



Business Strategy

Business Strategy

- 1.1. Context
- 1.2. Mission
- 1.3. Business model
- 1.4. Materiality
- 1.5. Strategy
- 1.6. Organisation
- 1.7. Finance for the transition to a sustainable economy
- 1.8. European taxonomy for sustainable activities
- 1.9. Main indicators and footprint
- 1.10. Business overview

Mission

To make our world more human by connecting lives.

GPS

growth, profitability, and sustainability, are the pillars of our new strategic plan.

Transition

we are aligning our business including our financing with a sustainable economy.

1.1. Context

GRI 3-3

1.1.1. An uncertain macroeconomic and political environment compounded by conflict hotspots and sustainability challenges

In 2023 the global economy returned to levels closer to those resembling normality following the resumption of economic activity in China. Despite the resilience of the major economies (especially the US) and the avoidance of the initial threat of a recession, global **growth** remained low, especially in Europe, and looks set to remain so throughout 2024:

- High levels of **inflation** show signs of stabilising and are expected to ease in the coming year, albeit remaining above the reference levels projected by the main central banks. Contained energy costs are helping to reduce inflationary pressure, although tensions surrounding raw materials and labour costs are growing. Price rises continue to have an impact on business expectations and disposable income.
- The fight against inflation has marked a year of sharp increases in benchmark **interest rates** by central banks. The paradigm of the previous decade, with near-zero or negative rates aimed at stimulating the economy after the financial crisis, seems to have completely changed. Expectations over the medium term are that rates will remain at current levels until inflation is fully under control, despite the risks of an economic slowdown.
- Similarly, the expansionary **fiscal policies** of the last decade are beginning to be adjusted in an attempt to balance public accounts. Public spending restraint measures are expected across the major economies.
- The combination of inflation, higher interest rates and (potentially) lower public spending threatens the consumption and savings capacities of the most **vulnerable** households and individuals, who suffer most from the impacts of the new crisis.
- The major **geopolitical conflicts** that affected global security in 2023 have continued to worsen, with no clear prospects for stability in the medium to long term.

The war in Ukraine continues to unfold without significant progress or a peace plan. Geopolitical tensions have increased following the outbreak of a new military conflict in the Gaza Strip, which threatens progress and current stability in the Middle East. Both conflicts have worsened the threat of a potential energy crisis due to their impact on major oil and gas producers.

- Global tensions have spilled over into national or regional political environments in the form of increasing **polarisation**. A declining number of the world's population live in demonstrably democratic states. All over the world, the results of the latest elections reveal significant changes in the direction of governments, bringing with them a deterioration in the conditions of legal certainty necessary for long-term business investments.

1.1.2. A telecommunications sector that is increasingly strategic and undergoing continuous transformation despite strong competition

Telecommunications services are strategic to economic and societal development. The use of **connectivity services** (and the traffic supported by the networks deployed by operators) by both our residential and corporate customers continues to grow exponentially.

Individual **consumers** and households spend a greater proportion of their lives interacting digitally and consuming technology as more and more services become digitalised.

Similarly, **businesses** and public administrations continue to accelerate their digitalisation in order to be competitive in a globalised market. Reliable and quality connectivity services are essential for them.

The telecommunications market in Europe is strategic and highly **competitive**. Monopolies no longer exist, and today consumers can find a wide range of quality and affordable alternatives on the main markets. Some are

undergoing a consolidation process to ensure the sustainability of the sector.

Meanwhile, telcos have been investing heavily in the development of the **networks of the future**. Connectivity is now provided over fibre and 5G, guaranteeing customers the best connectivity for advanced services. New networks are able to deliver different kinds of connectivity according to service type, based on new technologies such as edge computing. They are also able to open up to third parties via standardised APIs in order to generate new business models in collaboration with external developers (e.g. the GSMA Open Gateway/CAMARA initiative).

Several leading companies in the sector (including Telefónica) have reported progress in building new networks following **recent peaks in investment**. Technology and new network architectures (open, based on market standards and incorporating AI), progress towards the softwarisation of operations and the shutdown of legacy technologies will all be crucial to making operators **more cost-efficient** and sustainable in the future.

In addition, the long-term sustainability of the sector requires operators to make progress towards **collaborating on industry initiatives** (GSMA and others). These initiatives may cover various issues, such as the standardisation of networks, systems and devices. Alongside these initiatives, operators are collaborating more closely on the joint deployment of infrastructure (network sharing, fibrecos, etc.) in order to gain efficiency.

Regulatory challenges

Regarding regulation, the industry continues to propose solutions to structural problems that put national and European connectivity targets at risk. For example, the sector has expressed its position in forums and before the relevant authorities vis-à-vis the contribution to investment by internet companies and the updating of operators' regulatory obligations. With regard to the national consolidation processes pending approval, the leading companies in the sector (including Telefónica) have been generally in favour of approving these transactions without imposing any burdensome conditions.

The urgent need to make progress towards the **sustainability goals** set out in the United Nations 2030 Agenda continues to grow. Against this backdrop, **governments and other regulators** continue to place increased pressure on companies:

- The new Corporate Sustainability Reporting Directive (CSRD) establishes more stringent requirements for sustainability reporting in the European Union from 2024. Meanwhile, the European Sustainability Reporting Standards (ESRS) have been integrated with the CSRD.
- The EU Corporate Sustainability Due Diligence Directive (CSDDD) is currently being negotiated at European level. This draft focuses on corporate governance, strategy and management to integrate a continuous process to identify, prevent, mitigate and respond to actual/potential adverse human rights and environmental impacts linked to business activity. A similar law is already in force in Germany through the Supply Chain Act (Lieferkettensorgfaltspflichtengesetz), which entered into force on 1 January 2023.
- The European Taxonomy Regulation (2020/852) laid the foundations for a regulatory framework on a classification system that sets out the requirements for an economic activity to be classified as sustainable in the EU. This framework forms part of the EU's Sustainable Growth Financing Action Plan and Green Deal with the aim of promoting the investments needed to achieve a circular, competitive and climate-neutral economy by 2050. It involves the reporting of financial KPIs (revenue, CapEx and OpEx) of sustainable activities.

The telecommunications industry advocates the need for taxonomies to recognise the role of connectivity and digitisation for the green transition.

- Outside the **European Union, the Securities and Exchange Commission (SEC)** has proposed tightening corporate reporting requirements in relation to climate change. This draft standard will affect companies with instruments listed on US markets and will require detailed information on carbon footprints, emissions and climate-change-related risks, opportunities and impacts.

Artificial Intelligence (AI)

In terms of the technological revolution, **artificial intelligence (AI)** was a big focus of 2023. Despite its positive and transformative qualities, AI can have negative repercussions (impacts on employment, concentration of wealth, misinformation, deep fakes, etc.). It is therefore necessary to ensure it is used ethically, transparently and in an accountable way. Various groups, including governments and businesses, have called for regulatory frameworks and guidelines on best practices to protect the rights and well-being of society.

Telefónica is firmly committed to the **ethical development of AI** and has launched several initiatives, built around three pillars, to improve how the technology is governed:

- Collaborate with international bodies (e.g. UNESCO) and bodies within our sector (e.g. GSMA) to establish comprehensive rules of engagement.
- Advocate for the self-regulation of companies in order to allow for the necessary flexibility in design while maintaining fundamental ethical standards.
- Define a risk-based regulatory framework (reflecting the EU's position in its "AI Act" regulation) in order to ensure adequate risk control for our customers.

1.2. Mission

GRI 2-22

“To make our world more human by connecting lives”.

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

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

Without connectivity and digitalisation, there is no green transition. Our networks are key to the health, education, industry, agriculture, transportation, and employment of the future.

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

1.2.1. Aligned with the 2030 Agenda

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

For further information, see 2.13. Contribution and impact on communities

Deploying infrastructure is essential, but it is not sufficient on its own. We need to use this infrastructure to develop services that add value and allow us to reap the full socioeconomic benefits of technology. We also need to increase digital skills across society and businesses. We want to be recognised as a key player in the sustainable development of a society and an enabler in tackling emerging socio-economic and environmental challenges.

1.2.2. Aligned with our Responsible Business Principles

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

For further information, see 2.15. Governance and a culture of sustainability

We have a code of ethics and conduct – our [Responsible Business Principles](#) – and a Sustainability Policy, which help to ensure we act with integrity, commitment and transparency.

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

1.3. Business model

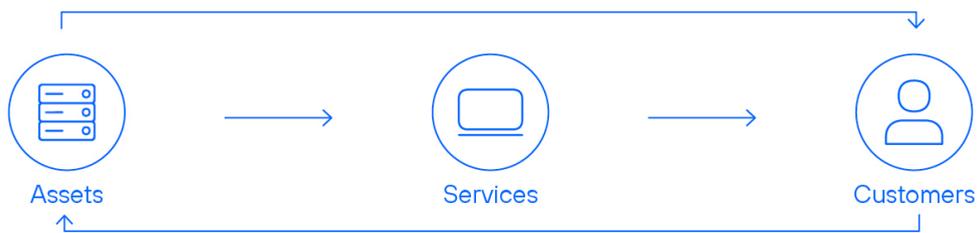
GRI 2-6

1.3.1. Towards a new paradigm for the telecommunications industry

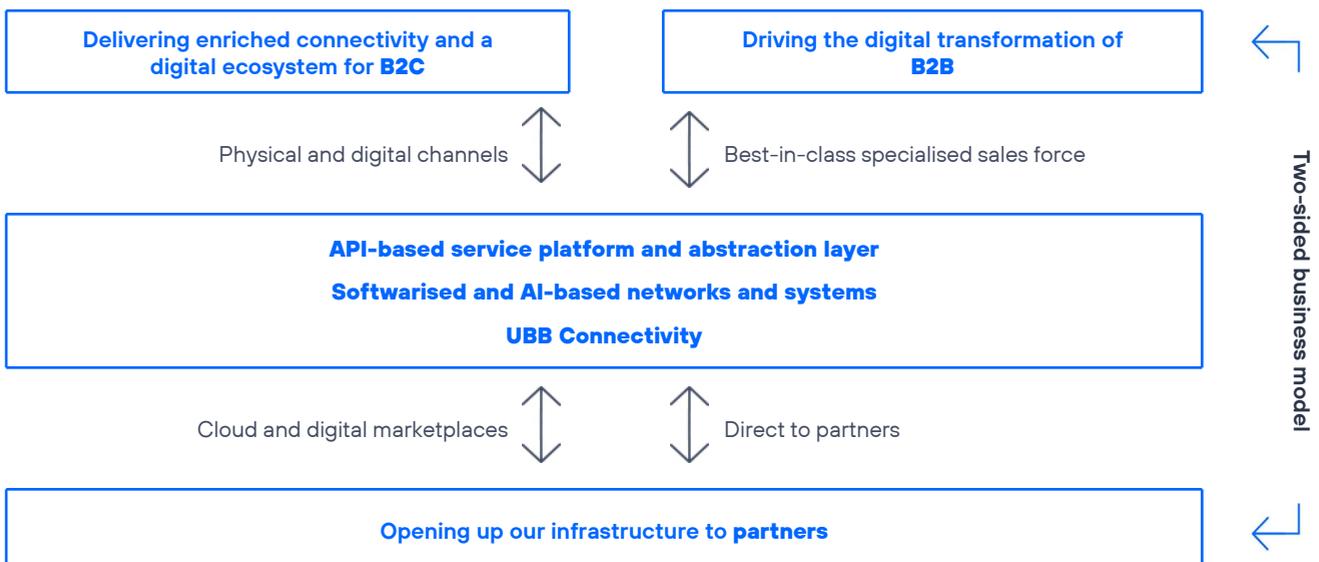
The traditional telecommunications operator value chain includes assets, which are tangible and intangible resources developed through investment; services, which are developed based on the assets deployed (or operators may offer third-party services); and customers, the portfolio of which is usually 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).

Traditional business model



New telecommunications business model



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.

1.3.2. Transformation of telecommunications networks towards earth computing

Telco

- ✓ 5G, FTTH
- ✓ Open, intelligent

Computing

- ✓ Edge & Cloud



IA

- ✓ Hyper-automation

Web3

- ✓ Decentralisation
- ✓ RA / RV

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:

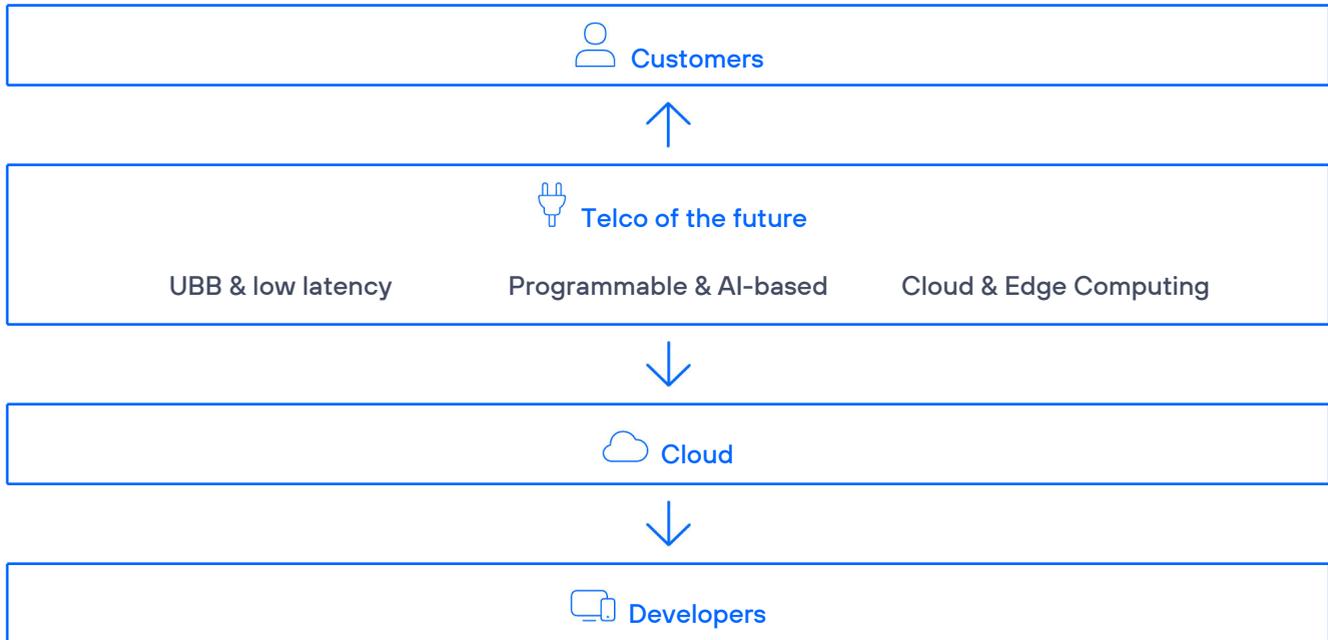
- UBB and low latency
- Programmable and AI-based
- Cloud-connected

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).

1.3.3. New connectivity-based services (NaaS)

Connectivity as a Service business model, based on open APIs



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.

1.4. Materiality

Key points

3 years

reporting according to double materiality. During 2023, we updated our reporting to align with the new Corporate Sustainability Reporting Directive (CSRD) and the European Sustainability Reporting Standards (ESRS).

4 topics

have been identified as highly relevant for the Company: responsible management of the customer experience, network and data security, digital inclusion and decarbonisation of the economy.

Stakeholder

engagement allows us to identify, assess and prioritise the most relevant and upcoming issues facing the business.

1.4.1. Double materiality

Telefónica has applied the double materiality methodology since 2021. This approach facilitates the inclusion of sustainability as **a decisive factor in our strategy and decision-making processes**. In addition, it enables us to ensure that our policies, action plans, metrics and targets are in alignment with our critical issues from a dual perspective:

- Impacts on Company value (**"financial materiality" or "inward impacts"**) or social, environmental and governance aspects that affect our financial profitability and our capacity to create value for shareholders and investors from the perspective of risks and opportunities.

- Impacts on society and the environment (**"environmental and social materiality" or "outward impacts"**) those impacts stemming from Company activities, including those that affect human rights.

In 2023 we updated our methodology, taking into consideration the Corporate Sustainability Reporting Standards (CSRD) and the new European Sustainability Reporting Standards (ESRS). In the process we delved into key aspects, such as identifying and comprehensively assessing impacts, risks and opportunities (IROs), and incorporating the expectations from our stakeholders, under the concept of **dynamic materiality**.

1.4.2. Double materiality determination process

GRI 3-1, 3-3

We followed a five-step process to analyse double materiality:



A. Context analysis

The first step in this process consisted of analysing both the internal and external sustainability environment, taking into account our business model, our value chain and our stakeholders.

