as a

switch from one business area to another, a different country (while performing the same role) or a significant change of role.

All these initiatives are aimed at fostering the development and promotion of our employees within the Company.

c) Universitas Telefónica

This is the exclusive platform on which all our professionals can find a carefully curated range of training experience options designed to accelerate the transformation and achievement of strategic targets for the Company. It is aimed at encouraging uptake of the new working and leadership methods, and at fostering a unique culture that defines us and makes us stronger by aligning priorities and empowering employees.

One year after the inauguration of our Universitas campus based at the Company's headquarters in Madrid (Distrito Telefónica), Universitas has become a place where leadership, growth and connection merge, through intensive and interactive residential programs.

We have the right environment to enable at least two out of every three employees to regularly take part in training and skill development activities.

d) Labour force satisfaction

The commitment of our professionals has always been high on Telefónica's agenda and it forms part of our active listening strategy. For several years now, we have been measuring this through the Employee Net Promoter Score (eNPS), which indicates the degree to which the Company's employees recommend the organisation by answering the question:

How likely would you be to recommend your company to people close to you as a good place to work? (1=Definitely would not recommend, 10=Definitely would recommend).

This procedure is aligned with the customer satisfaction measurement by using the same logic as the Net Promoter Score, which measures the percentage of promoters (those who give scores of between 9 and 10) against the percentage of detractors (those who give scores from 1 to 6).

As part of GPS (our new strategic plan for 2024-2026), we have increased our ambition. We now aspire to ensure an eNPS score of at least 70 each year.

To enable qualitative responses, the survey includes open text fields for comments. These are analysed using natural language processing (NLP) techniques and generative AI, while maintaining the anonymous and confidential nature of the data.

The survey includes questions about workplace environment, leadership, work-life balance, diversity and

inclusion, non-discrimination, and environmental and social commitment.

In addition to the annual measurement, we conduct various internal listening exercises in each of our operations (such as opinion surveys) and regular engagement pulse surveys to gauge the engagement and satisfaction levels of our employees. Our assessment of these exercises takes into account socio-demographic factors such as gender, age, years of service at the Company, professional category and business unit, transforming them into important sources of knowledge in fostering equality and diversity.

This is all complemented by professional performance appraisals, exit interviews, incident tracking and the availability of a Responsible Business Channel that employees can always use to report conflict situations.

e) Recognition Culture: Valuable People:

This program aims to promote a culture of meritocracy through personal recognition by leaders towards employees and among employees themselves, giving visibility to those individuals and teams that excel through both their outstanding contribution and their day-to-day behaviour. It also recognises "social volunteers or volunteer teams" for their extraordinary contribution to a social cause or in an emergency or humanitarian crisis.

f) Effort valuation:

Telefónica's remuneration strategy is characterised by its competitiveness. Our main focus is to attract, retain and motivate the Company's professionals so that we can meet our strategic objectives within the globalised framework in which we operate and foster the generation of long-term value in a sustainable manner for our shareholders.

In this regard, the variable remuneration of our employees encourages growth by increasing operating income and return on investment for shareholders, as well as efficiency through improving our OIBDA margin and generating free cash flow. Similarly, Telefónica is a company that is fully committed to sustainability. Factors such as customer trust, the trust of society at large, diversity or the contribution of our company to the fight against climate change have therefore influenced the calculation of the variable remuneration of our workforce since 2019.

Telefónica's professionals are consistently remunerated according to their level of responsibility, leadership and performance within the organisation. To maintain this premise, we ensure that we do not discriminate based on gender, age, origin, sexual orientation and identity, religion, disability or race when applying remuneration practices and policies.

Similarly, Telefónica is committed to ensuring that the salaries paid to all its employees are decent and always

exceed what is considered to be the "living wage". This not only allows basic needs to be met but also guarantees good quality of life in each of the countries where the Group operates.

By way of example, the social benefits offered by the Company include universal health insurance for employees at every operation, which covers the needs of people with disabilities and the costs associated with issues relating to mental and reproductive health, among others. We also offer life insurance, a pension fund, share purchase program, discount programs, childcare assistance (including assistance at infant and school level and encompassing the period from birth to 24 years old, depending on the Group company), nursery services and food assistance, among other things. All these benefits increase job quality.

The Company offers leave options that are in compliance with the minimum levels established by law, and in many cases exceed them. For example, Telefónica provides a number of personal days which, depending on the Group company, ranges between two and four days, as well as alternatives for adapting our employees' working days to achieve work-life balance in situations that require family care services. These take into account blood relatives of the employee up to the second degree of kinship. Also, the Company offers maternity and paternity leave that exceeds the minimal legal requirements.

Our social benefits are especially focused on improving well-being for our employees. They help to maintain physical and mental health while supporting families and adapting healthcare coverage to new circumstances and needs.

Furthermore, in 2022 Telefónica launched an incentivised global share purchase plan – "Plan 100" – aimed at all employees of the Group, without exception. For every share bought under this plan, until it ends in 2024, Telefónica rewards the buyer with another share. In addition, as part of our Company's centenary celebrations, each employee who takes part in the plan will receive 100 additional shares for free.

With regard to our Board of Directors, we have a Remuneration Policy of the Directors of Telefónica, S.A., which ensures compliance with best practices in the area of good governance.

g) Performance evaluation

Telefónica has a worldwide performance review process for all employees of the Group. The same timetable, guidelines and tools are shared everywhere. The review model measures different factors, ranging from achieving pre-set targets to developing new skills and teamwork. The appraisal process is based around agile conversations involving feedback, which take place at least twice a year. Although the process is coordinated globally, it is managed locally so as to better adapt to the needs of our business. The outcome of the reviews

affects our employees' compensation and their opportunities for development and promotion.

In 2023, our score rose by 7 to reach 76, compared to 2022.

There are many reasons that explain the overall improvement in eNPS at the Company. These include our focus on measures that foster work-life balance and well-being, updating our employees' salaries against a backdrop of inflation, the working environment and team, and the growing range of training available for all our employees.

Thanks to the use of generative AI, we were able to analyse the responses to free-text questions and the comments made by our employees. This allowed us to ascertain that well-being and achieving a good balance between their working and personal lives continue to be crucial factors for their commitment to the Company.

In 2023, we achieved an eNPS of 78 points among responders aged under 35, which represents an increase of six points compared to 2022. In addition, new employees (those with less than two years in the Company) rated us with an eNPS of over 80 points, more than four points higher than the previous year. According to the annual motivation survey, 81% of our employees feel that learning has been incorporated into their day-to-day work.

In 2023, we performed a proof of concept (PoC) and analysed additional AI tools to spur us towards our goal of being a skill-based organisation.

Now that the health emergency situation is over, we have restarted our residential programmes (which are longer and go into greater depth) for our leadership teams, with an Advanced Leadership Programme that covers not only skills-related aspects but also strategic vision and networking.

h) Training

In 2023, 70% of our employees invested in learning and developing new skills needed for the future through various skill acquisition (reskilling/upskilling) programmes. The percentage dropped by eight points compared to the previous year, due to the large-scale implementation in 2022 of the Power of Connections programme for all the Company's employees.

In 2023, 63% of our new hires were aged under 35, up 3% compared to 2022.

The results of our motivation survey are positive and serve as an indicator to confirm that the Company is ready to take one step further in its performance review model:

- Of our employees, 84% stated they feel comfortable giving feedback to their manager.

- Of our employees, 78% stated that their manager frequently talks about their contribution level and skill development.

Diversity and Inclusion

For Telefónica, diversity and inclusion (in addition to being consistent with principles of social justice) represent an invaluable opportunity to attract the best talent, empathise with our customers, grow as a company and, ultimately, have a positive impact on our environment. We therefore design initiatives aimed at promoting diversity in our teams. However, diversity only delivers positive outcomes if it is accompanied by a leadership style and organisational culture of equity, plurality and inclusion.

We have internal bodies and roles in place that track our progress in these areas. They also monitor compliance with performance indicators and alignment with strategic targets and ensure the involvement of senior management.

- **Global Diversity Council:** made up of top-level executives, its purpose is to promote the Company's diversity strategy. This body also monitors and keeps track of the Company's main indicators and targets in this regard.
- **Transparency Committee:** made up of the Chairman and four executives, it ensures the presence of both genders in the shortlists for internal and external selection processes for management positions.
- **Chief Diversity Officer:** this role supports the Diversity Council and the People department. Since 2017, the position has been filled by Laura Abasolo, the current Chief Financial and Control Officer, Head of Telefónica Hispam and member of the Executive Committee.
- **Diversity Champions:** team leaders who act as internal agents of change in all areas of the Company.
- **Monitoring Committees for local Equality Plans.**

They govern the Company's commitment to diversity and inclusion:

1. **The Global Diversity and Inclusion Policy:** guarantees equal opportunities and non-discriminatory, fair and impartial treatment of people in all areas of our Company, without prejudice related to nationality, ethnic origin, skin colour, marital status, family responsibility, religion, age, disability, social status, political opinion, HIV or health status, gender, sex, sexual orientation, or gender identity or expression
2. **The Diversity Policy in relation to the Board of Directors and the Selection of Directors:** ensures that proposals to appoint or re-elect Directors are based on a prior analysis of the

competencies required by the Board of Directors, favouring diversity in terms of knowledge, experience, age and gender.

3. **Global Equality Policy:** establishes the Company's commitment to the implementation and dissemination of a set of basic measures in the area of gender equality in all countries where the Group operates.

In order to move forward, the Company has marked out plans of action with specific deadlines linked to public and quantitative targets in the short, medium and long term.

- In the short term, in addition to working to increase the proportion of women in our workforce, we set a target of achieving a situation in which 37% of our executive positions are filled by women by 2027 and of an adjusted gender pay gap of +/-1% by 2024 (we achieved the latter target in 2022). In addition, we want to double the number of employees with disabilities by 2024.
- In the medium term, we aim to achieve gender parity in the Company's highest governing bodies by 2030. With regard to the Board of Directors, this target was accomplished in 2023, when women made up 40.0% of the Board's members. Meanwhile, in the long term we aspire to close the gross gender pay gap (which according to international estimates will not be achieved globally until 2154).