For this we used the following **sources**:

External

- **Global ESG regulatory context:** analysis of international environmental, social and corporate governance standards, as well as legal requirements, globally applied regional and/or local standards, economic policies, self-regulation standards, etc.
- **Benchmark:** materiality matrices of the leaders in our sector.
- **Analysts and investors:** expectations from our investors and ESG rating analysts such as MSCI, S&P and Sustainalytics, among others.
- **Sectoral reports:** to identify global, sectoral and specific trends, challenges and risks pertaining to the business model in the area of sustainability.
- **Expectations from our stakeholders:** to identify priority issues reported through the various engagement channels we have with them. For further information, see our table of stakeholder communication channels at the end of this chapter.

Internal

Besides analysing relevant internal documentation, we also consulted with those responsible of the Company's most pertinent business areas.

For further information, see [Appendix 2.20.3. Material issues](#)

B. Identification of topics, sub-topics, and impacts, risks and opportunities (IROs)

The results of the contextual analysis performed in the previous step, together with those of our 2022 double materiality process, enabled us to obtain a **preliminary list of topics and sub-topics** that are **potentially material** for the Company. This was subsequently validated by the relevant Company areas in order to **ensure a thorough and sound exercise**.

Similarly, a set of **impacts, risks and opportunities** linked to each of the identified topics and sub-topics were defined.. The main sources used were the following:

- **Positive impacts:** Telefónica's Socioeconomic Contribution Report 2023.

For further information, see [2.13. Contribution and impact on communities](#)

Negative impacts: human rights and environmental impact assessment, as well as Telefónica's due diligence analysis.

For further information, see [2.14. Human rights](#)

Risks: Telefónica's risk matrix and management process.

For further information, see [3.1. Risk management framework](#)

Opportunities: based on an internal analysis performed by the Strategy area, we estimated a number of opportunities linked to the potentially material topics and sub-topics identified, in terms of both potential new revenues and sources of efficiencies.

As part of this identification process, we also took into consideration the [Climate Action Plan](#) and the Natural Capital Impact Report.

C. Assessment of potentially material impacts, risks and opportunities

The impacts, risks and opportunities identified in the previous step were assessed from both an impact and a financial perspective:

Impact, risk and opportunity (IRO) assessment criteria

Impact perspective	Positive Impact	Actual	Scale + Scope + Economic Assessment
		Potential	(Scale + Scope + Economic Assessment) x Likelihood
	Negative Impact	Actual	Scale + Scope + Remediability
		Potential	(Scale + Scope + Remediability) x Likelihood
Financial perspective	Risks	Scale + Economic Assessment x Likelihood for potential.	
	Opportunities		

In addition, we **quantitatively** assessed each of the metrics used according to:

- **Scale:** the level of importance attributed by stakeholders to each impact, risk and opportunity. We obtain this information through consultations and studies performed via our various engagement channels for customers, employees, suppliers, society, analysts, investors, insurance and competing companies.

The results were obtained from the following sources:

- **Customers:** the importance attributed by our customers in the multi-channel relational survey.
- **Suppliers:** 2023 Supplier Survey.
- **Employees:** Telefónica Annual Motivation Survey.
- **Analysts and investors:** analysis of questions and feedback from investors and ESG analysts 2023.
- **Society:** weightings given by the public in the survey performed for RepTrak.
- **Insurance:** weight given by insurance analysts to sustainability issues in our sector.

- **Peers:** to estimate the importance of ESG issues for companies in our sector, we compared and contrasted the result of their materiality analysis.

- **Interviews** with internal and external stakeholders as part of the environmental and human rights impact assessment process.

More information is provided in the **Stakeholder engagement section** later on in this chapter.

- **Scope:** To evaluate the extent of the impact, we took into account the assessments performed in previous processes (the Human Rights and Environmental Impact Assessment, the Due Diligence Analysis and our Socioeconomic Contribution Report) and assigned the following scale:

Assessment	Scope of impact	Definition
5	Global	Affects several regions
4	Regional	Affects a number of countries
3	National	Has an impact at country level
2	Local	Specific impact

- Economic assessment:** for **positive impacts**, we took our Socioeconomic Contribution Report 2023 as a basis and analysed and quantified the impact of our activities on society and the environment. The **risks and opportunities** metric is determined by the negative or positive financial impact that the risks or opportunities may generate for the Company. These values are provided by the Group's risk model (in the case of risks) and the Company's strategy area (in the case of opportunities). The strategy area determines the values based on a thorough analysis backed by objective and quantifiable data.
- Likelihood:** the probability that the previously identified impacts, risks and opportunities will occur. This is determined by the human rights and environmental impact assessment (in the case of potential negative impacts), the Company's risk model (in the case of risks) and the likelihood of opportunity capture as determined by the strategy area (in the case of opportunities). The following thresholds were established:

Likelihood	Thresholds
Very probable	81-100%
Probable	51-80%
Very possible	31-50%
Possible	11-30%
Remote	0-10%

Remediability: the parameter of remediability applies to negative impacts only and is determined based on whether action is required to mitigate the negative impact or whether it cannot be remedied by any action.

D. Determination of material issues

The evaluation of the topics and sub-topics is determined by the estimated values of each of the impacts, risks and opportunities.

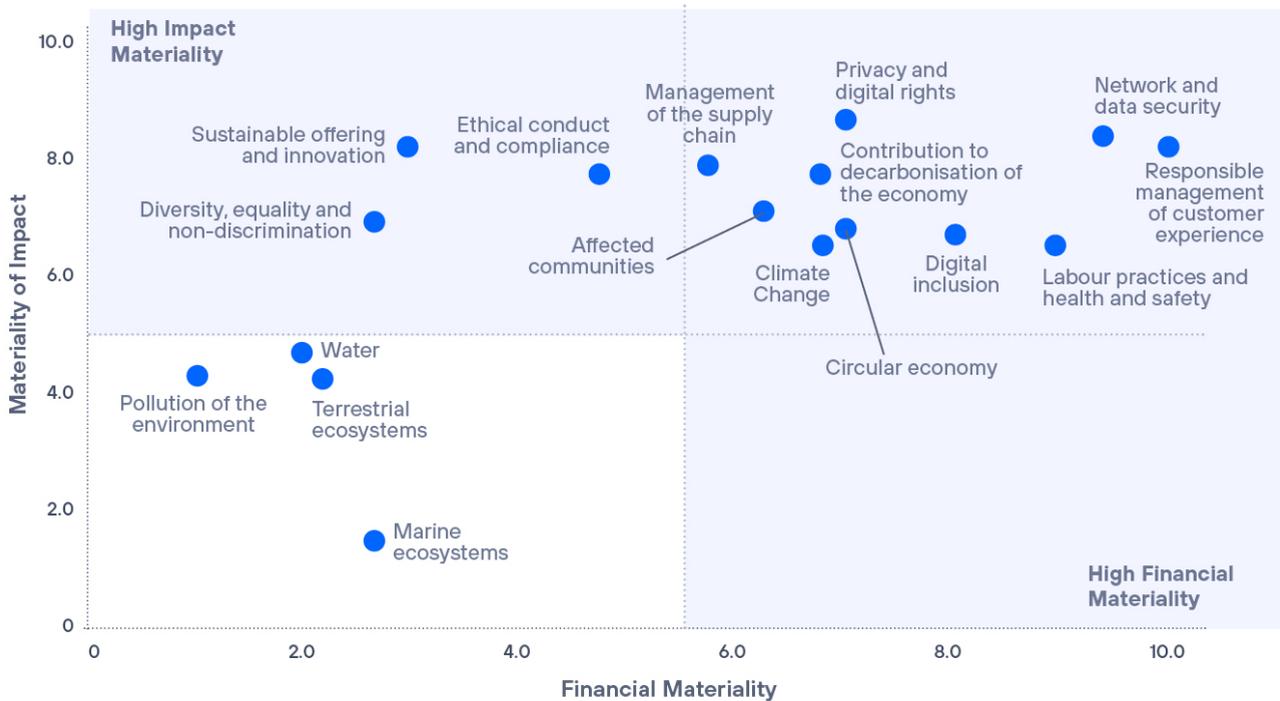
The final determination of materiality is established by comparing these evaluations with the materiality thresholds set for this purpose. Thus, all those topics which obtain a score of over 60% of the maximum value of the topics evaluated in either of the two perspectives (impact and financial) are deemed to be material.

E. Oversight and validation of materiality

In this step we presented and cross-checked the results obtained. This was done in conjunction with all the areas at a global level that took part in the process, as well as with various managers and internal bodies, such as the Executive Committee and the Sustainability and Regulation Committee

1.4.3. Double materiality matrix

Altogether, the steps described above produced a **double materiality matrix from a global perspective** that was based on the impact that ESG issues have on Telefónica's value and on Telefónica's impact on society and the environment. The result provided the basis for the Consolidated Management Report 2023.



This analysis is integrated into the Sustainability Strategy, leads to the establishment of objectives, policies and action plans and serves as a tool that supports our internal management of sustainability.

All the material issues identified are defined in section 2.20.3 Material issues, and the information presented on the impacts, risks and opportunities of each issue can be found in the corresponding section of each chapter.

Four topics have been identified as highly relevant for the Company: responsible management of the customer experience, network and data security, digital inclusion and contribution to decarbonisation of the economy. On the other hand, water, pollution on the environment, terrestrial ecosystems and marine ecosystems are considered non-material.

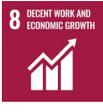
For more information on non-material issues, see chapter Biodiversity, water and other environmental aspects.

 For further information, see 2.4.4. Impacts, risks and opportunities

1.4.4. The materiality matrix in detail

GRI 3-2

Material issue	Materiality of Impact	Financial Materiality	SDG	Chapter of the Report	Main KPIs
Responsible management of the customer experience	●	●		2.10. Responsibility to the customer	<ul style="list-style-type: none"> eNPS Digital channels - total customers
Network and data security	●	●	 	2.18. Privacy and security	<ul style="list-style-type: none"> Number of people attending training courses on information security/cybersecurity Number of internal audit days dedicated to security / cybersecurity issues. Security Operation Centres (SOCs)
Privacy and digital rights	●	●		2.18. Privacy and security	<ul style="list-style-type: none"> Total number of confirmed fines for privacy/ data protection issues Number of training hours spent on privacy/ data protection courses
Digital inclusion	●	●	 	2.12. Digital inclusion	<ul style="list-style-type: none"> Percentage of mobile coverage in rural areas within major markets Universal Service - financial resources Number of people benefiting from digital skills training programs
Labour practices and health and safety	●	●	 	2.5. Human capital 2.6. Attraction, retention and talent development 2.8. New ways of working 2.9. Safety, health and well-being at work	<ul style="list-style-type: none"> eNPS Upskilling/reskilling training Percentage of employees with a hybrid work model Percentage of all employees covered by collective bargaining agreements Coverage by the occupational health and safety management system Total average remuneration
Contribution to decarbonisation of the economy	●	●		2.2. Energy and climate change 2.11. Sustainable offering and innovation	<ul style="list-style-type: none"> Solutions verified as Eco Smart (%) Avoided emissions for customers (MtCO₂e) Operations in which Telefónica has implemented Eco Rating (%)
Circular economy	●	●		2.3. Circular economy	<ul style="list-style-type: none"> Waste recycled (%) Refurbished/reused Customer Premises (CPEs) (units) % of electronic equipment purchases with circularity criteria
Responsible supply chain management	●	●		2.19. Responsible supply chain management	<ul style="list-style-type: none"> Number of on-site human rights audits of suppliers (labour issues, child/forced labour, health and safety, privacy and security) Number of suppliers identified as suppliers with real and potential significant negative social impacts Number of audits on risk suppliers

Material issue	Materiality of Impact	Financial Materiality	SDG	Chapter of the Report	Main KPIs
Climate change				2.2. Energy and climate change	<ul style="list-style-type: none"> Total energy consumption (MWh) Percentage of renewable energy Percentage of renewable electricity at owned installations
Affected communities				2.14. Human rights	<ul style="list-style-type: none"> % of operators subjected to a human rights impact assessment
Ethical conduct and compliance				2.15. Governance and culture of sustainability 2.16. Ethics and compliance 2.17. Fiscal transparency	<ul style="list-style-type: none"> Number of operations assessed for corruption-related risks Number of material legal proceedings in progress in relation to anti-competitive infringements during the last fiscal year Profit or loss before tax
Sustainable offering and innovation			 	2.11. Sustainable offering and innovation	<ul style="list-style-type: none"> Percentage of products and services that meet health and safety standards
Diversity, equality and non-discrimination				2.11. Diversity and inclusion	<ul style="list-style-type: none"> Pay gap % Women in management positions Number of employees with disabilities



1.4.5. Stakeholder engagement

GRI 2-29

Our commitment and stakeholder engagement strategy is based on increasing transparency and effective dialogue to build relationships of trust.

These relationships enable us to determine which topics are considered most significant by our stakeholders and to identify new trends in the field of sustainability. The significance of these topics is an essential part of the impact, risk and opportunity assessment within the double materiality process, and that significance is included in the assessment criteria. This process enables us to set our short-, medium- and long-term targets and to define the Responsible Business Plan, as well as to monitor our ability to meet our stakeholders' expectations.

Our stakeholder management is based on:

- **Collaboration:** we foster cooperation with our stakeholders in order to advance towards achieving our purpose and contribute to the Sustainable Development Goals (SDGs).
- **Continuous improvement:** we regularly review our stakeholder communication mechanisms to make engagement as easy, effective and collaborative as possible, in accordance with the needs at any given time.
- **Consensus:** we strive to create shared value by participating in industry organisations' working groups and taking into consideration the points of view and expectations of local communities.
- **Transparency:** we share truthful, relevant, complete, clear and useful information.

At Telefónica we have regulations that govern information shared with markets and other stakeholders in order to guarantee that the information is known, thereby maximising the reach and quality of this content.

Below are the main publications that report on our activities and help to ensure clear and transparent communication:

- Consolidated Management Report.
- Quarterly results presentations.
- Prospectuses, mainly those meeting legal requirements in the markets where Company shares are traded (20F or Registration Document).
- All our policies are public and available on the Telefónica website.
- Publications on the global and local Telefónica websites.
- Social media presence: Facebook, Instagram, LinkedIn, TikTok, Twitter, WhatsApp and YouTube.
- **Consultation and participation:** we maintain ongoing conversations with our stakeholders through active listening, the promotion of two-way and effective communication, and direct, fluid, constructive, diverse, inclusive and inter-cultural dialogue that enables us to understand their expectations and address their priorities.

This ongoing dialogue **forms part of our daily operations** and is built around each of the interactions that stakeholders have with us through the different channels.

[For further information, see 2.20.1. Telefónica stakeholders](#)

By constantly monitoring the main channels for dialogue with major stakeholders, allows us to measure the impact of our relations with and commitment to them, and can thus **establish action plans** to meet needs, boost positive impacts and avoid or mitigate any that are negative. This enables us to know how important ESG aspects are to our stakeholders, and we include the level of importance attributed to each impact, risk and opportunity in our assessment of the scale.

Below is a list of the main communication channels:

Stakeholder communication channels

Stakeholder	Channel for dialogue	Impact KPI	2022	2023
Customers	Movistar Spain Contact Centre (1004)	Unique customers served (annual average)	729,348	570,145
	Digital channels	Total customers ¹	2,686,123	2,456,269
	Multi-channel relationship survey	Number of surveys completed	More than 36,000	More than 170,000 ²
Employees	eNPS	Response rate	83%	82%
	Workplace	Percentage of active monthly users	75%	73%
Strategic partners suppliers	Supplier survey	Satisfaction index	n.a. ³	8.3 ⁴
Shareholders and institutional investors	General Shareholders' Meeting	Number of shareholders in attendance	82 (Telematic)	84
	Engagement activities	Meetings with minority shareholders	104	105
		Roadshows and conferences (institutional investors)	23	21
		Minority shareholders	14,000	16,351
		Institutional investors	725	580
Society	Reputation	Number of RepTrak interviews completed	49,270	51,178
	Social media	Millions of followers of @Telefonica's exclusive accounts (LinkedIn, Twitter, Facebook, Instagram, YouTube and TikTok)	2.4	2.6
Government entities and regulators	Meetings with EU institutions	Average number of meetings OTTs Telecoms	Media OTTs: 14,4 Media Telecoms: 10,8	Media OTTs: 22.2 Media Telecoms: 8.6
Opinion leaders, the media and communication services	Press releases, interviews, invitations and responses to the media	Communication management processes (vs. 2018)	35,713	44,251

¹ Telefónica Spain customers who contact us through the website and via the app after logging in.

² Daily surveys completed by our customers in Spain, Brazil, Germany and Hispam, in which they are asked about their overall experience with Telefónica. Among other aspects, they are asked about the ease with which our customers resolve an issue through our contact channels (Customer Effort Score). The 2022 data does not include Hispam. For comparability purposes, the 2023 data without Hispam is > 44,000 surveys.

³ In 2023, we conducted a survey of key suppliers to find out their level of satisfaction, and the extent of the impact Telefónica's business has on them. The survey targeted approximately 6,800 suppliers. This indicator is not comparable with the one reported in 2022 due to a change in the consultation methodology.

⁴ Score of 8.3 out of 10.

1.5. Strategy

Key points

Growth

thanks to our network and differential attention in B2C, the digitalisation of companies and the expansion of the wholesale business with new services.

Profitability

driven by the efficiencies resulting from the Company's technological and energy transformation and circular practices.

Sustainability

with the reduction of leverage and the creation of value for stakeholders through an attractive dividend and ambitious ESG objectives.

1.5.1. GPS: a stronger and more ambitious company

In 2016 Telefónica stepped up the transformation process it had begun years before, accelerating its transition from a traditional voice services operator to a technology company. In 2019 we adopted a new five-pillar action plan that redefined our organisational structure and accelerated our transformation. The Company has surpassed the targets set:

- We have strengthened our main operators in the markets in which the Company has its most significant presence (Spain, Brazil, UK and Germany), thereby moving towards a long-term sustainable model.
- We are capitalising on growth opportunities in digital professional services through Telefónica Tech, which has become a driver of growth across our B2B activities.
- Through Telefónica Infra we have maximised the value of our infrastructure assets, selling assets at the right time, achieving significant multiples and accelerating fibre deployments through agreements with financial partners.
- Telefónica Hispanoamerica is on its way to financial sustainability thanks to differential regional management that focuses on efficiency and shared network costs. As a result, we have reduced our exposure and risk in the region.

- The implementation of a new operating model has contributed to further streamlining and improving the efficiency of our organisation, enhancing our operating leverage.

The fruits of this transformation are clear to see from the significant increase in network quality and customer satisfaction, the shift in the revenue mix towards digital products and services, and a return to more profitable and sustainable growth.

Telefónica's new plan follows a major transformation process that has enabled the Company to raise its ambitions and prepare for its centenary celebrations.

New GPS strategic program



Growth	Profitability	Sustainability
B2B, B2C, Partners	Improved performance	Leverage reduction + Value creation

Key factors

- 1 Sustain B2C revenue growth
- 2 Keep above-industry B2B momentum
- 3 Evolve wholesale and partners' revenues
- 4 Drive efficiencies to reduce OpEx
- 5 Sustain differentiation while reducing CapEx

The **GPS** plan is based on five key factors:

1. **Maintaining B2C revenue growth** by implementing a strategy aimed at attracting and retaining customers through attractive propositions that leverage the quality of our network and product offerings with integrated services beyond connectivity. The strategy will be delivered through B2C digital ecosystems and by capitalising on the strong and trusted brands we have in our markets.
2. **Sustaining the momentum of the B2B business.** The needs of our B2B customers have evolved; they now require advanced solutions beyond connectivity. This change has led to a significant increase in market potential and growth opportunities. **Telefónica Tech**, which has established itself as a leading provider of advanced solutions (cloud, cybersecurity, Internet of Things (IoT), big data) and professional services, is well positioned to capitalise on this change, also offering sustainable services with environmental benefits and more accessibility. To this end, we will focus on further expanding our portfolio of solutions to support our customers as they digitalise their businesses.
3. **Developing wholesale revenues and revenues from the Company's partner agreements** into a valuable revenue stream that optimises network utilisation, provides access to different customer segments and contributes to the return on investment of our networks. To this end, we have designed a customised plan for strengthening our wholesale business in each of our main markets (Spain, Germany, Brazil and UK). In addition to the traditional wholesale business, we are

implementing new services and entering fast-growing markets such as Network as a Service, aiming to attract software developers and integrators as new customers, thereby allowing us to expand the API-based market through the **Open Gateway** initiative.

4. **Achieving efficiencies that help to reduce the cost structure** through technological transformation. Next year, Spain will be the first country in the European Union to shut down its old copper network and switch to full fibre optic networks, which are more cost-effective due to their energy efficiency and lower operational and maintenance costs. In addition, Telefónica is continuing to switch off 2G and 3G networks across its coverage area and driving circularity. In terms of operational efficiency, the integration of artificial intelligence (AI) and automation into our organisation will result in a more efficient and faster execution of our services, allowing us to become an agile company adapted to the demands of the future.

5. **Reducing levels of investment activity but maintaining Telefónica's unique profile** by capitalising on early investment in fibre and 5G and the conclusion of the main 5G spectrum auctions. This will allow us to move past the Company's CapEx peak while continuing to optimise network deployments through agreements with investment partners and Telefónica Infra. Meanwhile, Telefónica has reaffirmed its continued commitment to technology, software and AI investments that support the Company's historically unique profile by ensuring a strong position in terms of both advanced infrastructure and the ability to lead change in the future.

Telefónica is ready and committed to achieving its renewed ambition and leading the future. In this regard, the GPS plan incorporates specifically designed actions in each of the Company's four major markets:

- In **Spain**, the focus will be on continuing to grow B2C revenues by capitalising on our premium consumer segment and accelerating our B2B momentum while advancing operational leverage through efficiencies, copper shutdown, automation and optimising the size of the organisation. In addition, thanks to early investment in fibre, we will continue to optimise the level of our investment activity.
- In **Brazil**, we remain in a strong position in a growing market and are looking to broaden our customer base and expand our margins by developing a complete portfolio of digital services for the B2C and B2B segments. We're continuing to roll out the fibre network at a rapid pace, using sharing models that allow for quick and cost-effective deployment.

- In **Germany**, we continue to enjoy steady growth thanks to improvements in network quality and attractive commercial propositions. Our goal is to maintain our momentum in the consumer segment while stepping it up in the enterprise segment. We have implemented plans to mitigate the loss of the wholesale contract at the same time as we ramp up efforts to transform and simplify the business in order to reduce costs. In addition, in November 2023, we submitted a voluntary partial tender offer to the shareholders of Telefónica Deutschland Holding AG (Telefónica Germany) as a result of which we have acquired 93% of the shares. Thus, we reinforce Telefónica's strategy of focusing on our core geographic markets and our firm commitment to the German telecommunications market, which is one of the most attractive and stable in Europe
- Lastly, in UK we will continue to focus on B2C growth through fixed-mobile convergence and to boost our unique commercial standing through digitalisation and AI. We will also continue to pursue synergies and optimise CapEx through the Nexfibre vehicle as we decommission old technologies; for example, the 3G network shutdown is planned for 2025.

Our GPS plan also introduces new features into the financial reporting system with the aim of simplifying concepts and reinforcing our commitment to transparency vis-à-vis the market. Guidance is therefore now expressed in reported terms and a new benchmark for cash flow generation is used, among other changes.

Telefónica also expects a positive change in the net financial debt ratio and remains committed to shareholder value creation, guaranteeing a **minimum dividend payment of €0.30 per share during the 2023-2026 period.**

Telefónica is presenting these targets at a time when its financial fundamentals are stronger and more resilient and when it has a bespoke value creation strategy and a strict capital management policy, which has made it easier to set more ambitious and robust targets. The Company has a strong balance sheet that enables it to cope with a dynamic macroeconomic environment and gives it the flexibility to access financial markets. It also has sufficient liquidity to handle the current maturity schedule.

1.5.2. Sustainability integrated into Telefónica's strategy

GRI 2-22

Telefónica **incorporates all the main aspects of sustainability into its strategy**, aligned with the double materiality analysis. These ESG commitments are reflected in the **2024-26 Responsible Business Plan**, which follows the GPS framework (growth, profitability and sustainability):

Growth

In order to drive the sustainable growth of our Company, we focus on strengthening our customer relationships. That is why we plan to implement a new global customer responsibility policy aimed at building unique experiences that are underpinned by sustainable communication.

In addition, we seek to expand our range of products and services by capitalising on the opportunities offered by an ESG perspective. This approach involves promoting Eco smart products, encouraging responsible design practices and boosting digital inclusion through the development of accessible solutions with a positive social impact. Through these initiatives, we seek not only to set ourselves apart in the market, but also to build stronger and longer-lasting relationships with our customers.

Profitability

In order to generate a higher return on our investments, we aim to optimise how we use our assets. This involves decarbonising our operations and reducing our energy consumption by using renewable sources and applying energy efficiency practices. We also seek to promote the circularity of our processes in order to explore new business models (reuse of customer equipment and mobile devices) and generate efficiencies.

Meanwhile, we are working to incorporate sustainability criteria into our financing. This has resulted in the creation of new financial instruments linked to ESG targets and an increase in the proportion of financing linked to sustainability projects.

Sustainability

In order to ensure that sustainability is a driving force for Telefónica's value creation, we have undertaken management commitments that enable us to be positioned as leaders in the diverse ESG ratings of reference.

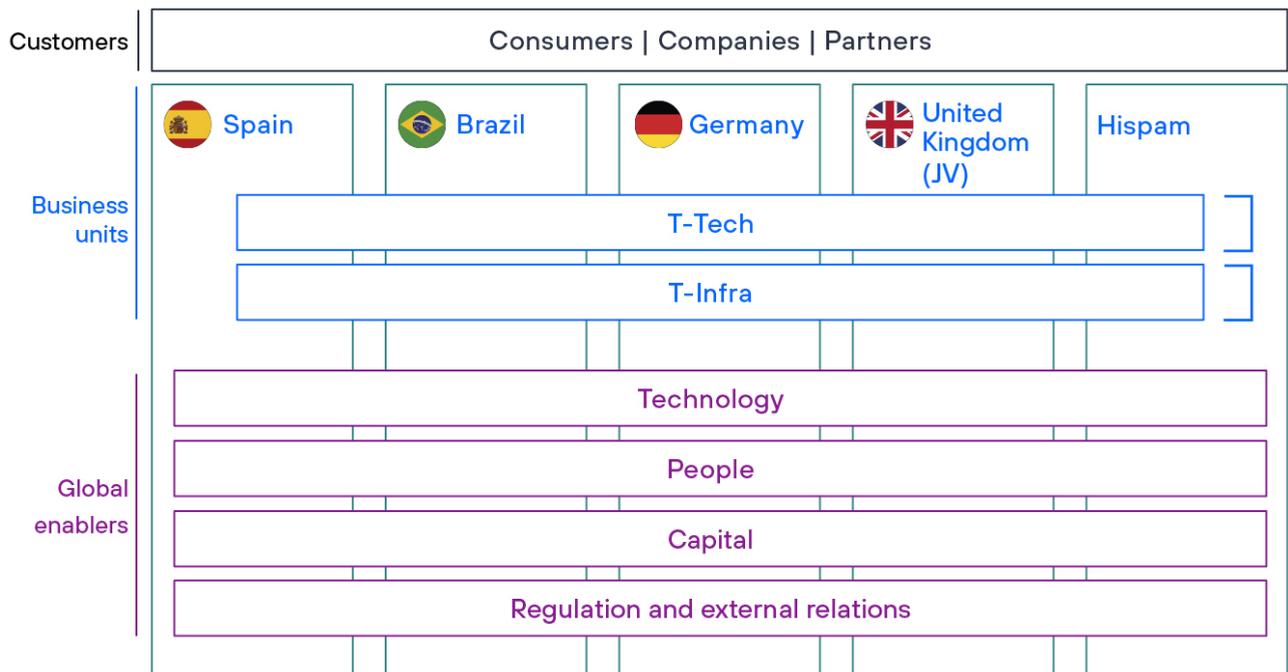
To achieve this, we emphasise the importance of promoting excellence in governance and accountability, underpinned by a strong ESG culture. We also implement extensive due diligence processes to ensure sustainable management throughout our value chain.

Ultimately, we reinforce our commitment to human talent through practices that prioritise employee well-being, enhance their skills and promote diversity.

1.6. Organisation

GRI 2-6

Telefónica's organisation



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).

1.6.1. National 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.

1.6.2. Global businesses

In November 2019, Telefónica changed its business strategy, making five key decisions for the Company's future development. These included the creation of two independent global businesses, with the aim of **accelerating growth and maximising the value of our infrastructure**.

- **Telefónica Tech**: 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.

Security services

Key indicators	2023
Total number of external audits performed on Product and Service Security (Telefónica Tech)	6
Number of Digital Operational Centres (DOCs)	2

Telefónica Tech's capabilities			
~6,300 professionals all highly qualified	60 nationalities diversified team	~80% resources located in Europe	>4,000 certifications in third-party technologies
2 DOCs ¹ + 1 SOCs ² network 1) Digital Operational Centres 2) Security Operational Centres	>100 products 58% verified with the Eco Smart seal	>100M events cybersecurity events monitored	>30M lines of managed IoT connectivity

Telefónica Tech Products and Services		
HYBRID CLOUD Optimised infrastructure that drives innovation	CYBERSECURITY & NAAS Building a resilient business	
<ul style="list-style-type: none"> Multi-cloud transversal services Hybrid Cloud services Sovereignty Housing and Hosting IaaS PaaS CaaS 	<ul style="list-style-type: none"> Vulnerability Management Threat Intelligence Security Solutions Cloud Networking Protect Detect Respond & Recover Compliance 	
THE FUTURE OF THE WORKPLACE Reinventing digital workplaces	360° DIGITAL BUSINESS Growing together	
<ul style="list-style-type: none"> Contact Centre (CCaaS) and Omnichannel Meetings & Collaboration SaaS Secure MDM Virtual Desktop (VDI) 	<ul style="list-style-type: none"> Bundles for SMEs – (SaaS) Bundles for B2C Device as a Services – (DaaS) 	
INTERNET OF THINGS – MANAGED CONNECTIVITY Connecting your devices	INTERNET OF THINGS – SOLUTIONS Specialised knowledge & solutions per industry sector	
<ul style="list-style-type: none"> IoT Hardware Device Catalogue Design and manufacture of ad-hoc devices IoT Managed Connectivity (KITE) Global SIM 	<ul style="list-style-type: none"> IoT services of data integration in cloud IoT environments and configuration, operations & technical support Specialised SMART solutions per industry: Medical & Health, Smart Agro, Smart Buildings, Smart Cities, Smart Mobility, Smart Metering 	
BUSINESS APPS Boosting your business	AI & BIG DATA Transforming data into value	
<ul style="list-style-type: none"> Business Management (ERP) Customer Management (CRM) People & Talent (HRM) Automation of processes Improving workflows 	<ul style="list-style-type: none"> Artificial Intelligence Business Insights Tools & Infra Blockchain Data Services: Consulting, Academy, Governance, Analytics 	

In addition, all of our products and services receive comprehensive support through our cross-cutting capabilities in Consulting and Transformation Services, Professional Services, Managed Services, and Infrastructure and Integration. Our holistic approach ensures efficient synergies between all areas, from strategic consulting to implementation and ongoing management. This allows us to work cohesively to provide complete technology solutions, ensuring maximum value and performance for our customers and positioning Telefónica Tech as a trusted partner for long-term success.

 For further information, see 2.18. Privacy and 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).

1.6.3. 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.

1.7. Finance for the transition to a sustainable economy

Key points

~€18.8bn

in sustainable finance¹ at the end of 2023, positioning Telefónica among the sector leaders.

33.6 %

financing linked to sustainability criteria in Telefónica, representing an increase of 6.3 p.p. compared to 2022.

> 37%

of our institutional investors follow strict environmental, social and governance (ESG) criteria, representing an increase of 0.8 p.p. over the course of 2023.

1.7.1. Context

The European Union (EU) **Sustainable Finance Action Plan**, adopted in 2018, aims to reorient capital flows and align them with the needs of the economy in order to benefit the planet and society. Its main purpose is to **move towards a climate-neutral economy by 2050**. This plan is aligned with the targets of the Paris Agreement and the commitment to limit the temperature increase to 1.5°C.

In 2020 the EU agreed to reduce greenhouse gas emissions by 55% by 2030, which is expected to require an additional investment of approximately €700 billion per year².

At a time when not all the technologies needed for a sustainable economy are yet available on the market, the EU is **urging all financial market participants to support the funding of the transition** to a carbon-neutral economy, and to do so quickly enough to meet the EU's climate and environmental targets.