Compliance with the target for women in executive positions (37% by 2027) tripled its weight in the calculation of our employees' variable compensation, from 1% in 2021 to 3% in 2022.

Our Responsible Business Principles course, which is mandatory for all employees, includes a training module on workplace and sexual harassment. At a local level, protocols for action in cases of workplace harassment or bullying, sexual harassment and discrimination are put in place in accordance with applicable legislation and, where appropriate, with worker representatives. In addition, in Telefónica Hispam, we use a tool leveraging artificial intelligence that allows us to easily recognize possible cases of harassment.

Furthermore, the whistleblowing channel allows all employees and stakeholders to report, anonymously or personally, any form of harassment or discrimination they have experienced.

a) Equility of remuneration:

At Telefónica, we apply the principle of equal pay for the same work or for work of equal value. That means equal pay for equal work regardless of the employee's gender.

We conduct detailed analyses of gender pay data within the Group in order to identify possible inequalities and

establish measures to rectify them. We do this by taking into consideration all items related to salary, benefits and other short- and long-term incentives.

Closing the gross pay gap involves structural, social and cultural changes that require a long-term commitment, which is why we aspire to do so by 2050.

Telefónica is working on five lines of action to close the gross gender pay gap:

- Ensuring equal pay. As a starting point, we must ensure that men and women earn the same pay for the same job.
- Increasing the proportion of women in the Company and focusing particularly on executive positions (32.8% in 2023) and income generation positions (49.4% in 2023, 40% in 2022).
- Promoting gender parity in the Company's highest governing bodies. In 2023, women made up 40% of the members of the Board of Directors.
- Strengthening our commitment to work-life balance and co-responsibility. Raising awareness and new flexible working models are key elements in achieving this.
- Increasing the weight and prominence of women in digital and STEM environments. At present, 22.63% of the Company's STEM positions are held by women.

b) Diversity and inclusion

At Telefónica, we encourage the recruitment of female talent, young talent and/or talented people with disabilities through "Talentum" scholarships and other initiatives.

In view of the limited participation of women in digital professions, we promote initiatives to attract and increase the visibility of women in digital and STEM careers through a number of initiatives, including our internship programs. In addition, we develop career acceleration and visibility enhancement programs for female employees, which aim to train them in leadership skills and enrich their network of contacts.

Furthermore, we implement measures to facilitate work-life balance and promote a cultural change with the aim of encouraging co-responsibility for care among our male and female employees, after identifying that a lack of co-responsibility hinders women's professional development.

With respect to people with disabilities, in line with our target of doubling the number of employees with disabilities by 2024, we promote their integration through agreements with external entities, prioritising the search for professional profiles that meet the Company's technological and digital needs. We also provide the tools and assistance necessary throughout their employee journey to enable successful integration and

performance of their duties. In addition, we offer courses and guides to ensure "attitudinal accessibility" on our teams.

At the same time, we are committed to the accessibility of our workplace facilities and services for employees, as well as that of our digital resources by adapting computer systems, channels and equipment.

In terms of generational diversity, we have programs for talent development and empowerment of young professionals. We are positive that attracting the best young talent is key to driving digital transformation. In addition, we promote internal mobility and the inclusion of all age groups in our development programs. Also, we have initiatives to promote the employability of those aged over 50 and to promote intergenerational diversity.

Regarding racial diversity, in those locations where legislation allows for it, we monitor the number of employees by ethnicity and have initiatives to attract and promote leadership among professionals from the "global majority". Ultimately, we are working to close the ethnicity pay gap and we foster the careers of people with a migrant background in the technology sector.

We are also committed to ensuring that our LGBT+ employees work in environments where they can give their best. In this regard, in addition to raising awareness and visibility and to supporting employee resource groups, we have specific initiatives to attract and promote the development and well-being of transgender people. Besides, through the guide to the gender transitioning process at work, we aim to guide both the transitioning employee and their manager through the whole process.

We have also implemented measures that have an impact on our employees' families:

We offer specific benefits for LGBT+ couples and parents that go beyond the legal requirements.

Furthermore, in relation to our supply chain, we include diversity criteria in the assessment of our high-risk suppliers through an external tool. In addition, we make an effort to foster the procurement of services from socially-oriented suppliers, particularly Special Employment Centres.

The percentage of Telefónica employees who stated they work in a company where they felt included, and where equal opportunities were promoted, held at 91% in 2023, according to the annual climate survey.

In addition, 84% (two p.p. above the 2022 results) responded they believed that everyone's ideas are listened to and properly taken into consideration, regardless of who expresses them, their position, gender, age, religion, sexual orientation and identity, ethnicity, origin, disability or personal background.

The Company is fully committed to inclusion and requires both Management and the Board of Directors to share this commitment. Prompted by this, in 2023 we organised training sessions for the directors in which we addressed all the pertinent strategic issues for the Company.

In 2023 we achieved gender parity on our Board of Directors (understood as when each gender makes up between 40% and 60% of its members), upon increasing the percentage of women on the Board to 40%. In addition, the percentage of women executives increased by 1.8 p.p., reaching 32.8% in 2023. This brings us closer to meeting our target of 37% by 2027. In relation to the pay gap, we reduced the adjusted pay gap to 0.7%, remaining in line with the Group-wide target of 1% by 2024.

New ways to work of working

Technology is the essential enabler to drive the culture of working from anywhere. It also promotes a shift in the approach to searching for and retaining human talent. This is why, at Telefónica, we remain committed to a hybrid working model (on-site and remote) across the Group, which combines the best of both worlds. In general, we set a minimum percentage for on-site working and a maximum percentage for remote working, adjusted to the different labour laws in the countries in which we operate and, whenever possible, depending on the nature of the position.

Our model is based on universality (it applies to all employees unless their role cannot be performed while working from home) and safeguards the health and safety of our workforce. It fully complies with local legislation and has been agreed with the main trade union organisations in the countries where we operate.

There is a growing social demand for work-life balance. At Telefónica, we strive to make it a reality. These efforts are clearly reflected in the results from our annual motivation survey, according to which 81% of our employees feel they have a good work-life balance. Thanks to our digital disconnection awareness initiatives, plus the new ways of working we had put in place prior to the pandemic, this percentage has risen by 13 points since 2019.

Telefónica is improving the compatibility of different lifestyles with professional demands, thereby fostering inclusion. We harness the potential of all employees in this way, regardless of their personal characteristics or circumstances.

The redefinition of our workspaces to make them more digital, flexible and collaborative, in addition to a commitment to digital disconnection (Telefónica was a pioneer in this regard following an agreement signed in 2019 with trade union organisations) and the physical and emotional well-being of our people, a part of this new work model.

The leadership style and our culture also play a key role in this transformation.

The key target for this new way of working is to boost employee commitment and loyalty while evolving towards a simpler and more flexible organisation. We therefore promote skills based on a culture of flexibility, trust and commitment, as well as the necessary skills required for a collaborative and dynamic work environment based on project management, autonomy and teamwork.

We want to continue to be a driving force behind working models in which values such as well-being, flexibility, work-life balance, co-responsibility and equal opportunities are paramount. Our flexible working models are a valuable tool for attracting and retaining talent as well as providing access to new professionals located all over the world.

Furthermore, through our commitment to flexibility, we reduce commuting and, consequently, its environmental impact. The move to adopt this hybrid working model was also prompted by our goal of reducing our environmental footprint (in line with the target of achieving net zero emissions by 2040).

Technological development and globalisation are redefining the way people work and creating a rapidly changing environment in which swift responses are necessary.

At Telefónica we are aware of the negative impact that these new ways of working can have on the health and safety of our employees, due to difficulties achieving digital disconnection or because of a potential lack of equipment or training. However, we believe that the tools used to deliver these new ways of working also provide an opportunity to develop hybrid, flexible and collaborative working models that promote a healthy work-life balance through measures that encourage learning, disconnection and productivity.

- Some 94% of our employees consider that this hybrid-flexible working system enables them to be more productive.
- Among our employees, 81% (up seven percentage points compared to 2021) believe that our Company promotes a good work-life balance.
- In 2023, agile work methods were used in all Group units: 52% of employees claim that they use some kind of agile framework (scrum, kanban, design thinking, lean thinking, etc.). This is an increase of eight percentage points since 2022.

We developed the hybrid model by focusing on the employee and his or her family and by looking out for their digital health.

In order to reinforce the digital disconnection agreement that the Company signed in 2019, we deliver courses including new routines and tips on how to maintain a healthy balance between work and free time, and organise teamwork in the best possible way.

We encourage co-responsibility for care among our male and female employees through awareness initiatives. It has been proved that cultures in which the weight of family and domestic responsibilities falls mainly on women are detrimental to their development and prevent the gender pay gap from being closed.

We foster measures that guarantee digital disconnection based on a commitment to “disconnect to reconnect”. A combination of company, team and individual agreements is essential to achieving this goal. Such agreements regulate times at which communications should not be sent and those at which replies are not expected (except under exceptional circumstances), as well as guidelines on planning and organising meetings.

We complement all this with training resources on disconnecting and relaxing, reasonable use of technology and awareness about respecting personal relaxation time.

We have measures and initiatives in place that help our employees to achieve work-life balance and ensure their well-being: flexible working hours, part-time work, reduced working hours, the subsidised flexible working week, paid and unpaid leave, extended leave for personal reasons and hybrid working.

The food subsidy for employees with children, benefits pertaining to nursery fees, personal days and maternity and paternity leave, which often exceed the minimum levels required by law, are factors which help our employees attain a good work-life balance.

Within this hybrid model, our employees can decide where they work (remote working, working from home or working from their second home), provided the employee is located in the same country where they signed the employment contract.

Labour relations. Social dialogue

At Telefónica, we are committed to the core standards of the International Labour Organization (ILO) in every country where we operate, particularly with regard to freedom of association and the right to collective bargaining.

We ensure that worker representatives receive fair and discrimination-free treatment and that all the tools they need to be able to perform their duties of representation are available to them.

100% of Telefónica’s employees are protected by labour frameworks and, as the case may be, by their employment contracts, which govern working conditions under current local legislation. The collective bargaining

agreements include occupational health and safety clauses adapted to local legislation. Additionally, Telefónica has an annual prevention plan in place, as well as mechanisms and procedures to promote employee involvement in the management of the Company, particularly in terms of information, consultation and participation.