The transition offers **opportunities for those companies that are working to transform** their business activities but require further investment to do so, as long as their plans and targets are science-based and backed by information that ensures integrity, transparency and accountability.

In this regard, the **Recommendation on Facilitating Finance for the Transition to a Sustainable Economy**, published in June 2023 by the European Commission, invites investors and banks to assess transition and investment plans together with companies' extensive non-financial reporting when financing this transition through the capital market (bonds and other instruments) and green or sustainability-linked loans.

Investors followed very closely the latest developments related to the EU's **Sustainable Finance Disclosure Regulation (SFDR)**, which seeks to minimise the risk of greenwashing³ by investors and **encourage greater allocation of capital towards the climate transition and other sustainability goals**.

¹ Sustainable finance includes balance sheet debt (classified as current and non-current financial liabilities), hybrid instruments and undrawn committed credit lines. Our sustainability criteria are defined in line with our Sustainable Finance Framework, following ICMA, LMA, APLMA, LSTA and other recognised standards, as well as other applicable ESG criteria depending on the financial instrument and the issuance, and not necessarily aligned with the requirements of the EU Taxonomy Regulation.

² COMMISSION RECOMMENDATION (EU) 2023/1425 of 27 June 2023 on facilitating finance for the [transition to a sustainable economy](#).

³ The European Supervisory Authorities (ESAs) understand greenwashing as a practice whereby sustainability-related statements, declarations, actions and/or communications do not clearly and fairly reflect the underlying sustainability profile of an entity, a financial product or a financial service. This practice may be misleading to consumers, investors and/or other market participants.

Source: <https://www.esma.europa.eu/press-news/esma-news/esas-put-forward-common-understanding-greenwashing-and-warn-risks>

Looking at the markets, geopolitical uncertainty and a backlash from some political quarters against ESG investing somewhat impacted the overall growth of the ESG market. Despite continuing to grow, it did so at a much slower pace than in the two previous years⁴.

Telefónica continues to monitor these regulatory and ESG market developments, allowing us to stay one step ahead and anticipate the information needs of investors and other stakeholders, which is key to consolidating our leading position in sustainability and transparency.

1.7.2. Climate transition finance strategy

Telefónica's main finance commitment centres on mitigating the impact of our operations and therefore contributing to the green and digital transition in all sectors. Connectivity and digitalisation are essential to making progress towards this climate transition.

In this regard, we have approved an ambitious Climate Action Plan that contains specific measures aimed at achieving our decarbonisation targets. These measures, which include the transformation of networks towards more efficient technologies and the use of renewable energy, are linked to Telefónica's strategy and investments.

The Climate Action Plan therefore sets out the **strategy for financing the transformation of our business and accessing sustainable sources of finance** with which to approach the transition.

 For further information, see 2.2 Energy and climate change

1.7.3. Financing tools

As part of Telefónica's finance strategy, the Group published its first **Sustainable Finance Framework** in 2018, which was subsequently updated in January 2021 and again more recently in July 2023. All updates have received independent positive Second Party Opinion from Sustainalytics. Accordingly, the framework supports the **issuance of bonds, hybrid instruments, loans and other financial instruments in a green, social and sustainable format**.

The framework is **linked to projects that are critical to the transformation** of the business, mainly through the deployment of high-speed networks that are more energy efficient and facilitate the implementation of smart solutions, thereby reducing the environmental impact on other sectors of the economy and society.

Telefónica was a pioneer in the capital market in terms of sustainable finance and stands out for the volume and diversification of its financial instruments. In 2019 it became the **first company in the telecommunications sector to issue a green bond, a green hybrid in 2020 and a sustainable hybrid in 2021**.

In addition to green senior bonds and hybrid instruments, we use **other sustainable financing tools linked to sustainability targets**, such as bank loans and credits or the issuance of local bonds. That allow us to continue making steady progress towards important corporate targets such as those relating to emissions reductions and gender equality.

These instruments (bonds, hybrid instruments and bank financing) are becoming **increasingly important in shaping the Group's financing structure and are voluntary tools recognised in the financial markets** for their role in fostering the transition to a more sustainable economy.

1.7.3.1. Progress in 2023

At the end of 2023, the Telefónica Group's sustainable finance⁵ activity amounted to €18.8 billion. This **represents 33.6% of total financing** and positions the Company among the market leaders in the global telecommunications sector in terms of issuance volume and diversification of instruments.

This percentage was also within the range of the 30-35% target set by the Company at the beginning of the year for 2024. As a result, the Company has announced an **updated target, aiming for around 40% of financing to meet sustainable criteria** by 2026.

Updating the financing framework⁶

In 2023 the [Sustainable Finance Framework](#) was updated to keep it in line with best market practices and investor expectations.

The framework is aligned with the four pillars that make up the International Capital Markets Association (ICMA)

Green Bond Principles and Social Bond Principles, updated in June 2023, as well as the external review component. As a new development, it also follows the Loan Market Association (LMA), Asian Pacific Loan

⁴ Morningstar 2023 Sustainable Fund Flows: <https://www.morningstar.com/lp/global-esg-flows>

⁵ Sustainable finance includes balance sheet debt (classified as current and non-current financial liabilities), hybrid instruments and undrawn committed credit

⁶ lines. Find more information at [Telefónica web in Sustainable Finance section](#).

Market Association (APLMA) and Loan Syndications and Trading Association (LSTA) Green Loan Principles and Social Loan Principles, revised versions of February 2023.

History of sustainable debt issuances



* Exchange rate at year-end 2023

Other key parts of the update:

- **Green projects related to the transformation and modernisation of telecommunications networks** that seek to improve energy efficiency, with an emphasis on fixed and high-speed mobile networks, **remain eligible**.
- The renewable energy category has been expanded and now also includes **long-term power purchase agreements** (PPAs) that meet a set of specific characteristics.
- With regard to **social projects**, socially vulnerable areas are included in the inclusive connectivity category to broaden the impact associated with deployment in these areas.
- In addition, the look-back period for the consideration of projects has been extended from 24 to 36 months prior to the issuance of the financial instrument.

Capital market

In 2023 activity in the green, social and sustainable bond market was lower than in the previous year. However, despite this backdrop, Telefónica successfully raised a total of **€2.6 billion of green debt on the capital market** during the year.

In January Telefónica re-entered the sustainable debt market with the issuance of a **green hybrid bond for an amount of €1 billion** and a maturity of 7.25 years. Later,

in September, a new **green hybrid amounting to €750 million**, with a redemption date of eight years was issued.

The Company also launched several bond repurchase offers at the time of these issuances and continues to proactively manage its hybrid capital base.

Telefónica received the Most Impressive Corporate Hybrid Capital Issuer 2023 award from Global Capital, one of the most important international publications in the sector.

In November, the Company also launched a 10-year **green bond for an amount of €850 million**.

The strong demand from investors for all issuances, mainly international, has also made it possible to increase the amount of financing obtained and to improve financing conditions significantly, with very competitive interest rates.

Lastly, in January 2024, Telefónica made a new green issuance of €1.75 billion, structured in two senior tranches of 8 and 12 years. This is the Company's largest issuance since 2020.

Loans and lines linked to sustainability targets

In terms of bank financing, in 2022 the **Group's main syndicated loan was refinanced at a corporate level for the amount of €5.5 billion**, of which the interest applied is linked to compliance with sustainability targets.

The first target relates to climate change mitigation and sets out a commitment to reduce absolute greenhouse gas emissions (Scopes 1 and 2) in line with the corporate targets defined on the road to net zero by 2040, validated by the Science Based Targets initiative (SBTi).

Having achieved the milestone target of 80% reduction of Scope 1 and 2 emissions the previous year, eight years ahead of schedule, in 2023 the Company decided to increase its goal to 90% by 2030. In line with the above, the indicator linked to lending was also updated.

The second target is linked to an increase in the number of women in senior management positions at our Company to 37% by 2027.

At the end of the year, Telefónica met the objectives committed to financial entities.

KPI	Benchmark value	2023
Reduction of Scope 1 and 2 greenhouse gases (%)	(Year 2015) 1.811.155	-81.4%
Women in senior management positions in the Group (%)	(Year 2020) 27,4%	32.8%

Committed bilateral lines operations with several financial entities reach a total volume of €4,032 million at the close of 2023, the interest applied to which is also linked to compliance with sustainability targets.

Sustainable finance at country level

This finance model has also been implemented in the countries in which the Group operates. In Brazil, **Vivo issued its first sustainability-linked bond (SLB)** in 2022 for a total amount of R\$3.5 billion (equivalent to €654 million using the 2023 year-end exchange rate). Financing costs are linked to compliance with environmental and social targets by 2027.

In **Colombia**, Telefónica has **loans amounting to \$1,098 billion COP** (equivalent to €260 million using the 2023 year-end exchange rate). These are related to, inter alia, the achievement of energy efficiency and cybersecurity training targets.

1.7.4. Impact of transition finance

In line with the Company's Climate Action Plan, the proceeds obtained are mainly used for **projects aimed at transforming and modernising** telecommunication networks **with a view to improving their energy efficiency and reducing their carbon footprint**, and thereby contributing to the transition to a sustainable economy. To measure their impact, Telefónica monitors the changes in the ratio of energy consumption per unit of traffic (MWh/PB), energy saved and emissions avoided.

From a social standpoint, the investment focused on **mobile broadband deployment projects in rural areas**. The impact of this is measured by the number of people who benefit and the total number of Telefónica users in these areas at the end of each period.

The allocation of funds and the associated environmental and social impacts are disclosed annually in accordance with the commitments made by Telefónica to its investors in each instance. In addition, and as required by the framework, all information is audited by an independent third party.

1.7.4.1. Progress in 2023

During the year the allocation to projects and the impact of the senior sustainable bond issued in May 2022 for €1 billion, the green hybrid bond issued November 2022 for €750 million and the green hybrid bond launched in January 2023 amounting to €1 billion were validated.

In total, **over €6 billion has been allocated to sustainable projects since 2016**. From an environmental perspective, it is important to point out that **more than 80% of the funds have been allocated to fixed and mobile network transformation projects**.

The relationship between the funds and the environmental and social impacts is as follows.

Sustainable issuances: use and impact of funds

ENVIRONMENT

Projects

Energy efficiency of network infrastructure Renewable energy Digital solutions for the environment

Main topics

Deployment of a more efficient network: fibre Use of more environmentally friendly energy Energy efficiency

Impacts¹

+470 mil tCO₂ avoided
 +2,000 GWh of energy saved

SOCIETY

Projects

Broadband deployment (mobile broadband) in unconnected areas Support for employment and

Main topics

Mobile connectivity in rural areas Closing the digital divide Creation of companies Job creation

Impacts²

+7,200 rural municipalities benefiting from BAM deployment and improvement
 143 companies receiving investment through Open Innovation
 +13 million average number of users benefiting from the deployment and improvement of mobile broadband in rural areas
 1.430 jobs created

Contemplated data:

¹ Cumulative environmental impacts of the bonds issuances whose allocation report have already been published: green bond issued in February 2019, green hybrid issued in February 2020, sustainable hybrid issued in February 2021, sustainable hybrid issued in November 2021, sustainable senior bond issued in May 2022, and the Telefónica's Green Financing Instruments 2023 Report.

² Social impacts calculated for the period 2019-2022.

1.7.5. Sustainable and Responsible Investment

Investors' and ESG analysts' positive perception of Telefónica's sustainability strategy and its implementation places our Company in a strong position for accessing ESG capital on the equity market as well as on the fixed income market, as mentioned above.

The SFDR represents an important milestone, now requiring investment funds that promote themselves as sustainable or ESG (investment funds focused on climate change solutions, ethical funds, etc.) to seek more quantitative and qualitative information on the companies in which they invest.

Telefónica has sought to anticipate the growing investor need for more in-depth sustainability disclosures by making its **Principal Adverse Impacts (PAIs)** available for the second consecutive year, and becoming one of the first companies to do so. Our PAI indicators are included in the Appendix (both the mandatory and

optional indicators), which investors can use to regularly monitor their investment portfolios.

For further information, see 2.20. Appendix

To ensure that Telefónica's ambitious sustainability targets benefit from this growing influx of sustainable investment, we are focusing on four main areas:

1. For the second consecutive year, Telefónica has published data on the **alignment of its activities with the EU taxonomy** alongside the eligibility analysis, which was published for the first time in 2021.
2. In addition, **we seek to continue to anticipate investors' needs** for additional disclosures from companies to help them comply with their own SFDR disclosure requirements.
3. To demonstrate our positive impact, we continue to assess our **sustainability impacts** through a [detailed sustainability impact assessment](#) based on the Sustainable Development Goals (SDGs). In addition, Telefónica has received endorsements from institutions

such as the World Benchmarking Alliance and Ranking Digital Rights, making it a leader in the sector.

4. Another fundamental pillar of the ESG investment strategy is our **proactive engagement with financial market participants**, in particular institutional investors, analysts and ESG information providers.

Our ongoing dialogue with these stakeholders is geared towards meeting their needs for sustainability-related information, listening to their changing expectations and keeping them up to date with Telefónica's sustainability strategy. This task is particularly important given the diverse set of criteria and weightings used in assessing our performance.

Our continual exchange of information and feedback with investors supports our drive for continuous improvement while strengthening our leadership position in matters of sustainability. This is ultimately reflected in our Company's ratings and our inclusion in ESG benchmark indices such as the Dow Jones Sustainability™ Europe Index.

+ For further information, see 1.9. Main indicators and footprint

Fonditel

The Company's commitment to sustainability can be demonstrated through its pension fund, Fonditel. Fonditel is the Telefónica Group's independent management company. It has over 30 years of experience in managing pension funds and investment funds that are tailored to the risk profile of its clients.

As part of its **Sustainable and Responsible Investment (SRI)** purpose, Fonditel is a signatory to the **United Nations Principles for Responsible Investment (UN PRI)**, which, together with the **SDGs**, form the fundamental pillars of its SRI philosophy, thereby contributing to the development of a more sustainable global financial system.

Fonditel sees the integration of ESG issues into its investment process as an opportunity and the best way to fulfil its fiduciary duty to its investors rather than something that is solely a regulatory requirement.

The events of recent years have only **strengthened the fund manager's belief that it must support the transition to a more sustainable world** and, as institutional investors, be an active part of it by

encouraging the **reorientation of capital flows towards socially responsible and eco-friendly activities** that are aligned with the **2030 Agenda**. With this in mind, Fonditel continues to develop investment funds linked to the SDGs that **have a positive impact on the environment and society in addition to the economic value of the investments**.

Looking ahead, Fonditel plans to continue to build on its commitment to sustainable and responsible investment with the aim of contributing to sustainable economic, social and environmental development and fostering a fairer, more inclusive and caring society. In doing so, it maintains its long-term vision, resolutely committed to continue generating sustainable returns for its customers.

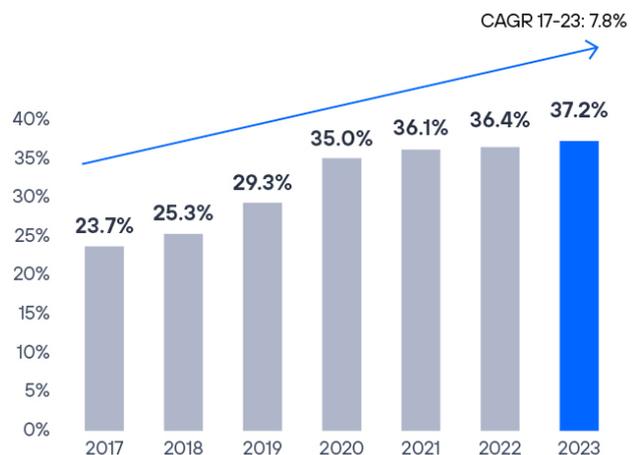
1.7.5.1. Progress in 2023

Sustainable and Responsible Investment (SRI)

There was a noticeable deceleration of capital flows to the ESG market during 2023. For example, according to Morningstar, sustainable funds decreased globally, from 161 billion USD to 63 billion during the year. Despite this trend, share ownership in Telefónica from institutional investors that consistently incorporate ESG criteria into their investment strategies continued to increase.

This is a useful indicator that confirms the growing importance of ESG factors in investment processes and the alignment of our sustainability strategy and performance with the expectations of these investors.

Percentage of shares incorporating ESG criteria over the total number of Telefónica shares managed by institutional investors⁷



⁷ Source of public information on institutional investor-owned shares in Telefónica according to FactSet. Analysis of the percentage of investment based on ESG criteria performed by Leaders Arena.

According to the latest third-party research, the percentage of Telefónica shares managed by institutional investors that apply ESG criteria has been increasing year on year since 2017.