In the event of any significant organisational changes, Telefónica respects the period of prior notice set by the legislation of the countries where we operate, as well as those prior notice periods included in collective bargaining agreements or policies.

Security, health and working wellbeing

We continue to build a positive, person-oriented culture of health, safety and well-being with a holistic approach (workplace environment, mental well-being, the promotion of health, physical activity and healthy eating) to self-care and care for others.

Our goal is to achieve safe and healthy working environments designed to make a positive contribution to people’s health. We do this through:

- Improving psycho-social health through psycho-social risk response and prevention programs. Psycho-social risk assessments, which are part of these programs, can enable us to reach a diagnosis.
- Reducing the accident rate. We want to be a zero-accident company. In this respect, we have the target of not exceeding the accident frequency rate set at each operator.

The Sustainability and Regulation Committee is responsible for promoting the development of the Global Responsible Business Plan, which was approved by the Board of Directors and places emphasis on safeguarding and promoting the Health, Safety and Well-being (HSW) of our employees in the workplace.

The processes for identifying hazards and assessing risks to prevent occupational incidents and diseases are set out in the Global Health and Safety Policy, as well as in the various local health and safety policies. These processes vary from country to country but are all aimed at eliminating hazards and minimising risks.

All our operations also have an Emergency Plan in place under which teams of people who have received first aid training can take action in the event of an emergency or natural disaster. In addition, we have early warning systems and specially trained teams (through drills) prepared to deal with such events.

All employees have online courses available to them on occupational health, safety and well-being. Ongoing and specific training is also undertaken with the local teams in the various countries on the implementation of health,

safety and well-being management systems, as well as numerous health and awareness-raising campaigns.

93% of our employees are currently covered by a health, safety and well-being management system. Of those, 73% are covered by a certified system (based on ISO 45001 or OHSAS 18001 standards).

In 2023 we focused on digitalising workforce management and integrating employee occupational health information into a single tool, setting a standard for reporting and consolidating employee occupational health data. This allows the entire company to report information through a single, centralized and auditable tool, applying automatic quality rules and consolidating indicators according to common criteria, enabling overall monitoring.

We once again organised Well-being Week in several

countries in 2023, during which we shared content on emotional health, physical activity, healthy eating, self-knowledge and happiness. We also organised a month focusing on mental health.

On a global level, the Telefónica Group's annual health and safety day was held in June 2023. This space allowed us to share health and well-being experiences and to make progress together towards a culture of prevention.

Liquidity and capital resources

Financing

The main financing transactions carried out in the bond market in 2023 are as follows:

Description	Issue date	Maturity date	Amount in millions (nominal)	Currency of issue	Amount in millions (nominal)	Coupon
Telefónica Emisiones, S.A.U.						
EMTN Bond (1)	11/21/2023	11/21/2033	850	850	EUR	4.183 %

(1) Sustainable bond

These transactions are guaranteed by Telefónica, S.A. On the same dates Telefónica, S.A. perceived loans from Telefónica Emisiones, S.A.U. of similar amount, terms and conditions.

The main transaction arranged in 2023 in the bank market is as follows:

- The first one year extension option of the 5,500 million euros syndicated credit facility of Telefonica, S.A., was executed on January 13, 2023 and the second one year extension option on January 13, 2024. The facility had two annual extension options at Telefónica, S.A. request, with a maximum maturity up to 2029.
- On February 14, 2023, Telefónica, S.A. signed a 150 million euros bilateral loan, and drew down in September 29, 2023 the loan was fully draw down.
- On June 15, 2023, Telefónica, S.A. drew down 125 million euros of its bilateral loan signed in December 23, 2022.

Available funds

At December 31, 2023 Telefónica, S.A.'s available funds from undrawn lines of credit in different financial institutions totaled 9,688 million euros (of which 9,678 million euros maturing in more than 12 months). Additionally, cash and cash equivalents as of December 31, 2023 amount to 4,668 million euros.

Additional information on sources of liquidity and undrawn lines of credit available to the Company, on liquidity risk management, on the Company's debt levels, and on capital management is provided in notes 13, 14, 15 and 16 of the financial statements.

Contractual commitments

Note 19 to the financial statements provides information on firm commitments giving rise to future cash outflows and associated with operating leases, primarily.

Credit risk management

The credit risk in Telefónica, S.A. mainly refers to the one associated with financial derivative instruments arranged with different entities. The detailed description of how those risks are managed and hedged is included in note 16.

Credit rating

At December 31, 2023, Telefónica, S.A.'s long-term issuer default rating is "BBB stable outlook" from Fitch, "BBB-stable outlook" from Standard & Poor's and "Baa3 stable outlook" from Moody's. During 2023, there have not been changes in the long-term credit ratings by any of the three agencies. Last changes in the credit ratings took place in 2020 when Standard and Poor's revised the outlook to "negative" from "stable" on April 1, 2020 and later, on November 20, 2020 downgraded the rating to "BBB - stable" from "BBB negative". On November 7, 2016 Moody's downgraded the rating to "Baa3 stable" from

“Baa2 negative” and on September 5, 2016 Fitch downgraded the rating to “BBB stable” from “BBB+ stable”.

In 2023, measures taken to protect the credit rating included an active portfolio management through the voluntary public acquisition offer for shares of Telefónica Deutschland that reinforces Telefónica’s strategy to focus on its core geographies and its strong commitment to the German market, one of the most attractive and stable telecom markets in Europe. The offer also supports Telefónica’s efforts to simplify the Group’s structure and enhances the euro-denominated cash flows generated in the Group.

In addition, Telefónica Hispanoamérica entered into an agreement with an affiliate of KKR and Entel Perú for the sale of fiber assets and the provision of wholesale connectivity services. The transaction is subject to the obtaining of regulatory approvals. Finally, Telefónica at its Capital Markets Day, announced the launch of the GPS program (Growth, Profitability and Sustainability) that will guide the 2023-2026 Strategic Plan.

Additionally, Telefonica maintains a solid liquidity position and conservative approach to debt refinancing, as the Group took advantage of the historical low refinancing rates to extend average debt life and smooth its maturity profile in coming years.

Dividend policy

Telefónica, S.A.’s dividend policy is revised yearly based on the Group’s earnings, cash generation, solvency, liquidity, flexibility to make strategic investments.

On March 2017 the Board of Directors of Telefónica, S.A. decided to define the corresponding payment periods of the dividends. Therefore, from there on, the dividend payment in the second quarter will take place in June, and the dividend payment in the fourth quarter will take place in December, in both cases on or before the third Friday of the corresponding month.

In February 2022, Telefónica announced the dividend policy for the year 2022, which consists of an amount of 0.30 euros per share in cash, payable in December 2022 (0.15 euros per share) and in June 2023 (0.15 euros per share).

The Annual General Shareholders Meeting held on April 8, 2022 approved the Proposals of the scrip dividend executed in June 2021, and the cash dividend paid in December, 2022.

In February 2023, Telefónica announced the dividend policy for the year 2023, which consists of an amount of 0.30 euros per share in cash, payable in December 2023 (0.15 euros per share) and in June 2024 (0.15 euros per share).

The Annual General Shareholders Meeting held on April 8, 2022 approved the Proposals of the scrip dividend executed in June 2021, and the cash dividend paid in December, 2022.

Treasury shares

Telefónica has performed, and may consider performing, transactions with treasury shares and financial instruments or contracts that confer the right to acquire treasury shares or assets whose underlying is Company shares.

Treasury share transactions will always be for legitimate purposes, including:

- Undertaking treasury share acquisitions approved by the Board of Directors or pursuant to General Shareholders' Meeting resolutions.
- Honoring previous legitimate commitments assumed.
- Covering requirements for shares to allocate to employees and management under stock option plans.
- Other purposes in accordance with prevailing legislation. In the past, treasury shares purchased on the stock market were exchanged for other shares-securities (as in the case of preferred capital securities), swapped for stakes in other companies (e.g. the share exchange with KPN) acquired to reduce the number of shares in circulation (by redeeming the shares acquired), thereby boosting earnings per share, the delivery of treasury shares in exchange for the acquisition of a stake in another company (such as the agreement with Prosegur Compañía de Seguridad, S.A.).

Treasury share transactions will not be performed in any event based on privileged information or in order to intervene in free price formation. In particular, any of the conduct referred to in Articles 83.ter.1 of the Spanish Securities Market Law and 2 of Royal Decree 1333/2005 of November 11 implementing the Spanish Securities Market Law, with regards to market abuse will be avoided.

The disclosure of number of treasury shares at the end of 2023 and 2022, as well as the explanation about the evolution of the figure and the transactions involving treasury shares in 2023, are described in note 11 of these financial statements.

Risk Factors

The Telefónica Group 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 Financial Statements.

These risks are currently considered by the Telefónica Group to be material, specific and relevant in making an informed investment decision in respect of Telefónica. However, the Telefónica Group is subject to other risks that have not been included in this section based on the Telefónica Group's assessment of their specificity and materiality based on the Telefónica Group's assessment of their probability of occurrence and the potential magnitude of their impact. The assessment of the potential impact of any risk is both quantitative and qualitative considering, among other things, potential economic, compliance, reputational and environmental, social and governance ("ESG") impacts.

The Telefónica Group, taking into account the global risks identified by the World Economic Forum, as well as the increase in legal information requirements and the expectations of stakeholders in this area, monitors risks directly related to sustainability, as well as other risks with potential impact on ESG, highlighting those most relevant in the context of Telefónica's operations, including the adaptation to ESG expectations and information requirements and climate change.

Risks are presented in this section grouped into four categories: business, operational, financial, and legal and compliance.

These categories are not presented in order of importance. However, within each category, the risk factors are presented in descending order of importance, as determined by Telefónica at the date of this document. Telefónica may change its vision about their relative importance at any time, especially if new internal or external events arise.

Risks related to Telefónica's Business Activities.

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 jeopardizing its future revenues and profitability.

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 some of its businesses.

The reinforcement of competitors, the entry of new competitors (such as telecommunication companies or providers of OTT Services), or the merger of operators in certain markets (for example, market consolidation following potential mergers of mobile operators Vodafone UK and Three UK in the United Kingdom and Orange and Más Móvil in Spain), may affect Telefónica's competitive position, negatively affecting the evolution of its revenues and market share or increasing its costs. In addition, changes in competitive dynamics in the markets in which the Telefónica Group operates, such as in Chile, Colombia, Peru, Mexico and Argentina, where there is one or more of new operators entering the market, aggressive customer acquisition offers and competition in network and 5G deployment, can affect the competitive position and the efficiency of Telefónica's operations.

Regarding digital services, the speed of technological evolution and changes in demand favoring the appearance of new competitors in the market specializing in certain segments, and that have agile business models, can pose a threat for the business model of the Telefónica Group.

If Telefónica is not able to successfully face these challenges, by ensuring a supply of cutting-edge technology products and services and maintaining its competitiveness against current or future competitors, the Group's business, financial condition, results of operations and/or cash flows could be adversely affected.

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

Many of the Group's activities (such as the provision of telephone services, Pay TV, the installation and operation of telecommunications networks, use of spectrum, etc.) require licenses, concessions or authorizations from governmental authorities, which typically require that the Group satisfies certain obligations, including minimum specified quality levels, and service and coverage conditions. If the Telefónica Group breaches any of such obligations, it may suffer consequences such as fines or other measures that would affect the continuity of its business. In addition, in certain jurisdictions, the terms of granted licenses may be modified before the expiration date of such licenses or, at the time of the renewal of a

license, new enforceable obligations could be imposed or the renewal of a license could be refused.

In addition, the Telefónica Group requires sufficient appropriate spectrum to offer its services. The intention of the Group is to maintain current spectrum capacity and, if possible, to expand it, 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 licenses. While Telefónica considers its current spectrum capacity to be sufficient in all the regions in which Telefónica operates, the Group's failure to retain or obtain sufficient or appropriate spectrum capacity in these jurisdictions in the future, 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.

Any of the foregoing, as well as the additional matters addressed below, could have an adverse effect on the business, financial condition, results of operations and/or cash flows of the Group.

Access to new concessions/licenses of spectrum.

In Spain, the Ministry of Economic Affairs and Digital Transformation approved in June 2023 a modification to the National Frequency Allocation Table ("CNFA"), allowing for the possibility of making available 450 MHz of the 26 GHz spectrum band, to companies, industries and organizations operating in a specific sector, that deploy private networks to support their connectivity needs (verticals). This could mean more competition in the private corporate network segment.

In the UK, the Office of Communications ("Ofcom") continues to make consultations on the opening of access to the 26 GHz and 40 GHz bands for mobile use. Ofcom has confirmed that it does not intend to auction this spectrum until a decision is made on the proposed merger between Vodafone UK and Three UK. The current consultation is focused on award design.

In Latin America, the following 5G auction processes are expected in 2024: (i) in Chile, in October 2023, Subtel announced a second 5G auction process to assign 50MHz of spectrum in the 3400 – 3600 MHz band. The assignment of spectrum is expected for the first half of 2024; and (ii) in Peru, with regards to 5G and the auction for additional 3.5 GHz band spectrum, the government has announced that it will commission the Peruvian Private Investment Promotion Agency to conduct the auction and, in parallel, the refarming of this spectrum band will be carried out. Nevertheless, on September 20, 2023, after an employee presented a false document regarding his academic degree, Telefónica del Perú was

disqualified following a decision of the government procurement supervisor (OSCE), from contracting with the Peruvian state for a period of 36 months, meaning it cannot request concessions for spectrum or participate as a contractor or subcontractor in any government tender process. However, Telefónica del Perú has concessions for the provision of public telecommunications services and 4G and 5G spectrum (including in the same 3.5 GHz band, but obtained in a previous auction) with validity that exceeds the disqualification period. In addition, this disqualification does not affect the renewals of Telefónica del Perú licenses. Telefónica del Perú has initiated legal actions against the sanction resolution, and the aforementioned employee was fired and criminally prosecuted, before any participation in the execution of the public contract.

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

In Spain, and in accordance with Law 11/2022, of June 28, on General Telecommunications, Telefónica requested the Administration to extend the duration of its spectrum licenses up to a maximum of 40 years, which means an extension of up to ten additional years. If this extension does not take place, the first set of licenses will expire in 2030. In this context, the Ministry of Economic Affairs and Digital Transformation has launched a public consultation on the modification of current spectrum licenses of Telefónica and other operators. The final decision could be adopted in the second quarter of 2024.

In Germany, in the allocation procedure for the frequencies at 800 MHz, 1800 MHz and 2.6 GHz, which will partially expire at the end of 2025, the Bundesnetzagentur ("BNetzA") published the consultation paper "Demand update and framework conditions for a transitional decision" (framework conditions). The framework conditions are based on the BNetzA's position paper from September 2022 and the comments received thereon. The framework conditions provide for the existing frequency usage rights in the above-mentioned frequency ranges, which expire at the end of 2025, to be extended for a transitional period of five years in an initial action plan. The BNetzA intends to make a decision about frequency provision in 2024. As part of a second set of actions, a larger procedural framework is to be established for utilization from 2031 onwards, including with respect to rights of use and new frequency ranges that expire in 2033 or become newly available for mobile communications in the coming years. A decision on this set of actions is planned for 2028.

In the UK, mobile spectrum licenses are generally indefinite in term, subject to an annual fee set after a fixed period (usually 20 years) from the initial auction. In 2033, after this mentioned fixed period, Ofcom will set spectrum fees for 800 MHz and 2.6 GHz bands. VMO2 currently holds spectrum in both of these bands.

With respect to Latin America:

In Brazil, the Agência Nacional de Telecomunicações (“ANATEL”) approved on February 8, 2021, Resolution 741/2021 which sets the Regulation for the Adaptation of Fixed Commuted Telephony Service (“STFC”) concessions. ANATEL has presented an estimated value for calculating the migration balancing from the concession to the authorization regime, which on March 22, 2023 was validated by the Federal Court of Accounts (the “TCU”). However, the TCU requires ANATEL to consider the market value for the valuation of reversible assets. On July 24, 2023, ANATEL presented a balance of the estimated economic value based on the determinations of TCU. The value of the balance must be evaluated by Telefonica Brazil within 120 days. However, with the possibility of an agreement between ANATEL and Telefónica Brazil on the controversies present in arbitration and migration, ANATEL agreed with the request to suspend the aforementioned period of 120 days and sent to the TCU the Request for a Consensual Solution for the resolution of existing conflicts between ANATEL and Telefónica Brazil. The TCU’s deliberation on the admissibility of the Request for a Consensual Solution is still ongoing. If the Request is accepted by the TCU, the TCU will establish a Commission that will have a maximum of 120 days to reach a consensus. After that, final approval by the TCU may take up to 90 days. There is a risk of not achieving success in the Consensual Solution and agreement between the parties regarding the migration calculation resulting in the right of Telefónica Brazil to hold the STFC concession until December 31, 2025.

In addition, Resolution 744/2021 of April 8, 2021 (the “Continuity Regulation”) establishes that, at the end of the life of the concession contracts, the transfer of the right of use of shared-use assets will be guaranteed under fair and reasonable economic conditions, in the event that the granting authority or the company that succeeds the provider wishes to make use of these assets to maintain the continuity of the provision of STFC under the public regime. In relation to the process that is being carried out before the TCU, the technical area of the Court proposed the revision of the Continuity Regulation’s terms so that it provides for the reversion, to the concessionaires, of the assets used in the provision of STFC. This proposal is still subject to deliberation by the Plenary of the TCU. Nevertheless, the TCU minister ordered the suspension of the process. ANATEL agreed to extend the currently existing 850MHz band authorizations until November 2028, and the 900/1800 MHz in Minas Gerais (except sector 3) until December 2032, provided the relevant legal and regulatory requirements were met. Additionally, pursuant to Resolution n° 757/2022, ANATEL intends to carry out, respectively, a refarming action consisting of the promotion of changes in the channel arrangements of the 850 MHz (2028) and 900/1800 MHz (2032) subbands. Certain specific requirements imposed for these renewals, including those related to the valuation criteria and obligations, are still under review by the TCU.

In Peru, an arbitration process was started by Telefónica del Perú, to challenge the decision adopted by the Ministry of Transportation and Communications (“MTC”), denying the renewal of concessions for the provision of fixed-line services, valid until 2027, which ended with a favorable award for Telefónica del Perú. The award recognizes that the methodology applied to assess compliance with the concession obligations in the concession renewal process was not in accordance with the provisions of the concession contract. The MTC, following this award, has initiated a new evaluation of our request of renewal of these concessions for the period 2027-2032. In any case, Telefónica del Perú S.A.A. holds other concessions for the provision of fixed-line services that allow it to provide these services beyond 2027. The renewal of the 1900 MHz band in all of Peru, except for Lima and Callao, which expired in 2018, and of other licenses to offer telecommunications services were requested by the Group and a decision by the MTC is still pending. Nevertheless, these concessions are valid while the procedures are in progress.

In Colombia, on June 1, 2023, Telefonica Colombia submitted a renewal request for 30 MHz of spectrum in the AWS band that expired in December 2023. Additionally, in September 2023, the company has initiated the licenses renewal process of 25 MHz in the 850 MHz band and 15 MHz licenses in the 1900 MHz band that will expire in March 2024. Regulation in Colombia allows for the usage of spectrum without any restrictions until the final conditions for renewal are agreed.