By the end of 2023, this percentage had reached 37.2%, measured according to the publicly disclosed **total number of Telefónica shares managed by institutional investors** (institutional shares). This increase of 0.8 percentage points on the 36.4% recorded the previous year is to be welcomed, especially in the context of a generally slower ESG market.

In particular, it is interesting to note that within Telefónica's ESG equity investments, **investments managed by ESG thematic funds**, including those promoting environmental and social characteristics (Art. 8 SFDR) and those pursuing sustainability targets (Art. 9 SFDR), continued to grow. In 2023 the percentage of Telefónica shares managed through ESG investment funds reached **5.8%** of institutional shares in the Company, compared to 4.8% the previous year.

This steady growth in sustainable investment fund ownership serves to reaffirm our focus on continuing to communicate our ESG strategy and performance to the financial markets. We believe this long-term vision underpins Telefónica's differentiation against its peers as we continue to enhance the ESG market's positive perceptions of Telefónica based on our progress and sustainability reporting.

Over the long term, we expect that the sustainable investment market will continue to grow, and that European regulation will sustain this growth, albeit indirectly.

1.8. European Taxonomy for sustainable activities

Key points

New activities

In 2023, Telefónica is reporting new eligible-activities related to the transition to a circular economy objective.

ICT in the Taxonomy

The potential of the telecommunication networks with regard to climate change mitigation is not currently addressed by the Regulation.

Sector progress

The sector has submitted a proposal for the development of a new activity covering telecommunications networks, using the EU mechanisms.

1.8.1. Regulatory background

Taxonomy Regulation (EU) 2020/852 on the establishment of a framework to facilitate sustainable investment provides the regulatory basis for defining both a classification system and the requirements an economic activity must fulfil to be classified as sustainable. This Regulation was developed in the context of the **Action Plan: Financing Sustainable Growth** and the **European Green Deal** to promote the investment needed to achieve a competitive, circular and climate-neutral economy by 2050. The European Taxonomy aims to establish a common language for identifying sustainable activities consistently throughout the European Union.

The regulatory framework is complemented by delegated regulations and annexes that implement the provisions of the Taxonomy Regulation.

In particular:

- **Delegated Regulation (EU) 2021/2139** establishing the technical screening criteria for determining the conditions under which an economic activity qualifies as contributing substantially to climate change mitigation or climate change adaptation (as well as **Delegated Regulation (EU) 2022/1214** and

Delegated Regulation (EU) 2023/2485, which set out additional activities and criteria).

- **Delegated Regulation (EU) 2021/2178** specifying the content and presentation of information to be disclosed by undertakings.
- **Delegated Regulation (EU) 2023/2486** establishing the technical screening criteria for four additional environmental objectives: sustainable use and protection of water and marine resources; the transition to a circular economy; pollution prevention and control; and the protection and restoration of biodiversity and ecosystems.

The latter Regulation completes the legislative framework that sets out the requirements for determining the conditions under which an economic activity qualifies as being sustainable in relation to environmental objectives.

For the financial year covered by this Report, and as set out in this Regulation, only eligible activities related to these new objectives should be disclosed. The reporting of alignment shall take place from the following year onwards.

The European Commission has also published additional notices concerning the aforementioned Delegated Regulations, with the intention of reducing the

uncertainty surrounding the interpretation and application of this complex regulatory framework.

1.8.2. Scope of the report

The Regulation **applies to the activities carried out by Telefónica** across all its **fully consolidated** companies.

Environmental sustainability is part of the Company's strategy, as it is aligned with **global targets to reverse climate change**. To this end, the Company has a Climate Action Plan that aims to transform the organisation in order to reduce its impact and help its customers reduce their environmental footprint.

Deploying **state-of-the-art fixed and mobile telecommunications networks** (such as fibre optics or 5G) that are much more efficient in terms of energy consumption, and based on renewable electricity, reduces and contributes to climate change mitigation.

The **digital services** (such as cloud, Internet of Things (IoT) and big data) offered by the Company are not only aimed at making technology easier for our customers to use on a day-to-day basis, but also at benefiting the environment by reducing emissions when these services are provided through the Group's infrastructure.

Telefónica also promotes the transition to a **circular economy**, based on environmental design criteria, reuse and recycling as part of its program to become a Zero Waste company.

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

For further information, see chapter 2.3. Circular economy

1.8.3. Vision and scope of the Taxonomy

Some of Telefónica's digital solutions are covered by the Taxonomy because of their **climate change mitigation potential**. According to **ETNO and BCG¹**, the sector has the potential to reduce global CO₂ emissions by up to 15% through the complete digitalisation of other sectors (e.g. transportation and energy, smart buildings and cities, and based on solutions

such as blockchain applications, etc.). Other **studies**, e.g. the Exponential Roadmap², indicate that digital technologies can indirectly support a further reduction of up to 35% when criteria such as changing consumption habits over the coming years are considered.

Following the approval of the four additional objectives, and specifically the one concerning the **transition to a circular economy**, the Company also intends to make a valuable contribution in this regard. Telefónica is working on **initiatives to promote circularity** in collaboration with other sector stakeholders and is aligned with the GSMA-defined commitments for 2030 to **reuse and recycle 100% of network equipment and mobile devices collected**, as well as to take back 20% of used mobile devices from customers.

1.8.4. Methodology and results

1.8.4.1. Understanding the taxonomy requirements

According to Article 8 of the Taxonomy Regulation, **non-financial undertakings must disclose** the following information for each of the environmental targets set out in the Regulation, and as provided for in Annex I of Delegated Regulation (EU) 2021/2178:

- The proportion of their **turnover** derived from Taxonomy-eligible and Taxonomy-aligned activities.
- The proportion of their **capital expenditure** (CapEx) derived from Taxonomy-eligible and Taxonomy-aligned activities.
- The proportion of their **operating expenditure** (OpEx) derived from Taxonomy-eligible and Taxonomy-aligned activities.
- **Explanatory information** accompanying the relevant KPIs:
 - Accounting policy.
 - Assessment of compliance with the Taxonomy Regulation.
 - Contextual information.

The Regulation also specifies³ that qualitative explanations and quantitative breakdowns must be provided in the event of any change in the approach and methodology used previously, along with comparative figures and sufficient information to be able to trace the trends of the data provided.

¹ Connectivity & Beyond: How Telcos Can Accelerate a Digital Future for All. ETNO and Boston Consulting Group. March 2021.

² Exponential roadmap. Scaling 36 solutions to halve emissions by 2030. Version 1.5.1.

³ As indicated in point 1.2.3.1, sections a) and c) of the Delegated Regulation (EU) 2021/2178.

For the **eligibility and alignment analysis exercise**, Telefónica has adopted the following methodological approach:

1. **Assessment of eligibility** of the Company's activities. This is an analysis of the accounting items relating to the three KPIs based on the description of activities provided in Annexes I and II to Delegated Regulation (EU) 2021/2139 and Annexes I to IV of Delegated Regulation 2023/2486.
2. Assessment of the **technical screening criteria for substantial contribution** laid down in Delegated Regulation (EU) 2021/2139. Not applicable until 2024 for the objectives in Delegated Regulation (EU) 2023/2486.
3. Assessment of the **"do no significant harm"** (DNSH) criteria regarding the other environmental targets provided in Delegated Regulation (EU) 2021/2139. Not applicable until 2024 for the objectives in Delegated Regulation (EU) 2023/2486.
4. Assessment of compliance with **social minimum safeguards** according to:
 - Platform report on Social Minimum Safeguards.
 - OECD Guidelines for Multinational Enterprises.
 - United Nations Guiding Principles on Business and Human Rights (including the principles and rights included in the International Labour Organization's eight core conventions as set out in the Declaration on Fundamental Principles and Rights at Work and those expressed in the International Bill of Human Rights).
5. Calculation of the percentages of each of the three **KPIs** of Taxonomy-eligible and Taxonomy-aligned economic activities (i.e. that comply with points 2, 3 and 4).

Below is a description of the **process for calculating the three KPIs**. Also covered below are the key aspects related to **accounting policy, compliance with the Taxonomy Regulation** and **contextual information** to support an adequate understanding of the indicators.

1.8.4.2. General considerations

In order to calculate the revenue, CapEx and OpEx indicators, Telefónica uses the information from the local and/or global database for the different **business units**.

Information on the VMED O2 UK joint venture is excluded from the scope as the Company is not fully consolidated.

Transactions between Group companies were analysed for identification and traceability purposes. However, they are not included in the calculation as they are excluded from full consolidation due to being intercompany transactions.

Due care was taken to **avoid double counting** throughout the entire process:

- a. **Reconciliation with accounting information**, which ensures appropriate consideration of eliminations and adjustments on consolidation.
- b. **Use of consistent information sources**, which prevents the same item from being considered under two different KPIs or twice under the same KPI.

c. Verification of the completeness and accuracy of the data.

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

- Activities that can make a substantial contribution to **climate change mitigation** (CCM according to the defined nomenclature of the Regulation):
 - **Activity 8.1.** Data processing, hosting and related activities.
 - **Activity 8.2.** Data-driven solutions for GHG emissions reductions.
- Activities that can make a substantial contribution to the **transition to a circular economy** (EC according to the defined nomenclature of the Regulation):
 - **Activity 5.1.** Repair, refurbishment and remanufacturing.
 - **Activity 5.4.** Sale of second-hand goods.
 - **Activity 5.5.** Product-as-a-Service and other circular use- and result-oriented service models.

The analysis also assessed activities 4.1. Provision of IT/OT data-driven solutions for leakage reduction (water) and 4.1. Provision of IT/OT data-driven solutions (circular economy). However, these activities are not reported independently in the disclosure templates for the following reasons:

- Telefónica's solutions are related to the description of the activities but are part of a broader group of solutions.

- These solutions are covered by the scope of activity 8.2.

In addition, **other secondary activities mainly related to energy efficiency and sustainable mobility were identified**. These activities correspond to individual measures in the Taxonomy Regulation.

These activities are:

- **Activity 6.5.** Transport by motorbikes, passenger cars and light commercial vehicles.
- **Activity 7.3.** Installation, maintenance and repair of energy efficiency equipment.
- **Activity 7.4.** Installation, maintenance and repair of charging stations for electric vehicles in buildings.
- **Activity 7.5.** Installation, maintenance and repair of instruments and devices for measuring, regulation and controlling energy performance of buildings.
- **Activity 7.6.** Installation, maintenance and repair of renewable energy technologies.
- **Activity 7.7.** Acquisition and ownership of buildings.

Among the activities reported in the 2022 financial year as having the potential to make a substantial contribution to climate change adaptation were:

- Activity 8.3. Programming and broadcasting activities.
- Activity 13.3. Motion picture, video and television programme production, sound recording and music publishing activities.

In 2023, the conclusion reached after a more in-depth analysis of the audiovisual content identified in the 2022 Report was that content associated with the two activities is not eligible and therefore does not make a substantial contribution to the target of climate change adaptation. The content that could potentially be included in these activities does not primarily aim to increase the level of resilience to physical climate risks, contribute to adaptation efforts or substantially contribute to preventing or reducing the potential impacts of current and future climate risks regarding people, nature, cultural heritage, assets and other economic activities.

For this reason, no indicators associated with these two activities are reported for 2023, nor did we carry out the analysis of compliance with technical criteria or the DNSH principle.

In line with the above, and for comparability purposes, the 2022 figures have been restated considering additionally the inclusion of OI assets, the Incremental Group and the Be-Terna Group, and the update of Argentina's inflation adjustment.

1.8.4.3. Proportion of turnover derived from Taxonomy-eligible and Taxonomy-aligned activities

This KPI shows the relative weight of turnover derived from **products or services associated with economic activities covered by the Taxonomy over total turnover**⁴. For the economic activities to be Taxonomy-aligned, they must also meet the related technical screening criteria.

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

Revenues are classified, according to their nomenclature and codes in the tables, under the following headings:

- **A.1. Revenues from Taxonomy-eligible and Taxonomy-aligned activities (656 million euros):** from digital services/solutions providing data and analysis that enable the reduction of GHG emissions associated with other activities (CCM 8.2.).
- **A.2. Revenues from Taxonomy-eligible but not Taxonomy-aligned activities (1,757 million euros):** from cloud services made available to users via the Internet, facilitating the storage of user data in data centres (858 million euros) (CCM 8.1.); revenues from the maintenance and repair of customer equipment (21 million euros) (CE 5.1.), the sale of second-hand mobile handsets (32 million euros) (CE 5.4.), the rental of equipment necessary for the provision of services and the leasing of mobile handsets (829 million euros) (CE 5.5.); as well as the installation and maintenance of solar panels (17 million euros) (CCM 7.6.).
- **B. Revenues derived from Taxonomy non-eligible activities (38,239 million euros):** from connectivity solutions provided through state-of-the-art⁵ data transmission networks and other networks⁶ and revenues from voice and television services, new handset sales and digital services/solutions that do not reduce GHG emissions associated with other activities.

⁴ See Note 26 to the Consolidated Financial Statements.

⁵ Fibre fixed network, 4G and 5G mobile networks.

⁶ Mainly copper fixed network, 2G and 3G mobile networks.

Turnover information is presented below, taking into account the templates per environmental objective (footnote c)⁷ and activity breakdown, in accordance with Annex V of Delegated Regulation (EU) 2023/2486.

Table per environmental objective according to footnote (c)

	Proportion of turnover/Total turnover	
	Taxonomy-aligned per objective	Taxonomy-eligible per objective
CCM	1.6 %	3.8 %
CCA	0 %	0 %
WTR	0 %	0 %
CE	0 %	2.2 %
PPC	0 %	0 %
BIO	0 %	0 %

⁷ The codes represent the abbreviation of the objectives: – Climate change mitigation: CCM – Climate change adaptation: CCA – Water and marine resources: WTR – Circular economy: CE – Pollution prevention and control: PPC – Biodiversity and ecosystems: BIO.

Proportion of turnover derived from products or services associated with Taxonomy-aligned economic activities – disclosure covering financial year 2023

Financial year	2023		Substantial contribution criteria							DNSH Criteria ('Does Not Significantly Harm')					Minimum Safeguards	Proportion of Taxonomy aligned (A.1) or eligible (A.2.) turnover, Year N-1	Category enabling activity	Category transitional activity	
	Code	Turnover	Proportion of Turnover, Year N	Climate Change Mitigation	Climate Change Adaptation	Water	Pollution	Circular Economy	Biodiversity	Climate Change Mitigation	Climate Change Adaptation	Water	Pollution	Circular Economy					Biodiversity
Economic Activities	Text	€M	%	Y; N; N/EL	Y; N; N/EL	Y; N; N/EL	Y; N; N/EL	Y; N; N/EL	Y; N; N/EL	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	%	E	T
A. TAXONOMY-ELIGIBLE ACTIVITIES																			
A.1 Environmentally sustainable activities (Taxonomy-aligned)																			
	Data-driven solutions for GHG emissions reductions	CCM 8.2.	656	1.6%	Y	N/EL	N/EL	N/EL	N/EL	N/EL	Y	Y	Y	Y	Y	Y	Y	1.3%	E
	Turnover of environmentally sustainable activities (Taxonomy-aligned) (A.1)		656	1.6%														1.3%	
	Of which enabling		656	1.6%	100%	0%	0%	0%	0%	0%								1.3%	E
	Of which transitional		0	0.0%	0%														
A.2 Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities)																			
	Repair, refurbishment and remanufacturing	CE 5.1.	21	0.1%	N/EL	N/EL	N/EL	N/EL	EL	N/EL								-	
	Sale of second-hand goods	CE 5.4.	32	0.1%	N/EL	N/EL	N/EL	N/EL	EL	N/EL								-	
	Product-as-a-service and other circular use- and result-oriented service models	CE 5.5.	829	2.0%	N/EL	N/EL	N/EL	N/EL	EL	N/EL								-	
	Installation, maintenance and repair of renewable energy technologies	CCM 7.6.	17	0.04%	EL	N/EL	N/EL	N/EL	N/EL	N/EL								-	
	Data processing, hosting and related activities	CCM 8.1.	858	2.1%	EL	N/EL	N/EL	N/EL	N/EL	N/EL								1.8%	
	Turnover of Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities) (A.2)		1,757	4.3%	50%	0%	0%	0%	50%	0%								1.8%	
	A. Turnover of Taxonomy-eligible activities (A.1+A.2)		2,413	5.9%	63%	0%	0%	0%	37%	0%								3.1%	
B. TAXONOMY-NON-ELIGIBLE ACTIVITIES																			
	Turnover of Taxonomy-non-eligible activities (B)		38,239	94%															
	Total		40,652	100%															

1.8.4.4 Proportion of CapEx of Taxonomy-eligible and Taxonomy-aligned activities

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

The denominator includes **additions to property, plant and equipment and intangible assets** (equal to CapEx as defined in the financial information reported by the Group⁸). The definition of CapEx associated with the Taxonomy also includes **right-of-use** additions recognised in accordance with IFRS 16, as well as additions of property, plant and equipment and intangible assets and right-of-use additions arising from **business combinations**.