In Argentina, in connection with the Decree of Necessity and Urgency 690/2020 (“DNU 690/2020”), Telefónica de Argentina, S.A. and Telefónica Móviles Argentina, S.A. (collectively, “Telefónica Argentina”) filed a lawsuit against the Argentine State, in relation to a series of contracts for licenses to provide services and spectrum use authorizations entered into between Telefónica Argentina and the Argentine State, including the licenses resulting from the 2014 spectrum auction. These contracts and their regulatory framework stated that the services provided by Telefónica Argentina were private and prices would be freely set by Telefónica Argentina. However, DNU 690/2020, by providing that the services will be “public services” and that prices will be regulated by the Argentine State, substantially modified the legal status of those contracts, affecting the compliance with their obligations and substantially depriving Telefónica Argentina of essential rights derived from those contracts. The lawsuit was rejected in September 2021 and Telefónica Argentina appealed this decision. On December 17, 2021, the first instance ruling was revoked and the application of articles 1°, 2°, 3°, 5° and 6° of DNU 690/2020 and Resolutions 1666/2020, 204/2021 and 1467/2020 (relating to the control of tariffs and the universal basic service) was suspended for six months or until the final decision was adopted. On June 10, 2022, the Federal Contentious Administrative Court extended the precautionary suspension of the effects of DNU

690/2020 for an additional six months in Telefónica's favor. On December 27, 2022, the Federal Contentious Administrative Court extended the precautionary suspension of the effects of DNU 690/2020 for another six months in Telefónica's favor. In August 2023, the precautionary measure was further extended for six months. During any such suspension, Telefónica Argentina will not be subject to the provisions contained in the DNU 690/2020 in relation to price and public service regulations.

In Ecuador, a concession contract that authorizes the provision of telecommunication services by Telefónica and includes the spectrum licenses (25 MHz in the 850 MHz band and 60 MHz in the 1900 MHz band), which was valid until November 2023, was extended for an additional 10 months under the same conditions as the original contract through an addendum. The renewal negotiation is ongoing to extend the licenses for a longer period, but at the end of 2023, the renewal negotiation process was again suspended by the Telecommunications Regulation and Control Agency (ARCOTEL) for up to 120 days.

In relation to 5G, in Europe (Spain, Germany and the United Kingdom) Telefónica (and VMO2 in the case of United Kingdom) is deploying 5G in the frequency bands identified as "pioneering" by the European Commission (3.5 GHz and 700 MHz) acquired in recent years. Additionally, technological migration to 5G is being carried out in the traditional 2G/3G/4G bands using Dynamic Spectrum Sharing (DSS) technology to make the use of the spectrum more efficient, based on user demand. In Chile and Brazil, Telefónica is offering 5G services using spectrum in the 3.5 GHz band. In Uruguay, Argentina and Colombia there were 5G spectrum auctions in 2023. In Uruguay, an auction was held in May 2023 and Telefónica Uruguay acquired 100 MHz of spectrum, with Telefónica having initiated the provision of 5G services. In Colombia the auction of 5G spectrum took place on December 20, 2023 and Telefónica acquired, through a Temporary Union with Tigo (Colombia Móvil S.A. E.S.P.), a block of 80 MHz of spectrum in the 3.5GHz band. In Argentina, in October 2023 there was an auction of spectrum in the 3.5 GHz band and Telefónica Argentina acquired 50MHz of spectrum.

During 2023, the Group's consolidated investment in spectrum acquisitions and renewals amounted to 183 million euros, mainly due to the acquisition of spectrum in Argentina (173 million euros in 2022, mainly due to the acquisition of spectrum in Colombia). In the event that the licenses mentioned above are renewed or new spectrum is acquired, it would involve additional investments by Telefónica.

Further information on certain key regulatory matters affecting the Telefónica Group and the concessions and licenses of the Telefónica Group can be found in Appendix VI of the Consolidated Financial Statements.

Telefónica could be affected by disruptions in the supply chain or international trade restrictions, or by the dependency 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. In the event that a participant in the supply chain engages in practices that do not meet acceptable standards or does not meet Telefónica's performance expectations (including delays in the completion of projects or deliveries, poor-quality execution, cost deviations, reduced output due to the suppliers own stock shortfalls, or inappropriate practices), this may harm Telefónica's reputation, or otherwise adversely affect its business, financial condition, results of operations and/or cash flows. Further, in certain countries, Telefónica may be exposed to labor contingencies in connection with the employees of such suppliers.

As of December 31, 2023, the Group depended on three handset suppliers (none of them located in China) and seven network infrastructure suppliers (two of them located in China), which, together, accounted for 86% and 80%, respectively, of the aggregate value of contracts awarded in 2023 to handset suppliers and network infrastructure suppliers, respectively. One of the handset suppliers (not located in China) represented 48% of the aggregate value of contracts awarded in 2023 to handset suppliers. As of December 31, 2023, the Telefónica Group had 120 information system ("IT") providers that accounted for 80% of the total amount of IT purchase awards made in 2023, five of them representing 25% of purchases in that area.

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 licenses 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, the adoption of lockdown or other restrictive measures as a result any crisis or pandemic, as well as those derived from geopolitical tensions such as the Russia-Ukraine and Israel-Hamas armed conflicts, among others, could disrupt global supply chains or may have an adverse impact on certain of Telefónica's suppliers and other players in the industry.

The semiconductor industry in particular is facing various challenges, as a result mainly of supply problems at a global level, which in turn is affecting multiple sectors (including technology) through delivery delays and price

increases, which could affect the Telefónica Group or others who are relevant to its business, including its customers, suppliers and partners. During 2021, 2022 and 2023 a specific monitoring has been carried out and action plans have been developed by the Group with respect to the supply chain challenges resulting from the armed conflict in Ukraine as well as the potential discontinuation of use of some suppliers as a result of tensions between the United States and China. While Telefónica's supply chain has been generally resilient in recent years, despite various stresses affecting the semiconductor industry and raw materials, this may change in the future.

The imposition of trade restrictions and any disruptions in the supply chain, such as those related to international transport, could result in higher costs and lower margins or affect the ability of the Telefónica Group to offer its products and services and could adversely affect the Group's business, financial condition, results of operations and/or cash flows.

Further, in its sale of digital services, the Telefónica Group regularly integrates the digital services it offers with third-party technologies. Similar to more traditional supplier relationships, these integrations subject the Telefónica Group to the risks of performance failures by these third parties and the cost of continuously monitoring these strategic partners to ensure they maintain appropriate levels of accreditation and that the technologies they provide remain secure and up to date. Any such performance failure by the third parties or the technologies they provide could negatively impact the digital services offered by the Telefónica Group, and the Group's business, financial condition, results of operations and/or cash flows could be adversely affected as a result.

Telefónica could be affected by the global technology talent shortage and the need for new skills in the workforce due to rapid technological changes, which may limit the Group's competitiveness.

The changing need for new skills in the workforce due to ongoing technological disruptions and the shortage of technology talent in the marketplace pose significant risks that may affect the Group's competitiveness.

The successful execution of Telefónica's strategic plan and our ability to compete effectively now and in the future depend to a large extent on the company's key talent, as well as on a highly skilled workforce. Experienced profiles in the technology sector are in high demand and competition for talent is fierce worldwide. A lack of talent and the necessary skills in the Group can slow down innovation and adaptation to rapid changes in the sector, impacting business opportunities and the quality of services provided.

While we take various steps to manage these risks, including by fostering a culture of continuous learning, though ambitious employee training and reskilling programs, motivating and seeking to retain the Group's key talent and by redefining our corporate culture to ensure the company's long-term growth and sustainability, there can be no assurance that such steps will be sufficient.

If the Group fails to attract and retain technology talent, this could negatively affect the Group's business, financial condition, results of operations and/or cash flows.

Telefónica operates in a sector characterized by rapid technological changes and it may not be able to anticipate or 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, significant 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.

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, affect the generation of revenues, or otherwise cause Telefónica to have to update its business model. In this respect, revenues from traditional voice businesses have been shrinking in recent years, while revenues from connectivity services (e.g., fixed and mobile internet) are increasing. To diversify revenue sources, Telefónica offers new digital services such as Internet of Things (IoT), cybersecurity, big data, Artificial Intelligence and cloud services among others. Although these services still have a lower weight in Telefónica's total revenues, the related revenues grew in double digits in 2023. Additionally, the world of telecommunications is evolving towards a model of programmable networks and services. This type of network can be used by programmers in a completely new and different way than it had been in the past. As a first big step, the GSMA is leading the Open Gateway initiative for the standardized exposure of APIs to developers. This is a totally new market in which telecommunications companies must be able to develop not only attractive services but new skills in order to be successful.

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 optics with high performance. However, the deployment of such networks, in which the copper of the access loop is totally or partially replaced by fiber, requires high levels of investment. In Spain, Telefónica plans to switch off all copper access loops by April 2024. As of December 31, 2023, in Spain, fiber coverage reached 29.3 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. Telefónica is constantly looking for co-investments through Telefónica Infra.

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.

The changes outlined above force Telefónica to continuously invest in the development of new products, technology and services to continue to compete effectively with current or future competitors. Any such investment may reduce the Group's profit and margins and may not lead to the development or commercialization of successful new products or services. To contextualize the Group's total research and development effort, the total expenditure in 2023 was 741 million euros (656 million euros in 2022), representing 1.8% of the Group's revenues (1.6% in 2022). These figures have been calculated using the guidelines established in the Organization for Economic Co-operation and Development ("OECD") manual. Telefónica's investment in CapEx in 2023 was 5,579 million euros (5,819 million euros in 2022).

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.

The Telefónica Group's strategy, which is focused on driving new digital businesses and providing data-based services, involves exposure to risks and uncertainties arising from data privacy regulation.

The Telefónica Group's commercial portfolio includes products and/or services whose provision involves the

processing of large amounts of information and data. This entails an enormous responsibility, while at the same time increasing the challenges related to compliance with strong and growing privacy and data protection regulations throughout the Telefónica Group's footprint, which may stifle the technological innovation that characterizes it and to which the Group is committed. Similarly, the Group's efforts to promote innovation may result in increased compliance risks and, where applicable, costs.

Telefónica is subject to Regulation (EU) 2016/679 of the European Parliament and Council of April 2016, on the protection of natural persons with regard to the processing of personal data and on the free movement of such data ("GDPR"), which is considered by the Group as a common standard of compliance in all its operations, even beyond the European Union. Additionally, the European Union has initiated a data legislative strategy that seeks to make the EU a leading space for the data-driven society, allowing data to flow freely throughout the territory and between different sectors. As a result, it is expected that new regulatory obligations will be imposed on operators.

In addition, progress continues to be made on the proposal for a future European regulation concerning the respect for privacy and protection of personal data in electronic communications ("e-Privacy Regulation"), which would repeal Directive 2002/58/EC. If approved, this proposal could establish additional and more restrictive rules than those established in the GDPR, with the consequent increase in the risks and costs that this could entail for Telefónica.

Moreover, considering that the Telefónica Group operates its business on a global scale, it frequently carries out international data transfers concerning its customers, users, suppliers, employees and other data subjects to countries outside the European Economic Area (EEA) that have not been declared to have an adequate level of data protection by the European Commission, either directly or through third parties. In this context, it is particularly relevant to have the necessary legal and technical controls and mechanisms in place to ensure that such international data transfers are carried out in accordance with the GDPR, in an environment marked by uncertainty on this issue as to the most adequate and effective measures to mitigate such risks.

One of the relevant contractual measures to ensure the lawfulness of international data transfers to any country outside the EEA not found by the European Commission to have an adequate level of data protection, is the signing, between the data importer and the data exporter, of the new standard contractual clauses ("SCC") approved by the European Commission according to Implementing Decision (EU) 2021/914 of June 4, 2021.

With regard to the international transfer of data to the United States, on July 10, 2023, the European Commission adopted its adequacy decision for the EU-U.S. Data Privacy Framework. The adequacy decision concludes that the United States ensures an adequate level of protection for personal data transferred from the EU to U.S. companies participating in the EU-U.S. Data Privacy Framework. This adequacy decision nevertheless remains subject to challenge, and is expected to be challenged, by privacy activists.

In Latin America, Law No. 13,709 in Brazil imposes standards and obligations similar to those required by the GDPR, including a sanctioning regime which is in force from August 2021, which may increase compliance risks and costs. In addition, in 2022 the Brazilian data protection authority, Autoridade Nacional de Proteção de Dados (ANPD), became an independent agency not linked to the presidency of the Republic, thus providing it with additional autonomy to develop its control and supervision functions.

In Ecuador, the Organic Law on Data Protection, which is aligned with the principles of the European GDPR, has entered into force (including, since 2023, the sanctioning regime). In addition, Argentina has ratified Convention 108+, which is an international treaty of the Council of Europe which is open to accession by any State outside Europe, and which regulates the protection of the rights of individuals with regard to the automated processing of their data, in a very similar way to the protection granted by virtue of the GDPR.

In addition, there are projects to reform Law 19.628 on the Protection of Personal Data in Chile, and the Regulations of Law 29.733 in Peru. There are regulatory projects aimed at updating regulations in line with standards similar to the GDPR, which may increase compliance risks and costs. To limit the risks derived from international transfers of personal data among Telefónica Group companies, Group companies will adopt Telefónica Group's Binding Corporate Rules (BCRs), which are currently in the process of being approved by the European data protection authorities. However there can be no assurance that such rules will be sufficient to ensure compliance with requirements in every jurisdiction in which the Telefónica Group operates.

Data privacy protection requires careful design of products and services, as well as robust internal procedures and rules that can be adapted to regulatory changes where necessary, all of which entails compliance risk. Failure to maintain adequate data security and to comply with any relevant legal requirements could result in the imposition of significant penalties, damage to the Group's reputation and the loss of trust of customers and users.

Telefónica's reputation depends to a large extent on the digital trust it is able to generate among its customers and other stakeholders. In this regard, in addition to any

reputational consequences, in the European Union, very serious breaches of the GDPR may entail the imposition of administrative fines of up to the larger of 20 million euros or 4% of the infringing company's overall total annual revenue for the previous financial year. Furthermore, once it is approved, the e-Privacy Regulation may set forth sanctions for breaches of it 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.

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 or other actions or policies that may generate a negative perception of the Group or the products and services it offers, or that 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 changing customer demands, Telefónica needs to adapt both (i) its communication networks and (ii) its offering of digital services.

The networks, which had historically focused on voice transmission, have evolved into increasingly flexible, dynamic and secure data networks, replacing, for example, old copper telecommunications networks with new technologies such as fiber optics, 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 personalized experience, as well as a continuous evolution of the Group's product and service offering. In this sense, new services such as "Living Apps", "Connected Car", "Smart Cities", "Smart Agriculture", "Smart Metering" and "Solar 360" 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. In addition, Telefónica has launched new customer care applications (My Movistar in Spain, Me Vivo in Brazil, My O2 in the United Kingdom) and developed a virtual assistant, Aura, with the aim of increasing the accessibility of the products and services we offer. However, there can be no assurance that these and other efforts will be successful.

In the development of all these initiatives it is also necessary to take into account several factors: firstly, there is a growing social and regulatory demand for companies to behave in a socially responsible manner, and, in addition, the Group's customers are increasingly interacting through online communication channels, such as social networks, in which they express this demand. Telefónica's ability to attract and retain clients depends on their perceptions regarding the Group's reputation and behavior. 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.

Operational Risks

Information technology is key to the Group's business and is subject to cybersecurity risks.

The risks derived from cybersecurity are among the Group's most relevant risks due to the importance of information technology to its ability to successfully conduct operations. Despite advances in the modernization of the network and the replacement of legacy systems in need of technological renewal, the Group operates in an environment increasingly prone to cyber-threats and all of its products and services are intrinsically dependent on information technology systems and platforms that are susceptible to cyberattacks. Successful cyberattacks could prevent the effective provision, operation and commercialization of products and services in addition to affecting their use by customers. 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, react and recover from incidents. This includes the need to strengthen security controls in the supply chain, often with a high number of participants spread across different countries, by focusing on the security measures adopted by the Group's providers and other third parties, and, in particular, by ensuring the security of cloud services provided by third parties.

Telecommunications companies worldwide face continuously increasing cybersecurity threats as businesses become increasingly digital and dependent on telecommunications, computer networks and cloud computing technologies. As a result of the circumstances brought by the COVID pandemic, remote access and teleworking of employees and collaborators has spread and is now a common practice, increasing the use of cloud services provided by third parties. Thus, the risks associated with their use has increased, forcing

companies to review the security controls beyond the perimeter of the corporate network. Likewise, the proliferation of IoT environments makes security management more complicated, given their volume and heterogeneous nature. All of the above, together with the professionalization of cybercriminals and their financing (which facilitates their adoption of emerging technologies and techniques, such as machine learning and artificial intelligence), is leading to an increase in the sophistication of cybercrime and the use of automated attack tactics that reduce the time frame that cyber-defense teams have to protect a company's digital assets. In addition, the Telefónica Group is aware of the possible cybersecurity risks arising from the various international conflicts, and is monitoring cyberattacks that may affect our infrastructure, and maintaining contact with national and international organizations to obtain cyberintelligence information, without having so far detected a significant increase in attacks in our perimeter compared to other previous periods, though this may change in the future. Cybersecurity threats may include gaining unauthorized access to the Group's systems or propagating computer viruses or malicious software, to misappropriate sensitive information like customer data or disrupt the Group's operations. In addition, traditional security threats, such as theft of laptop computers, data devices and mobile phones may also affect the Group along with the possibility that the Group's employees or other persons may have 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 or even result in regulatory penalties.

In particular, in the past three years, the Group has suffered various types of cybersecurity incidents that have included (i) intrusion attempts (direct or phishing), exploitation of vulnerabilities and corporate credentials being compromised; (ii) Distributed Denial of Service (DDoS) attacks, using massive volumes of Internet traffic that saturate the service; and (iii) exploitation of vulnerabilities to carry out fraud in respect of services provided by Telefónica. To date, none of these cybersecurity incidents have had material consequences for the Telefónica Group, but this may change in the future.

Although Telefónica seeks to manage these risks by adopting technical and organizational measures as defined in its digital security strategy, such as the use of early vulnerabilities detection, access control, log review of critical systems and network segregation, as well as the deployment of firewalls, intrusion-prevention systems, virus scanners and backup systems, it can provide no assurance that such measures are sufficient to avoid or fully mitigate such incidents. 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, however due to the potential severity and uncertainty about the evolution of the aforementioned events, these policies may not be sufficient to cover all possible losses arising out of these risks.

Climate change, natural disasters and other factors beyond the Group's control may result in physical damage to our technical infrastructure that may cause unanticipated network or service interruptions or quality loss or otherwise affect the Group's business.

Climate change, natural disasters and other factors beyond the Group's control, such as system failures, lack of electric supply, network failures, hardware or software failures or the theft of network elements, can damage Telefónica's infrastructure and affect the quality of, or cause interruption to, the provision of the services of the Telefónica Group.

Further, changes in temperature and precipitation patterns associated with climate change may increase the energy consumption of telecommunications networks or cause service disruption due to extreme temperature waves, floods or extreme weather events. These changes may cause increases in the price of electricity due to, for example, reduction in hydraulic generation as a result of recurrent droughts. Further, as a result of global commitments to tackle climate change, new carbon dioxide taxes may be imposed and could affect, directly or indirectly, Telefónica Group, and may have a negative impact on the Group's operations and results. Telefónica analyses these risks in accordance with the recommendations of the Task Force on Climate-Related Financial Disclosures ("TCFD").

Network or service interruptions or quality loss or climate-related risks could cause customer dissatisfaction, a reduction in revenues and traffic, the realization 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 these countries, such as economic uncertainty, inflationary pressures, rapid normalization of monetary policy, exchange rate or sovereign-risk fluctuations, as well as growing geopolitical tensions, may adversely

affect Telefónica's business, financial position, debt management, cash flows and results of operations and/or the performance of some or all of the Group's financial indicators.

In recent years, successive shocks have ushered in a period characterized by extraordinary uncertainty and the simultaneous occurrence of multiple negative disruptions. Inflationary pressures arising from bottlenecks associated with the rapid post-pandemic recovery, coupled with increases in commodity prices, led to a robust response from central banks (raising interest rates and withdrawing liquidity from the system) and a significant loss of purchasing power for consumers. Additionally, the recent higher wage demands observed internationally, reflecting both the strength of labor markets, especially those in major developed economies, and the prevalence (though to a lesser extent than in the past) of wage indexation mechanisms, have also contributed to these inflationary pressures.