The details are as follows:

	2023	2022
Additions to tangible and intangible fixed assets	5,579	5,819
Additions of rights of use	2,391	2,448
Additions due to business combinations	12	795
Total CapEx associated with the Taxonomy	7,982	9,062

Telefónica has analysed the various items in its **CapEx model**, enabling it to classify investments, in accordance with their nomenclature and codes in the tables, under the following headings:

- **A.1. Taxonomy-eligible and Taxonomy-aligned investments (44 million euros):** directly and exclusively related to digital services/solutions and some specific measures implemented to improve the energy efficiency of telecommunications networks (33 million euros) (CCM 8.2.), energy saving measures for equipment (8 million euros) (CCM 7.3.) and for buildings (3 million euros) (CCM 7.5.), as well as the installation of charging points for electric vehicles in buildings (0.04 million euros) (CCM 7.4.).

- **A.2. Taxonomy-eligible but not Taxonomy-aligned investments (739 million euros):** associated with cloud services and storage of data in data centres (37 million euros) (CCM 8.1.), the maintenance and repair of customer equipment (1 million euros) (CE 5.1.), the purchase of equipment that is necessary for the provision of associated customer services (routers, set-top boxes and B2B equipment) (633 million euros) (CE 5.5.), fleet management (6 million euros) (CCM 6.5.) and the acquisition and ownership of buildings (62 million euros) (CCM 7.7.).
- **B. Non-Taxonomy-eligible investments (7,200 million euros):** associated with next-generation data transmission networks⁹ (access, infrastructure, transmission, core and capitalised expenditure related to labour) and other networks¹⁰, investments in TV content production, as well as other CapEx concepts (non-eligible right-of-use additions, systems, etc.).

CapEx information is presented below, taking into account the templates per environmental objective (footnote c) and activity breakdown, in accordance with Annex V of Delegated Regulation (EU) 2023/2486.

Table per environmental objective according to footnote (c)

	Proportion of CapEx/Total CapEx	
	Taxonomy-aligned per objective	Taxonomy-eligible per objective
CCM	0.5%	1.9%
CCA	0.0%	0.0%
WTR	0.0%	0.0%
CE	0.0%	7.9%
PPC	0.0%	0.0%
BIO	0.0%	0.0%

⁸ See Note 6 and Note 8 to the Consolidated Financial Statements.

⁹ Fibre fixed network, 4G and 5G mobile networks.

¹⁰ Mainly copper fixed network, 2G and 3G mobile networks.

Proportion of CapEx derived from products or services associated with Taxonomy-aligned economic activities – disclosure covering financial year 2023

Financial year	2023		Substantial contribution criteria							DNSH Criteria ('Does Not Significantly Harm')						Minimum Safeguards	Proportion of Taxonomy aligned (A.1) or eligible (A.2.) CapEx, year N-1	Category enabling activity	Category transitional activity
	Code	CapEx	Proportion of CapEx, year N	Climate Change Mitigation	Climate Change Adaptation	Water	Pollution	Circular Economy	Biodiversity	Climate Change Mitigation	Climate Change Adaptation	Water	Pollution	Circular Economy	Biodiversity				
Economic Activities	Text	€M	%	Y; N; N/EL	Y; N; N/EL	Y; N; N/EL	Y; N; N/EL	Y; N; N/EL	Y; N; N/EL	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	%	E	T
A. TAXONOMY-ELIGIBLE ACTIVITIES																			
A.1 Environmentally sustainable activities (Taxonomy-aligned)																			
	Installation, maintenance and repair of energy efficiency equipment	CCM 7.3.	8	0.1%	Y	N/EL	N/EL	N/EL	N/EL	N/EL	Y	Y	Y	Y	Y	Y	Y	0.1%	E
	Installation, maintenance and repair of charging stations for electric vehicles in buildings	CCM 7.4.	0.04	0.001%	Y	N/EL	N/EL	N/EL	N/EL	N/EL	Y	Y	Y	Y	Y	Y	Y	-	E
	Installation, maintenance and repair of instruments and devices for measuring, regulation and controlling energy performance of buildings	CCM 7.5.	3	0.04%	Y	N/EL	N/EL	N/EL	N/EL	N/EL	Y	Y	Y	Y	Y	Y	Y	0.02%	E
	Data-driven solutions for GHG emissions reductions	CCM 8.2.	33	0.4%	Y	N/EL	N/EL	N/EL	N/EL	N/EL	Y	Y	Y	Y	Y	Y	Y	0.5%	E
	CapEx of environmentally sustainable activities (Taxonomy-aligned) (A.1)		44	0.5%														0.5%	
	Of which enabling		44	0.5%	100%	0%	0%	0%	0%	0%									E
	Of which transitional		0	0.0%	0%														
A.2 Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities)																			
	Repair, refurbishment and remanufacturing	CE 5.1.	1	0.02%	N/EL	EL; N/EL	EL; N/EL	EL; N/EL	EL; N/EL	EL; N/EL								-	
	Product-as-a-service and other circular use- and result-oriented service models	CE 5.5.	633	7.9%	N/EL	N/EL	N/EL	N/EL	EL	N/EL								-	
	Transport by motorbikes, passenger cars and light commercial vehicles	CCM 6.5.	6	0.1%	EL	N/EL	N/EL	N/EL	N/EL	N/EL								0.03%	
	Acquisition and ownership of buildings	CCM 7.7.	62	0.8%	EL	N/EL	N/EL	N/EL	N/EL	N/EL								0.6%	
	Data processing, hosting and related activities	CCM 8.1.	37	0.5%	EL	N/EL	N/EL	N/EL	N/EL	N/EL								0.4%	
	CapEx of Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities) (A.2)		739	9.3%	14%	0%	0%	0%	86%	0%								1.1%	
	A. CapEx of Taxonomy-eligible activities (A.1+A.2)		782	9.8%	19%	0%	0%	0%	81%	0%								1.6%	
B. TAXONOMY-NON-ELIGIBLE ACTIVITIES																			
	CapEx of Taxonomy-non-eligible activities		7,200	90%															
	TOTAL		7,982	100%															

1.8.4.5. Proportion of OpEx of Taxonomy-eligible and Taxonomy-aligned activities

This indicator shows the proportion of operating expenditure (OpEx) corresponding to economic activities covered by the Taxonomy.

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

In addition to the exercise carried out in 2022, with the entry into force of the new Delegated Regulation (EU) 2023/2486 in 2023, new accounting items have been identified as eligible, for both the numerator and the denominator, in relation to operational expenditure, corresponding to activity 5.1. of the circular economy target.

Expenditure is classified, according to its nomenclature and codes in the tables, under the following headings:

- **A.1. Taxonomy-eligible and Taxonomy-aligned operational expenditure (0.2 million euros):** related to digital services/solutions aimed at providing data and analysis that reduce GHG emissions from other activities (CCM 8.2).
- **A.2. Taxonomy-eligible but non-Taxonomy-aligned operational expenditure (27 million euros):** associated with the refurbishment, repair and maintenance of customer equipment (CE 5.1).
- **B. Non-eligible operational expenditure (2,767 million euros).**

OpEx information is presented below, taking into account the templates per environmental objective (footnote c) and activity breakdown, in accordance with Annex V of Delegated Regulation (EU) 2023/2486.

Table per environmental objective according to footnote (c)

	Proportion of OpEx/Total OpEx	
	Taxonomy-aligned per objective	Taxonomy-eligible per objective
CCM	0.01 %	0.01 %
CCA	0 %	0 %
WTR	0 %	0 %
CE	0 %	1.0 %
PPC	0 %	0 %
BIO	0 %	0 %

Proportion of OpEx derived from products or services associated with Taxonomy-aligned economic activities – disclosure covering financial year 2023

Financial year	2023		Substantial contribution criteria						DNSH Criteria ("Does Not Significantly Harm")						Minimum Safeguards	Proportion of Taxonomy aligned (A.1.) or eligible (A.2.) OpEx, year N-1	Category enabling activity	Category transitional activity
	Code	OpEx	Proportion of OpEx, year N	Climate Change Mitigation	Climate Change Adaptation	Water	Pollution	Circular Economy	Biodiversity	Climate Change Mitigation	Climate Change Adaptation	Water	Pollution	Circular Economy				
Text	€M	%	Y; N; N/EL	Y; N; N/EL	Y; N; N/EL	Y; N; N/EL	Y; N; N/EL	Y; N; N/EL	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	%	E	T
A. TAXONOMY-ELIGIBLE ACTIVITIES																		
A.1 Environmentally sustainable activities (Taxonomy-aligned)																		
Data-driven solutions for GHG emissions reductions	CCM 8.2.	0.2	0.01%	Y	N/EL	N/EL	N/EL	N/EL	N/EL	Y	Y	Y	Y	Y	Y	Y	-	E
OpEx of environmentally sustainable activities (Taxonomy-aligned) (A.1)		0.2	0.01%														-	
Of which enabling		0.2	0.01%	100%	0%	0%	0%	0%	0%									E
Of which transitional		0.0	0.00%															
A.2 Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities)																		
Repair, refurbishment and remanufacturing	CE 5.1.	27	1.0%	N/EL	N/EL	N/EL	N/EL	EL	N/EL								-	
OpEx of Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities) (A.2)		27	1.0%	0%	0%	0%	0%	100%	0%								-	
A. OpEx of Taxonomy eligible activities (A.1+A.2)		27	1.0%	1%	0%	0%	0%	99%	0%								-	
B. TAXONOMY-NON-ELIGIBLE ACTIVITIES																		
OpEx of Taxonomy-non-eligible activities		2,767	99%															
TOTAL		2,795	100%															

1.8.5. Compliance with the technical screening criteria

For each of the activities identified as eligible in relation to climate change mitigation targets, we have assessed the technical substantial contribution and “do no significant harm” criteria. In addition, the Group’s compliance with the social minimum safeguards has been verified.

As stated earlier, this analysis will not be applicable until 2024 for the four additional objectives contained in Delegated Regulation (EU) 2023/2486, as set out therein.

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

Substantial contribution to climate change mitigation of activity 8.1.

For data processing, hosting and related activities to qualify as contributing substantially to climate change mitigation, the following two main **technical criteria** must be fulfilled:

- All relevant practices listed in the most recent version of the **EU Code of Conduct for Energy Efficiency in Data Centres**¹¹ are implemented and third-party assurance is given at least every three years.
- Use of refrigerants in the data centre cooling systems of which **global warming potential** (GWP) do not exceed 675.

In 2023, after more than a year in development, the European Commission published the framework for assessing data centres in the context of activity 8.1. of the Taxonomy Climate Delegated Regulation. Once the audit criteria have been established, the Company will use that framework to explore how to carry out the alignment analysis for this activity.

Substantial contribution to climate change mitigation of activity 8.2.

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

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

The first **technical criterion** is demonstrated through a set of studies and methodologies that evaluate, identify and on occasion quantify the impacts on the climate of the digital solutions Telefónica provides to its customers.

Numerous industry studies have shown the emissions reductions that can be achieved by using digital solutions such as those mentioned above. Examples of studies include the GSMA’s *The Enablement Effect and the GeSI Mobile Carbon Impact*, both of which provide information on the substantial contribution these ICT solutions make to avoided emissions.

Analysis carried out by Telefónica included the following projects:

• **Avoided emissions methodology:**

Telefónica analysed many of the connectivity and digital solutions it offers to both business and private customers that are associated with emissions reductions and quantified those reductions.

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

- **Solutions for smart cities:** Internet of Things (IoT) solutions to promote the efficient and sustainable management of cities in various areas, such as public transport, use of energy and water resources, public spaces and communication with residents.
- **Mobility solutions:** IoT solutions designed for route planning and increasing the efficiency of different modes of transport. The connectivity Telefónica provides to support the operation of these types of solution helps to increase the efficiency of fleet management, boost the speed of management and improve driver behaviour.
- **Industry 5.0 solutions:** this category includes IoT connections that aim to quantify how using specific pieces of equipment within their operating limit affects their energy consumption and subsequently their emissions profile.
- **Smart working solutions:** a set of services that enable people to work remotely and participate in audio/video conferencing and e-learning, etc., thereby reducing the amount of GHG emissions generated by travel.
- **Energy efficiency solutions:** a set of services that include telemetry and remote management of energy consumption in offices, factories and corporate buildings with a wide geographical distribution, such as hotels, banks and supermarkets.

¹¹ https://joint-research-centre.ec.europa.eu/energy-efficiency/energy-efficiency-products/code-conduct-ict/code-conduct-energy-efficiency-data-centres_en

- **Agricultural management solutions:** solutions that enable innovation, digitalisation and analysis of crop data with the aim of optimising resource use.
- **E-health solutions:** solutions that facilitate the use of remote healthcare services, obviating the need to travel to and from healthcare centres.

• **Eco Smart seal:**

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

 For further information, see 2.11. Sustainable offering and innovation

Also in connection with the first technical screening criterion, we analysed and demonstrated the substantial contribution made by energy efficiency and virtualisation solutions that are applied to the telecommunications network.

• **Life Cycle Assessment (LCA)**

The second **technical criterion**, which is related to life cycle analysis, is not considered applicable to the categories of solutions described above, as there are no alternative solutions on the market. For example, the baseline scenario for all IoT solutions involves devices that are not connected, but no intermediate technology has been developed.

Substantial contribution to climate change mitigation of secondary activities

As mentioned previously, Telefónica also undertakes a number of energy efficiency-related initiatives that contribute to reducing the greenhouse gas emissions generated by its own activity.

The following activities are considered Taxonomy-aligned:

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

Initiatives mainly related to the modernisation of air-conditioning and free-cooling systems in buildings. Telefónica applies **EER procurement criteria** identifying minimum performance in line with its energy efficiency strategy. Equipment that meets the minimum criteria for high energy efficiency is considered Taxonomy-aligned.

– **7.4. Installation, maintenance and repair of charging stations for electric vehicles in buildings**

This activity is considered taxonomy-aligned according to the technical screening criteria for activity 7.4.

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

Implementation of electronic devices to improve the energy management of buildings. this activity is considered to be aligned with the individual measures listed in activity 7.5.

Do No Significant Harm to climate change adaptation

This principle requires any physical climate risks associated with Telefónica's operations to be identified and assessed under different climate scenarios. The aim is to identify and apply adaptation solutions that significantly reduce the material risks detected. Risk identification is carried out in accordance with the Group's risk management approach and tailored to the cause underlying the climate risk assessment. The probability of occurrence is estimated for each risk, along with the possible impact and economic value, to arrive at an expected level of exposure for each scenario analysed¹².

To this end, Telefónica assessed the **physical climate change risks** using climate projections covering both RCP 2.6 (a global temperature increase by the end of the century of no more than 2°C) and RCP 8.5 (a global temperature increase by the end of the century of around 4°C) climate scenarios and time horizons up to 2030, 2040 and 2050.

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

This analysis does not include Activity 7.6., as it is new to the exercise. In the coming years, Telefónica will analyse the criteria corresponding to this principle and, if necessary, carry out its evaluation.

 For further information, see 2.2. Energy and climate change

¹² For climate change, any risk associated with a negative perception of Telefónica's commitments to a low-carbon economy or adapting to resource scarcity is considered a material strategic impact.

Do No Significant Harm to sustainable use and protection of water and marine resources

Telefónica's water consumption can mainly be ascribed to **sanitary use**, and to a lesser extent to its use in cooling. This consumption amounts to 2.8 million litres of water in 2023.

The Company has also adopted several measures in order to use water more efficiently, especially in areas of high water stress (717 megalitres in 2023).

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

Do No Significant Harm to the transition to a circular economy

Network infrastructure maintenance is the main source of waste for Telefónica.

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

 For further information, see 2.3 Circular economy

 For further information, see 2.4. Biodiversity, water and other environmental aspects

Do No Significant Harm to pollution prevention and control

The procurement of energy efficiency equipment is an activity that could potentially contain materials and components that could pose a risk of contamination.

This year, most of the purchases of this type of equipment have been related to air conditioning. For this reason, Telefónica includes as a requirement, within the tender processes, that air conditioning equipment complies with the **directives and regulations restricting the use of hazardous substances** in electrical and electronic equipment, and those relating to the registration, evaluation, authorisation and restriction of chemical substances and preparations, thus guaranteeing a high level of protection for the environment, the health and safety of employees and the Company.