There are also doubts about the timing of the conclusion of the inflationary period, as geopolitical events such as the Russia-Ukraine and the Israel-Hamas armed conflicts, among others, negatively impact energy prices or maritime transport. Moreover, there is a risk that the decrease in global liquidity and elevated interest rates could generate increased financial volatility, giving rise to new stress episodes, as observed in the United Kingdom, especially if inflation proves to be more persistent than expected. Additionally, premature monetary easing by central banks could lead to resurgent inflation, potentially triggering a new stagflationary period akin to the 1970s.

Looking forward, elements that could worsen the effects of the current situation include the escalation of armed conflicts and potential disruptions to energy and goods supply, as well as possible additional increases in commodity prices. This could result in a potential de-anchoring of inflation expectations and higher-than-expected wage hikes, prolonging and amplifying the inflation-recession scenario. As a consequence of the above, economic growth is expected to remain weak in the short term, with the risk of recession still present in many parts of the world.

So far, the main European countries where the Group operates have been affected by the ongoing geopolitical conflicts mainly through the price channel (higher commodity prices, intermediate inputs and salary costs, among others), as their direct trade and financial exposure is limited. However, there continues to be a concern in Europe about energy dependence in the face of potential episodes of gas shortages. Latin America could be affected by lower external demand associated with slower global growth, deteriorating terms of trade and tighter financial conditions.

As of December 31, 2023, the contribution of each segment to the Telefónica Group's total assets was as follows: Telefónica Spain 26.0% (25.5% as of December

31, 2022), VMO2 7.5% (9.8% as of December 31, 2022), Telefónica Germany 17.8% (17.5% as of December 31, 2022), Telefónica Brazil 25.0% (22.7% as of December 31, 2022) and Telefónica Hispam 14.4% (14.5% as of December 31, 2022). Part of the Group's assets are located in countries that do not have an investment grade credit rating (in order of importance, Brazil, Argentina, Ecuador and Venezuela). Likewise, Venezuela and Argentina are considered countries with hyperinflationary economies in 2023 and 2022.

During 2023, the contribution of each segment to the Telefónica Group's revenues was as follows (does not include VMO2 that is recorded by the equity method and therefore does not contribute to the consolidated revenues): Telefónica Spain 31.1% (31.2% in 2022), Telefónica Germany 21.2% (20.6% in 2022), Telefónica Brazil 23.7% (22.2% in 2022) and Telefónica Hispam 20.6% (22.9% in 2022).

The main risks by geography are detailed below:

In Europe, there are several economic and political risks. Firstly, the evolution of armed conflicts poses a threat to growth and inflation prospects. Any worsening in the supply of gas, oil, food, or other goods due to disruptions in the transportation chain would negatively impact their prices, with a consequent effect on the disposable income of both households and businesses. In the medium term, this could result in wage increases, a persistent rise in inflation, and tighter monetary policy. Any of the above could have a negative impact on the cost of financing for the private sector, including Telefónica, and could trigger episodes of financial stress.

In addition, there is also a risk of financial fragmentation in the transmission of monetary policy in the eurozone, meaning that interest rates may react differently in different countries within the eurozone, leading to differences in yields on bonds issued by peripheral countries (such as Spain) and those issued by core countries, making it challenging for the former to access credit. Lastly, Europe faces two significant long-term risks. First, a risk that Europe may fall behind in the global technological race in particular because of its dependence on several critical raw materials, indispensable for key sectors, that must be imported from other regions. Second, demographic factors such as declining birth rates and population aging may have a negative impact on the region's labor force and long-term growth prospects.

Regarding political risk, the 2024 European Parliament election may deepen political fragmentation and result in a reduced representation of moderate positions in favor of extreme options, potentially weakening governance and hindering the implementation of the ongoing agenda with respect to fiscal and economic matters, climate and energy policy and other critical aspects of state governance.

- *Spain*: there are several local sources of risks. One of them stems from the risk that high commodity prices and/or the emergence of wage pressures could prolong the inflationary episode with a deeper impact on household income. Secondly, and although the disbursement of Next Generation European Funds (NGEU) appears to be gaining traction, further delays or even designing flaws could limit their final impact on GDP growth and employment. In addition, as one of the most open countries in the world from a commercial point of view, being among the top ten countries in respect of capital outflows and inflows globally, Spain could be negatively impacted by the rise of protectionism and trade restrictions. Lastly, the impact of rising interest rates could be a source of financial stress due to high public indebtedness and lead to a possible correction in the real estate market. In the long term, the challenge is to increase potential growth through productivity and ensure the sustainability of public debt.

- *Germany*: the risk of energy shortages has diminished in recent months due to Europe's response in terms of diversification of energy sources and the rapid construction of regasification plants in the country. However, it is possible that problems with energy supply may arise again. Gas flows (from Russia via Ukraine) could be lower than expected, consumption could be higher due, for example, to an unusually cold winter, or competition for gas from other countries could increase. On the other hand, there is concern that higher-than-expected wage growth and/or higher input costs could lead to a stronger and longer inflationary cycle. As for the medium to long term, there is a risk that a potential escalation of geopolitical tensions could reduce international trade, with a consequent impact on the country's potential growth, which is dependent on exports. In addition, long-term challenges remain, such as the ageing of the population.

- *United Kingdom*: a slower disinflationary process than previously expected could weigh on consumption and further depress economic growth. In particular, there is a concern that currently dynamic wage growth could lead to a further increase in the prices of goods and services, preventing inflation rates from normalizing as quickly as anticipated. On the other hand, although the UK economy has few direct trade links with Russia and Ukraine, it is vulnerable to developments in the global energy market as it is the second European economy with the largest share of gas in the energy mix. Finally, the formal exit of the United Kingdom from the European Union on December 31, 2020 (Brexit) has created new barriers to trade in goods and services, mobility and cross-border exchanges, which will continue to entail an economic adjustment in the medium term.

In Latin America, the exchange rate risk is currently considered moderate by the Telefónica Group, except in

Argentina and Venezuela, but may increase in the future. The end of electoral events and rapid central bank actions to contain inflation may, at least partially, limit the impact of external risks (global trade tensions, abrupt movements in commodity prices, concerns about global growth, tightening U.S. monetary policy and financial imbalances in China) and internal risks (managing the monetary normalization and the possible fiscal deterioration) but there is no assurance that this will be the case.

- *Brazil:* fiscal sustainability and increased economic intervention remain the main domestic risk, but it has recently decreased. The new administration has demonstrated its commitment to fiscal sustainability by announcing a new fiscal framework to replace the previous spending cap rule. Additionally, the Congress has also voted favorably on the tax reform aimed at simplifying the indirect tax system and promoting stronger and sustainable economic growth. So far, the economic measures announced by the new administration have helped alleviate uncertainty around economic policies, resulting in an upward revision of Brazil's credit rating outlook by S&P. Risks related to inflation and monetary policy have also decreased with the approval and maintenance of the inflation target at low levels.
- *Argentina:* macroeconomic and exchange rate risks remain high. The main internal challenges include achieving the political and social consensus necessary to reduce the public deficit and rebuild international reserves in a context of high inflation, which jeopardizes the achievement of the new administration's objectives. On the external front, a global slowdown leading to reduced demand for exported products and lower prices would result in decreased foreign currency inflows, increasing vulnerability to volatility in international financial markets. Finally, the application of price control measures and the still-existing exchange restrictions could adversely affect Telefónica's profitability.
- *Chile, Colombia, Peru and Ecuador:* these countries are exposed not only to changes in the global economy, given their vulnerability and exposure to changes in commodity prices, but also to tightening of global financial conditions. On the domestic side, existing political instability and the possibility of further social unrest and the resurgence of populism could have a negative impact in both the short and medium term. In this regard, measures that result in excessive growth in public spending that jeopardize fiscal balance could have a negative impact on sovereign credit ratings, further deteriorating local financing conditions. Inflation is becoming more persistent than expected, which could limit central banks' ability to respond to an abrupt drop in activity levels and could also increase the risk of financial instability. Political uncertainty has decreased in Chile, following the rejection of the new proposed Constitution in December 2023, but the maintenance

of the former status quo could give rise to new social demands. In Colombia, the structural reforms promoted by Colombia's government are currently expected to be more market friendly due to the weakening of the government coalition. In Peru, the government succeeded in reducing the social protests against the installation of the new administration, although it remains politically weak. In Ecuador, the new government is dealing with a turbulent political situation and internal violence, marked by an increase in criminality.

As discussed above, the countries where the Group operates are generally facing significant economic uncertainties and, in some cases, political uncertainties. The worsening of the economic and political environment in any of the countries where Telefónica operates may materially adversely affect the Group's business, financial condition, results of operations and/or cash flows.

The Group has and in the future could experience impairment of goodwill, investments accounted for by the equity method, deferred tax assets 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 (which as of December 31, 2023, represented 17.9% of the Group's total assets), deferred tax assets (which as of December 31, 2023, represented 6.0% of the Group's total assets) or other assets, such as intangible assets (which represented 10.9% of the Group's total assets as of December 31, 2023), and property, plant and equipment (which represented 22.0% of the Group's total assets as of December 31, 2023). 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 cash-generating units) to which the goodwill is allocated at the time it is originated, and such calculation requires significant assumptions and judgment. In 2023 impairment losses in the goodwill of Telefónica Ecuador were recognized for a total of 58 million euros (impairment losses in other assets of Telefónica Argentina were recognized for a total of 77 million euros in 2022 and impairment losses in the goodwill of Telefónica del Perú were recognized for a total of 393 million euros in 2021). In addition, VMO2, our 50:50 joint venture with Liberty Global in the United Kingdom, recorded in 2023 an impairment of goodwill amounting to 3,572 million euros, with a negative impact of 1,786 million euros on the share of (loss) income of investments accounted for by the equity method in the consolidated income statement of the Group.

In addition, Telefónica may not be able to realize 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 utilize 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 2021 deferred tax assets corresponding to the tax Group in Spain amounting to 294 million euros were derecognized.

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.