With respect to the DNSH evaluation of the activity 7.3., Telefónica has carried out a process in which it has evaluated the following aspects through confirmation by electrical and electronic equipment suppliers of the company environmental statements:

- In line with the provisions of the REACH Regulation, the supplier declares that the products it supplies to Telefónica do not exceed 0.1% by weight of any substance included in the list of substances of very high concern, as listed by the "European Chemicals Agency".
- In line with the provisions of the RoHS directive, the supplier declares that the products it supplies to Telefónica do not exceed the limits established in Annex II of the aforementioned directive.

Likewise, for the specific case of the use of batteries and accumulators, and in line with the provisions of Directive 2006/66/EC and its update according to Directive 2013/56, the supplier declares that the products do not exceed the limits established by this Directive in terms of the following substances: mercury and cadmium.

Although the DNSH criterion requires evaluating some additional aspects to those indicated above, Telefónica considers that, with the evaluation of these aspects, it evaluates said DNSH criterion in a sufficiently significant manner.

Social minimum safeguards

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

In addition, in 2023 and in line with the Commission Notice on the interpretation and implementation of certain legal provisions of the EU Taxonomy Regulation, progress has been made towards developing the Company's management approach to identifying, mitigating and remediating adverse human rights impacts.

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

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

-  For further information, see chapter 2.14. Human rights
-  For further information, see chapter 2.16. Ethics and compliance
-  For further information, see chapter 2.17. Fiscal transparency

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

1.8.6. The telecommunications networks in the Taxonomy

The application of the taxonomy regulatory framework has generated **uncertainty and doubts of interpretation** in the market. This, despite the efforts of the European Commission to provide greater clarity on the application through complementary notices to the Taxonomy Regulation.

In the ICT sector, the fundamental debate has focused around Activity 8.2 and **whether or not telecommunications networks should be considered** within its scope.

Telefónica has been adapting its report in accordance with the evolution in interpretation. In December 2022, with the publication of the European Commission's draft of FAQ, the Company opted for an approach focused exclusively on the substantial contribution to climate change mitigation of some services that favour the reduction of GHG emissions such as digital solutions for energy efficiency, mobility or smart working, among others.

Previously, however, with the objective of showing what the impact of the Taxonomy report would have been

considering the telecommunications networks, the Company applied the technical criteria of activity 8.2. and carried out a **life cycle analysis to measure the impact of connectivity services** on both fixed and mobile networks¹³.

The study was carried out based on the ETSI ES 203 199 standard and its results were verified by an independent third party. The results of the analysis demonstrate the **substantial contribution of next-generation connectivity solutions**: fibre has an environmental impact 18 times less than copper and 4G/5G has an impact seven times less than 2G/3G (in terms of PB).

Public positioning of the sector

In April 2023, ETNO published a sectoral positioning document¹⁴ that reflects the difficulties of interpretation and implementation of the Taxonomy Regulation. The document also highlights the fundamental role of telecommunications networks in the decarbonization process of the global economy.

In December, ETNO and GSMA proposed a **new taxonomic activity for telecommunications networks using the EU taxonomy stakeholder request mechanism** created by the Sustainable Finance Platform. The objective is that the deployment and operations of the networks can be considered among the Taxonomy activities in the next delegated act.

The above would allow **progress in achieving the targets of the 2030 Digital Decade**. These objectives include, among others, Gigabit connectivity for all European homes, and that all populated areas are covered by high-speed wireless networks with performance, at less, equivalent to 5G technology.

Achieving these targets **will require substantial** private and public sector **investments**. The European Commission estimates an investment gap of €174 billion in Europe's telecommunications infrastructure¹⁵.

Promoting investment in sustainable networks and guaranteeing financial stability is **crucial to foster competitive and innovative markets** that offer broad coverage for all citizens.

Consequently, **the Taxonomy Regulation favours the interconnection between the green and the digital transition**. It is a key tool to guide investment in telecommunications networks aligned with the EU's climate objectives, while increasing the attractiveness for capital markets to contribute to the achievement of the EU's digital goals by investing in secure and sustainable networks.

¹³ Connectivity Solutions' Life Cycle Assessment.

¹⁴ [EU Taxonomy and the European telecommunications sector](#).

¹⁵ Investment and funding needs for the Digital Decade connectivity targets (<https://digital-strategy.ec.europa.eu/en/library/investment-and-funding-needs-digital-decade-connectivity-targets>)

1.8.7. Other information related to Taxonomy

Information on activities related to nuclear energy and fossil gas contained in Annex III of Delegated Regulation 2022/1214.

Nuclear energy related activities

1	The undertaking carries out, funds or has exposures to research, development, demonstration and deployment of innovative electricity generation facilities that produce energy from nuclear processes with minimal waste from the fuel cycle.	No
2	The undertaking carries out, funds or has exposures to construction and safe operation of new nuclear installations to produce electricity or process heat, including for the purposes of district heating or industrial processes such as hydrogen production, as well as their safety upgrades, using best available technologies.	No
3	The undertaking carries out, funds or has exposures to safe operation of existing nuclear installations that produce electricity or process heat, including for the purposes of district heating or industrial processes such as hydrogen production from nuclear energy, as well as their safety upgrades.	No

Fossil gas related activities

4	The undertaking carries out, funds or has exposures to construction or operation of electricity generation facilities that produce electricity using fossil gaseous fuels.	No
5	The undertaking carries out, funds or has exposures to construction, refurbishment, and operation of combined heat/cool and power generation facilities using fossil gaseous fuels.	No
6	The undertaking carries out, funds or has exposures to construction, refurbishment and operation of heat generation facilities that produce heat/cool using fossil gaseous fuels.	No

1.9. Main indicators and footprint

1.9.1. Company details

GRI 2-1

Telefónica, SA is a global company that has been connecting lives for 100 years. Headquartered in Madrid, it is currently one of the world's leading telecommunications service providers, with operations in 12 countries (Spain, Germany, Brazil, the UK, Argentina, Chile, Colombia, Ecuador, Mexico, Peru, Uruguay and Venezuela), a presence in 41 countries and almost 388 million accesses worldwide.

1.9.1.1. Key indicators

Revenues by segment (millions of euros)

Segment	2023
Telefónica Spain	12,654
Telefónica Germany	8,614
Telefónica Brazil	9,650
Telefónica Hispam	8,381
VMO2	12,547 ¹

Total accesses (thousands)

Segment	2023
Telefónica Spain	40,992
Telefónica Germany	49,832
Telefónica Brazil	113,102
Telefónica Hispam	112,575
VMO2	57,609

1.9.2. Consolidated results

Main financial indicators (millions of euros)

Results	2023	Reported annual variation
Revenues	40,652	1.6%
OIBDA	11,390	(11.4%)
Profit for the year	-574	c.s.
Free cash flow	3,988	(12.7%)
Net financial debt	27,349	2.5%

¹ VMO2's revenue data is presented under management criteria, that is, at 100% of VMO2. Telefónica's participation percentage in VMO2 is 50%.

1.9.3. Share price performance

Telefónica on the stock exchange, 2023

Share price performance

(TEF & IBEX-35 & Stoxx Europe Telco)



Share figures

Close (€)	3.53
52-week maximum	4.125
52-week minimum	3.385
Total average daily volume (mill. shares)	56
Number of shares (million)	5,750
Market capitalisation (million €)	20,322

Remuneration/total shareholder return

2023: €0.3/share in cash

- €0.15/share December 2023
- €0.15/share June 2024
- Paid in cash in 2023
 - €0.15/share June
 - €0.15/share December

2023 TSR: +13.0%

Analysts' recommendations¹

Buy	40%
Hold	47%
Sell	13%

Stock exchange listings

Madrid
Nueva York (ADR)
Lima (ADS)

Target price¹

4.27€/share

Credit ratings

Moody's	Baa3
fitch	BBB
S&P	BBB-

Number of shareholders

1.1 million

(1) Bloomberg; 31/12/2023.

European and US equity markets ended with strong gains thanks to positive performance in the last quarter of the year as the market started to factor in future interest rate cuts already announced by some central banks for 2024, shifting away from tight monetary policy to tackle high inflation and avoid a recession for both the US and major European economies.

Among the main European markets (EStoxx-50 +19.2%), the peripheral stock markets performed the best (Ibex-35 +22.7%, MIB 28.0%), with the Ibex-35 achieving its best performance since 2009. It was followed by the DAX (+20.3%) and the CAC 40 (+16.5%), while the FTSE-100 closed with a more modest rise (+3.8%). Elsewhere, the US markets also ended the year with significant gains, reaching close to all-time highs, driven mainly by the outstanding performance of technology stocks (Nasdaq +43.4%, S&P

+24.2% and Dow Jones 13.7%). The MSCI World index rose by +17.9% in euro terms. In the bond market, prices continued to fall for much of the year, with the ten-year US Treasury bond touching 5% yields, the highest since 2007, until the end of October when yields declined as the downward trend in inflation was confirmed, hence the pause in rate hikes.

The European telecommunications sector performed well in the first quarter of the year (+14.7% vs. Stoxx 600 +7.8%), but that advantage had ultimately faded relative to the market by year-end (+3.8% vs. Stoxx 600 +12.7%), despite continued positive statements from companies, which led to a 40% improvement in annual forecasts in the third quarter. This presents a positive scenario for the telecommunications sector for 2024, with an above-market outlook for cash flow growth, supported by sustainable revenue growth and a reduction in operating costs and CapEx, which has passed its peak, resulting in above-inflation cash generation growth. Moreover, telcos have modest refinancing needs, with debt mostly at fixed rates, strengthening the sector's defensive qualities. There is also optimism surrounding consolidation movements in Europe and the opportunities for aspects such as artificial intelligence (AI) to improve returns.

Telefónica continued its transformation process in 2023, which allowed it to present a more ambitious Company plan for the next three years, based on growth, profitability and sustainability, alongside a strict capital allocation, to create significant value for shareholders. In 2023, results were solid, hitting all announced targets. This was enhanced by the results in the first half of the year, which saw growing revenues and OIBDA, and decreasing capital intensity compared to the previous year. Telefónica ended the 2023 financial year with a market capitalisation of €20.3 billion, with a price per share of €3.53, up 4.4% in the year, and a total shareholder return of 13.0%, above the 8.9% average for the sector.

Regarding the dividend payment, €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 provides for a dividend of €0.30 per share in cash (€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, 24.8 million treasury shares were redeemed.

1.9.4. Moving towards a more sustainable world

GRI 2-6

For Telefónica, **sustainability** means thinking about society and the planet and orienting the business to be part of the solution to the challenges facing humanity. We must go beyond our responsibility and be an exemplary company trusted by customers, employees, investors, suppliers, governments and society in general.

1.9.4.1. Networks: our connectivity

We believe that it is our duty to take advantage of the capabilities of **connectivity** and **digitalisation**, not only to bring value to our customers, but also to help tackle major challenges such as climate change, inequality, employability and misinformation.

This is how we will achieve our purpose: **to make our world more human by connecting lives** and to be more competitive and impactful.

That is why we are expanding our telecommunications infrastructure and developing new technologies to bring connectivity and digital services to all:

- We connect the unconnected or those with limited connectivity; we bring our services to all regions, including **rural** and hard-to-reach areas, via projects such as Internet for All and via innovative agreements and business models.

We have set a target of exceeding 90% rural mobile connectivity levels in our main markets by 2024. In 2023 we achieved 82% in Brazil, 95% in Spain and 99% in Germany.



For further information, see 2.12. Digital inclusion

We improve and expand **broadband coverage** with the latest technologies to ensure that the whole of society can benefit from digitalisation.

We have 92% 4G coverage globally, and we have switched on 5G technology in our main markets: Spain, Brazil, Germany and the UK. 5G is a revolution because of its practical applications for all sectors and because it allows us to extend ultra-broadband coverage. In addition, 5G is more efficient, up to 90% more efficient than 4G per unit of traffic.

5G Coverage

	2022	2023
Spain ²	85%	87%
Germany ³	80%	95%
Brazil ⁴	NA	48%
UK	43%	51%

The penetration rate of our LTE mobile networks is 88% and we have more than 25 million ultra broadband (UBB) accesses (a 5.4% growth over the previous year).

UBB Accesses (thousands)

	2022	2023	YoY variation
Spain	5,042	5,345	6.0%
Germany	1,939	2,065	6.5%
Brazil	5,968	6,387	7.0%
Hispanm	5,155	5,535	7.4%
Total	23,758	25,049	5.4%

1.9.4.2. Building a greener future

We want to take advantage of the power of digitalisation to curb climate change. We aim to **minimise our footprint as much as possible** and help maintain the fragile environmental balance, as we all depend on it. For this purpose, in network design, operation, maintenance and decommissioning:

- We pay special attention to legislation in areas such as **waste management**, efficient use of resources, respect for the landscape and measurement of electromagnetic fields.

In 2023, we generated 45,756 tonnes of waste, of which we managed to recycle 97% of this. Of the total electronic equipment we collected, we reused over 46% and recycled around 54%. In addition, we refurbished over 4.5 million pieces of operational, office and customer equipment, thereby avoiding the emission of almost 366,000 tonnes of CO₂ associated with the manufacture of new products.

 For further information, see 2.3. Circular economy

We share facilities with other operators or companies managing communications towers. This results in reduced visual impact, optimised land use and decreased energy consumption, as well as less waste.

² Spain's technical criteria: 75%.

³ Germany's technical criteria: 84%.

⁴ Brazil's technical criteria: 14%.

- We promote energy efficiency and use renewable energy to **reduce CO₂ emissions** as part of our strategy to be part of the solution to climate change. Our target is to achieve net zero carbon emission by 2040, including our value chain.

Some 84% of the total electricity consumption in own facilities across the Group comes from renewable sources, with 100% in our main markets and Chile and Peru. In addition, we have reduced our carbon emissions (Scopes 1+2+3) by 51% (Scope 1+2) compared to base year.

- On the other hand, we develop connectivity and Eco Smart services that help our customers reduce their impact on the environment. By 2023, thanks to the use of these services, we helped customers avoid the emission of 86.1 million tonnes of CO₂.

 For further information, see 2.2. Energy and climate change

- **We shut down old networks** so that they no longer consume energy and we recycle all materials arising from decommissioning.

	Base year:		
	2015	2022	2023
Energy consumption per traffic unit (MWh/PB)	386	49	41
% Evolution of energy efficiency (base year: 2015)	-	(87)%	(89)%

- **We respect biodiversity**, applying precautionary measures during construction, locating base stations outside protected areas whenever possible and implementing corrective measures when necessary.

- We **use water efficiently**, adopting a range of measures to optimise consumption, especially in water-stressed regions.

 For further information, see 2.4. Biodiversity, water and other environmental aspects

To control our footprint, ensure compliance with environmental legislation and prevent risks, we have an **Environmental Management System** that allows us to ensure comprehensive standards in all countries, with standardised processes and indicators to ensure stringent monitoring.

 For further information, see 2.1. Responsibility to the environment

Environment

Main target: [Net Zero by 2040](#) (SBTi validated)



	2022	2023		Targets
Scope 1 + 2 % of emissions reduced since 2015	80%	81%	>	90% by 2030
Scope 3 % of emissions reduced since 2016	32%	31%	>	56% by 2030
Renewable energy % at our own facilities	82%	84%	>	100% renewables by 2030

1.9.4.3. Helping society thrive

We want to help promote economic and social progress based on digitalisation, leaving no one behind.

Ethical behaviour and responsible management of our business are vital parts of our organisational culture. We seek to align internal behaviours, processes and targets with the Company's purpose and values. Our guiding principle is to ensure consistency between what we say and what we do, so that this shared vision extends from our employees to our customers and from our customers to society as a whole.

Our contribution and impact on communities

The Sustainable Development Goals (SDGs) are the most ambitious program in history aimed at addressing the major social and environmental challenges facing humanity.

The Internet and digital solutions are key to achieving more than half of the SDG targets. At Telefónica, we have picked up the baton and are committed to the 2030 Agenda.

We have been measuring our social and environmental contribution every year for years, and since 2019, we have been doing so following the guidelines of Harvard Business School (HBS), the Value Balancing Alliance (VBA), the World Business Council for Sustainable Development (WBCSD) and the Capitals Coalition, and have produced a [Socioeconomic Contribution Report](#). We incorporate the results into our management and decision-making in order to continue improving. Our most recent study shows that we contribute over €100 billion to communities.