The Group faces risks relating to its levels of financial indebtedness, the Group's ability to finance itself, and its 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 licenses 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 December 31, 2023, the Group's gross financial debt amounted to 37,061 million euros (39,079 million euros as of December 31, 2022), and the Group's net financial debt amounted to 27,349 million euros (26,687 million euros as of December 31, 2022). As of December 31, 2023, the average maturity of the debt was 11.6 years (13.1 years as of December 31, 2022), 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 to obtain 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 December 31, 2023, the Group's gross financial debt scheduled to mature in 2024 amounted to 3,701 million euros, and gross financial debt scheduled to mature in 2025 amounted to 3,900 million euros.

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 December 31, 2023. As of December 31, 2023, the Telefónica Group had undrawn committed credit facilities arranged with banks for an amount of 11,315 million euros (11,148 million euros of which were due to expire in more than 12 months). Liquidity could be affected if market conditions make it difficult to renew undrawn credit lines. As of December 31, 2023, 1.5% of the aggregate undrawn amount under credit lines was scheduled to expire prior to December 31, 2024.

In addition, given the interrelation between economic growth and financial stability, the materialization 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.

Finally, any downgrade in the Group's credit ratings may lead to an increase in the Group's borrowing costs and could also limit its ability to access credit markets.

The Group's financial condition and results of operations may be adversely affected if it does not effectively manage its exposure to interest rates or foreign currency exchange 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); (ii) the value of long-term liabilities at fixed interest rates; and (iii) financial expenses and principal payments of inflation-linked financial instruments, considering interest rate risk as the impact of changes in inflation rates.

In nominal terms, as of December 31, 2023, 89% of the Group's net financial debt had its interest rate set at fixed interest rates for periods of more than one year. The effective cost of debt related interest payments for the last 12 months excluding leases was 3.80% as of December 31, 2023 compared to 3.96% as of December 31, 2022. To illustrate the sensitivity of financial expenses to variations in short-term interest rates as of December 31, 2023: (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 25 million euros, 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 25 million euros. For the preparation of these calculations, a constant position equivalent to the position at that date is assumed of net financial debt.

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. According to the Group's calculations, the impact on results, and specifically on net exchange differences, due to a 10% depreciation of Latin American currencies against the U.S. dollar and a 10% depreciation of the rest of the currencies to which the Group is most exposed, against the euro would result in exchange gains of 17 million euros as of December 31, 2023 and a 10% appreciation of Latin American currencies against the U.S. dollar and a 10% appreciation of the rest of the currencies to which the Group is most exposed, would result in exchange losses of 17 million euros as of December 31, 2023. These calculations have been made assuming a constant currency position with an impact on profit or loss as of December 31, 2023 taking into account derivative instruments in place.

In 2023, the evolution of exchange rates (without considering the effects of hyperinflationary countries) had a small positive impact on the Group's results, increasing the year-on-year growth of the Group's consolidated revenues by an estimated 0.2 percentage points, and not impacting OIBDA (positive impact of 4.5 percentage points and 3.0 percentage points, respectively, in 2022, mainly due to the evolution of the Brazilian real). Furthermore, translation differences in 2023 had a positive impact on the Group's equity of 37 million euros (1,169 million euros in 2022). If the impacts of hyperinflationary countries were considered, the adverse impact of variations in currencies on our consolidated results, statement of financial position and statement of cash flows would have been higher.

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 are and may in the future be party to lawsuits, tax claims, antitrust and other legal proceedings in the ordinary course of their businesses, the outcome of which is unpredictable.

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. In particular, the Telefónica Group is currently party to certain tax and regulatory proceedings in Brazil, primarily relating to the ICMS (a Brazilian tax on telecommunication services) and the corporate tax.

Telefónica Brazil maintained provisions for tax contingencies amounting to 515 million euros and provisions for regulatory contingencies amounting to 329 million euros as of December 31, 2023. In addition, Telefónica Brazil faces possible tax and regulatory contingencies for which no provisions are made. As of December 31, 2023, the Telefónica Group maintained contingent liabilities related to income tax, other taxes and regulatory proceedings in Brazil amounting to 5,678 million euros, 6,909 million euros and 1,264 million euros, respectively (see note 25-Tax Litigation in Telefónica Brazil, to the Consolidated Financial Statements). The Group makes estimates for its tax liabilities that the Group considers reasonable, but if a tax authority disagrees, the Group could face additional tax liability, including interest and penalties. There can be no guarantee that any payments related to such contingencies or in excess of our estimates will not have a significant adverse effect on the Group's business, results of operations, financial condition and/or cash flows. In addition to the most significant litigation indicated above, further details on these matters are provided in Notes 25 and 29 to the Consolidated Financial Statements. The details of the provisions for litigation, tax sanctions and claims can be found in Note 24 of the Consolidated Financial Statements.

Telefónica Group is also party to certain litigation in Peru concerning certain previous years' income taxes in respect of which Telefónica has been notified that the judicial resolutions which resolve the contentious administrative processes are unfavorable to the Group and will require it to pay taxes related to prior years. At the end of the relevant proceedings, the Tax Administration, through an administrative act, will determine the amount of the payment obligation. The estimated impact of the aforementioned judicial resolutions is already provisioned in Telefónica's financial statements, with the total provision as of December 31, 2023 amounting to 3,117 million Peruvian soles (approximately 761 million euros at the exchange rate at such date).

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 and/or cash flows.

Increased scrutiny and changing expectations from stakeholders, evolving reporting and other legal obligations and compliance with the

Company's own goals regarding ESG matters, may expose the Company to various risks.

The Telefónica Group may be unable to adapt to or comply with increasingly demanding expectations from analysts, investors, customers and other stakeholders and new regulatory reporting or other legal requirements related to ESG issues. Further, expectations and requirements may differ from region to region, may be based on diverging calculation or other criteria and may experience material changes as they still are at their emerging phase.

Further, the Group's disclosure of information on its ESG objectives and initiatives in its public reports and other communications (including its emission-related goals) subjects it to the risk that it will fail to achieve these objectives and initiatives.

Although Telefónica is working to comply with new ESG reporting requirements, to achieve its objectives, and to meet the expectations of its stakeholders in these matters, if the Company is unable to meet these expectations, fails to adequately address ESG matters or fails to achieve the reported objectives (including its emission-related goals), the Telefónica Group's reputation, its business, financial position, results of operations and/or cash flows could be materially and adversely affected.

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

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 U.S. 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 increasingly exposed 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 programs and other forms of trade restrictions ("sanctions") including those administered by the United Nations, the European Union, the United States, including by the U.S. Treasury Department's Office of Foreign Assets Control and the United Kingdom. The sanctions regulations restrict the Group's business dealings with certain sanctioned countries, territories, individuals and entities and may impose certain trade restrictions, among others, export and/or import trade restrictions to certain goods and services. 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 programs applicable to countries, territories, lists of entities and persons sanctioned or certain trade restrictions). Given the nature of its activity, 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 above mentioned 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, and the revocation of licenses and authorizations, 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.

Events after the reporting period

The events regarding the Company that took place between the reporting date and the date of preparation of the accompanying financial statements have been disclosed in note 22.

Annual Corporate Governance Report

See Chapter 4 (Annual Corporate Governance Report) of the 2023 Consolidated Management Report of Telefónica, S.A.

This document is also available in the public registers of the National Securities Market Commission (CNMV).

Annual Report on the Remuneration of the Directors

See Chapter 5 (Annual Report on the Remuneration of the Directors) of the 2023 Consolidated Management Report of Telefónica, S.A.

This document is also available in the public registers of the National Securities Market Commission (CNMV).

PABLO DE CARVAJAL GONZÁLEZ, SECRETARY OF THE BOARD OF DIRECTORS OF TELEFÓNICA, S.A.

I HEREBY CERTIFY

That the Annual Accounts (Balance Sheet, Income Statement, Statement of changes in equity, Statements of cash flow, and Notes) and the Management Report of Telefónica, S.A., corresponding to Fiscal Year 2023, have been approved by resolution of the Board of Directors of the Company validly adopted today.

That, in accordance with the provisions of article 253.2 of the Consolidated Text of the Spanish Corporate Enterprises Act, in accordance with article 37.1.3º of the Commercial Code, the Directors who are members of the Board of Directors of Telefónica, S.A. have signed the said documents on this sheet, the last of the said documents.

February 21, 2024

Secretary of the Board of Directors

Mr. José María Álvarez-Pallete López

Mr. Isidro Fainé Casas

Mr. José María Abril Pérez

Mr. José Javier Echenique Landiribar

Mr. Ángel Vilá Boix

Ms. Carmen García de Andrés

Ms. María Luisa García Blanco

Mr. Peter Löscher

Ms. Verónica Pascual Boé

Mr. Francisco Javier de Paz Mancho

Mr. Alejandro Reynal Ample

Mr. Francisco José Riberas Mera

Ms. María Rotondo Urcola

Ms. Claudia Sender Ramírez

Ms. Solange Sobral Targa

STATEMENT OF RESPONSIBILITY FOR THE ANNUAL FINANCIAL INFORMATION

The Directors of Telefónica, S.A. state that, to the best of their knowledge, the Individual Annual Accounts of Telefónica, S.A. for Fiscal Year 2023, approved by the Board of Directors at its meeting of February 21, 2024 and prepared in accordance with applicable accounting standards, present a fair view of the assets, financial condition and results of operations of Telefónica, S.A., and that the Individual Management Report (which include the Non-Financial Information Statement), contain a true assessment of the corporate performance and results and the position of Telefónica, S.A., as well as a description of the principal risks and uncertainties faced

Madrid, February 21, 2024

Mr. José María Álvarez-Pallete López
Chairman

Mr. Isidro Fainé Casas
Vice-Chairman

Mr. José María Abril Pérez
Vice-Chairman

Mr. José Javier Echenique Landiribar
Vice-Chairman

Mr. Ángel Vilá Boix
Chief Operating Officer

D^a Carmen García de Andrés
Director

D^a María Luisa García Blanco
Director

Mr. Peter Löscher
Director

Ms. Verónica Pascual Boé
Director

Mr. Francisco Javier de Paz Mancho
Director

Mr. Alejandro Reynal Ample
Director

Mr. Francisco José Riberas Mera
Director

Ms. María Rotondo Urcola
Director

Ms. Claudia Sender Ramírez
Director

Ms. Solange Sobral Targa
Director