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



For further information, see [2.13. Contribution and impact on communities](#)

Value chain
GRI 204-1

Our Responsible Business Principles define our management model and apply to our entire value chain. In particular, they govern our relationship with suppliers, customers and employees in order to build lasting bonds based on trust.

We have a shared commitment to innovation and sustainability with our **suppliers**:

- We identify ethics and corruption risks through Dow Jones Risk & Compliance. 100% of our suppliers are assessed.
- We ask suppliers to assess themselves on the IntegrityNext platform (used by leading telecommunications companies). In 2023, 72% of our high-risk suppliers were assessed in terms of their sustainability.
- We conduct audits at the facilities and/or factories of critical suppliers. In 2023 we conducted 18,324 administrative or on-site audits.
- We help suppliers to improve through training and the monitoring of specific plans. 853 suppliers had improvement plans in 2023.

We work with 8,462, which have been awarded our contracts; our procurement volume amounts to €23.4 billion and we award over 83% of our purchases to local suppliers.

In addition, we have reduced CO₂ emissions in our value chain by 31% compared to 2016.

For further information, see 2.19. Responsible supply chain management

Employees

At Telefónica we believe in the value of diversity and inclusive leadership to foster a sense of belonging and empowerment among our employees. We are convinced that only with a diverse team and a work culture that embraces differences will we be able to innovate, understand our customers' needs and grow in the long term.

Having a presence in 41 countries, with an average of over 104.000 employees, and managing diversity and inclusion allows us to generate opportunities to connect talent and encourage the development of innovative and challenging projects to bring us even closer to society.

Our data show that we are committed to:

- **Gender equality:** our targets for 2027 are to have 37% of executive positions being filled by women and to achieve an adjusted pay gap of +/-1%. We are also committed to achieving gender parity in all our highest governance bodies by 2030.

Women at Telefónica

	2022	2023
Women in the workforce	38.6%	38.7%
Women executives	31.3%	32.8%

Pay gap

	2022	2023
Gross pay gap	16.80%	16.14%
Adjusted pay gap	0.74%	0.71%

- The **LGBT+ community:** we ensure a safe and trusting space, where all employees feel free to be themselves. In this regard, we have designed specific initiatives to attract and promote the development and well-being of transgender people.
- **Young talent:** engaging young talent means bringing in new ways of looking at things. This ensures that our team includes agile, restless and even rebellious disruptors who bring innovation and creativity to the way we work and who create value.
- **Ethnic diversity:** we are publicly committed to taking action to close the racial gap in our business, starting with raising awareness among our workforce. As part of this commitment, we have specific programs in the UK and Brazil to empower young people from ethnic minorities and Black people, respectively, and boost their career development.
- **Inclusion of people with disabilities:** in 2022 we set a target of doubling the number of people with disabilities in our workforce by the end of 2024, while continuing to work to ensure that our channels, facilities, products and services are accessible by design.

For further information, see 2.7. Diversity and inclusion

Customer trust

We want to build a trusting relationship with our customers. That is why all our actions are guided by three basic principles:

- **Integrity:** we fulfil our promises and acknowledge our mistakes.
- **Transparency:** we proactively provide all important information.
- **Simplicity:** we use clear and direct language and make it as simple as possible to do business with us.

The digitalisation and automation of processes help us to improve the customer experience through all customer service channels (shops, websites, telephone channel and apps), to minimise service faults and to speed up the resolution of incidents with more accessible, streamlined and user-friendly solutions.

To understand our customers' perception of the service we provide, we determine and report on the **Net Promoter Score (NPS)**. This score is an indicator of customer satisfaction and a measure of the likelihood that they will recommend our products and services. We calculate the Group's Global NPS based on the results obtained in each of our operations. In addition, a target linked to customer trust has been set for the **variable remuneration** of all the Company's employees in the short term.

Telefónica Group NPS

2022	2023
30	31

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



For further information, see 2.10. Responsibility to the customer

Society



	2022	2023		Targets
Rural connectivity % of mobile broadband coverage	>80%	>82%	>	>90% rural mobile connectivity in major markets by 2024
Women in executive positions % of women in executive positions	31.3%	32.8%	>	37% of executive positions to be held by women by 2027.
Inclusion of people with disabilities Number of employees	1,482	2,572	>	To double the number of employees with disabilities by 2024

1.9.4.4. Leading by example

We want to maintain strict levels of governance oversight in order to build trust.

Our **Responsible Business Principles** govern everything we say and do; they are our code of ethics. They serve as our compass for conduct and decision-making based on integrity, commitment and transparency. They are approved by the Board of Directors.



For further information, see 2.15. Governance and culture of sustainability

In terms of compliance, Telefónica's commitment to our stakeholders is to have **zero tolerance for fraud and corruption**, as we believe that these aspects have a negative impact on business and society.



For further information, see 2.16. Ethics and compliance

We and our partners must respect **human rights** in all circumstances, whether we deploy telecommunications networks or use technologies such as AI.

Our priority areas in terms of human rights, given our business activities, are digital rights, responsible use of new technologies, digital inclusion, the protection of children and respect for social and environmental aspects in the supply chain.



For further information, see 2.14. Human rights

Governance



	2022	2023		Targets
Potential high-risk suppliers % externally assessed on sustainability matters through an external assessment platform	72%	72%	>	100% of potential high-risk assessed on sustainability matters via external platform by the end of 2026
Corruption Number of confirmed cases of corruption	0	0	>	Zero tolerance for corruption
Diversity on the Board of Directors % of women on the Board of Directors	33%	40%	>	Towards parity in the highest governing bodies by 2030 ⁵

1.9.5. Analysts and rankings

Telefonica leads the sector in many of the ESG ratings and rankings:

Bloomberg Gender Equality Index		Included
CDP		A
CDP Supplier Engagement		Leader
Digital Inclusion Benchmark (DIB)		89/100 1st in the world (ICT sector)
EcoVadis		75/100
Fortune		Members of the Most Admired Companies 2023 list (4th in the world/2nd in Europe)

⁵ Data shown for 2022 and 2023 refers to the Telefonica Board of Directors. By 2030 the objective is to achieve parity in the governing bodies of the main subsidiaries. Parity is defined as not more than 40% of each gender represented in each governing body.

<p>FTSE Russell</p>	 <p>FTSE4Good</p>	<p>4,6/ 5 1st in the sector</p>
<p>Moody's Analytics</p>	 <p>MOODY'S ESG Solutions</p>	<p>66/100 3rd position in the sector</p>
<p>MSCI</p>	 <p>MSCI ESG RATINGS A</p>	<p>A</p>
<p>Ranking Digital Rights</p>	 <p>Ranking Digital Rights</p>	<p>1st in the telecommunications sector</p>
<p>Refinitiv</p>	 <p>REFINITIV An LSEG Business</p>	<p>A -</p>
<p>S&P DJSI</p>	 <p>Member of Dow Jones Sustainability Indices Powered by the S&P Global CSA</p>	<p>87/100 Member of DJSI Europe</p>
<p>Sustainalytics</p>	 <p>ESG INDUSTRY TOP RATED</p>	<p>15.8 (low risk) 8th in the telecommunications sector</p>
<p>Workforce Disclosure Initiative</p>	 <p>WDi Workforce Disclosure Initiative</p>	<p>90%</p>

The table includes the latest valuations provided by institutions in 2023 or later, but based on information from that year.

1.10. Business overview

1.10.1. Highlights

In 2023, Telefónica delivered a good operational performance. Telefónica maintained a strong market position, growing in high-value accesses such as fiber and mobile contract. We have grown in reported revenue y-o-y with lower churn compared to 2022. Investments in next generation networks, like Fiber, 4G and 5G, have allowed Telefónica to maintain and grow its customer base in terms of accesses, and decrease churn, by offering customers a better experience. In addition, Telefónica has driven efficiencies to reduce OpEx by switching from copper to fiber broadband networks and switching off certain legacy technologies, network sharing, reducing energy costs through hedging agreements and right-sizing the organization.

Telefónica's **total accesses** were 387.8 million as of December 31, 2023, increasing 1.2% year-on-year. This

increase was mainly attributable to mobile accesses in particular in Telefónica Hispam, Telefónica Brazil and Telefónica Germany as well as growth in VMO2's IoT accesses.

Mobile accesses totaled 298.6 million as of December 31, 2023, up 2.2% compared to December 31, 2022, an increase mainly attributable to the growth in mobile accesses in Telefónica Hispam and postpaid accesses in Telefónica Brazil. Postpaid accesses represented 50.5% of the Group's total mobile accesses in 2023, excluding IoT accesses (+1.1 p.p.).

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

Accesses

Thousands of accesses	2022	2023	%Reported YoY
Fixed telephony accesses ⁽¹⁾	27,941.9	26,261.2	(6.0%)
Broadband	26,303.9	26,787.8	1.8%
UBB	23,757.7	25,048.7	5.4%
FTTH	14,273.0	16,121.4	13.0%
Mobile accesses	292,168.1	298,569.5	2.2%
Prepay	129,685.7	127,766.9	(1.5%)
Contract	126,242.3	130,134.1	3.1%
IoT	36,240.1	40,668.5	12.2%
Pay TV	10,586.5	10,258.5	(3.1%)
Retail Accesses	357,213.3	362,073.4	1.4%
Wholesale Accesses	25,932.9	25,724.2	(0.8%)
Fixed wholesale accesses	3,665.7	3,579.9	(2.3%)
FTTH wholesale accesses	3,211.7	3,295.3	2.6%
Mobile wholesale accesses	22,267.2	22,144.3	(0.6%)
Total Accesses	383,146.2	387,797.6	1.2%

Notes:

⁽¹⁾ Includes fixed wireless and VoIP accesses.

The table below shows the evolution of accesses by segment:

ACCESSES	YoY variation	% Over Total Accesses	
		2022	2023
Telefónica Spain	1.2%	10.6%	10.6%
VMO2	(0.2%)	15.1%	14.9%
Telefónica Germany	1.9%	12.8%	12.9%
Telefónica Brazil	0.6%	29.3%	29.2%
Telefónica Hispam	1.4%	29.0%	29.0%
Other companies	8.4%	3.3%	3.5%

The Group's strategy is based on attracting valuable customers in the markets in which it operates.

Fixed broadband accesses stood at 26.8 million at December 31, 2023, up 1.8% year-on-year. Retail fiber (FTTH) accesses stood at 16.1 million at December 31, 2023, growing by 13.0% compared to December 31, 2022.

Pay TV accesses totaled 10.3 million as of December 31, 2023, down 3.1% year-on-year, mainly due to the strategic decision to discontinue the DTH service in Telefónica Brazil and in Telefónica Spain due to higher penetration of customers in service bundles that do not include TV.

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

Competitive Position Evolution

Telefónica	Mobile Market Share ⁽¹⁾	
	2022	2023
Spain	27.5%	27.3%
United Kingdom ⁽²⁾	29.6%	28.9%
Germany	34.2%	32.9%
Brazil	38.9%	38.7%
Argentina	28.5%	28.2%
Chile	25.5%	27.0%
Peru	29.0%	27.1%
Colombia	25.6%	24.8%
Venezuela	53.3%	53.9%
Mexico	18.3%	18.2%
Ecuador	31.4%	30.1%
Uruguay	27.8%	24.6%

⁽¹⁾ Internal estimates in both years.

⁽²⁾ Refers to VMO2 market share as of September 2022 and September 2023, respectively.

FBB Market Share⁽¹⁾

Telefónica	2022	2023
Spain	34.0%	32.8%
Brazil	14.6%	14.2%
Argentina	11.3%	11.5%
Chile	31.5%	31.5%
Peru	55.1%	43.8%
Colombia	15.1%	16.2%

⁽¹⁾ Internal estimates in both years.

1.10.2. 2023/2022 Consolidated results

In this section, we discuss changes in the Group's consolidated income statements for the years ended December 31, 2023 and 2022.

Consolidated Results	Year ended December 31,		Variation	
	2022	2023	2023 vs 2022	
	Total	Total	Total	%
Millions of euros				
Revenues	39,993	40,652	659	1.6%
Other income	2,065	1,541	(524)	(25.4%)
Supplies	(12,941)	(13,298)	(357)	2.8%
Personnel expenses	(5,524)	(7,207)	(1,683)	30.5%
Other expenses	(10,741)	(10,298)	443	(4.1%)
OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION (OIBDA)	12,852	11,390	(1,462)	(11.4%)
OIBDA Margin	32.1 %	28.0 %		(4.1 p.p)
Depreciation and amortization	(8,796)	(8,797)	(1)	0.0%
Amortization of intangible assets, depreciation of property, plant and equipment	(6,731)	(6,638)	93	(1.4%)
Amortization of rights of use	(2,065)	(2,159)	(94)	4.6%
OPERATING INCOME	4,056	2,593	(1,463)	(36.1%)
Operating Margin	10.1 %	6.4 %		(3.8 p.p)
Share of (loss) income of investments accounted for by the equity method	217	(2,162)	(2,379)	c.s.
Net financial expense	(1,313)	(1,904)	(591)	45.0%
(LOSS) PROFIT BEFORE TAX	2,960	(1,473)	(4,433)	c.s.
Corporate income tax	(641)	899	1,540	c.s.
(LOSS) PROFIT FOR THE YEAR	2,319	(574)	(2,893)	c.s.
Attributable to equity holders of the parent	2,011	(892)	(2,903)	c.s.
Attributable to non-controlling interests	308	318	10	3.1%

c.s.: change of sign

Adjustments made to calculate organic variations

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

For purposes of this report, 2023/2022 organic variation is defined as the reported variation as adjusted to exclude the impacts detailed below:

- **Foreign exchange effects:** we have excluded the impact of changes in exchange rates (except for countries with hyperinflationary economies: Argentina and Venezuela) by assuming constant average foreign exchange rates year-on-year (using average foreign exchange rates of 2022 for both years).

Foreign exchange rates had a minor positive impact on our reported 2023 results.

Foreign exchange effects increased revenue growth by 0.2 percentage points, without impact on OIBDA growth and operating income growth in 2023.

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

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

- **Restructuring costs:** we have excluded the impact in 2023 and 2022 of restructuring costs, mainly those related to the Collective Redundancies Plan adopted by certain companies in Telefónica Spain in 2023.

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

Millions of euros	2022	2023
Telefónica Spain	57	1,320
Telefónica Germany	16	11
Telefónica Hispam	98	128
Other companies	8	79
Total restructuring costs	179	1,538

- **Reported variation of companies in hyperinflationary countries:** in the organic variation, the y-o-y reported variation of the companies in countries with hyperinflationary economies (Argentina and Venezuela) is excluded. In reported terms, in 2023 the revenues, OIBDA, operating income and OIBDA-CapEx of these companies decreased by 809, 193, 37 and 201 million euros, respectively, compared to 2022.
- **Impairment of goodwill and other assets:** in 2023 the impairment of goodwill amounted to 58 million euros, in Telefónica Ecuador. In 2022 the impairment of assets amounted to 77 million euros, in Telefónica Argentina.
- **Spectrum acquisition:** the organic variation of capital expenditures ("CapEx") excludes the impact of spectrum acquisitions in 2023 and 2022.

In 2023, spectrum acquisitions amounted to 183 million euros of which 109 million euros corresponded to Telefónica Argentina, 24 million euros to Telefónica Uruguay, 20 million to Telefónica Spain, 18 million to Telefónica Ecuador and 12 million to Telefónica Brasil.

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

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

In 2023: (i) the provisions recorded in Telefónica Spain to optimize the distribution network (60 million euros in OIBDA); ii) provisions related to regulatory contingencies (75 million euros in OIBDA).

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

The table below shows 2023/2022 variations in reported and organic terms (the latter, calculated in accordance with the adjustments referred to above) of certain line items of the consolidated income statement and CapEx and OIBDA-CapEx:

TELEFÓNICA 2023	YoY variation	
	% Reported	% Organic
Revenues	1.6%	3.7%
Other income	(25.4%)	(16.0%)
Supplies	2.8%	4.6%
Personnel expenses	30.5%	7.1%
Other expenses	(4.1%)	(1.9%)
OIBDA	(11.4%)	3.1%
Depreciation and amortization	0.0%	(0.3%)
Operating income	(36.1%)	11.3%
CapEx	(4.1%)	(2.9%)
OIBDA-CapEx	(17.4%)	8.0%

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

Contribution to reported growth (percentage points)

TELEFÓNICA 2023	Exchange rate effect	Capital gains/ losses on sale of companies	Restructuring costs	Reported variation in hyperinflationary countries	Impairment of goodwill and other assets	Spectrum acquisition	Other adjustments
Revenues	0.2	–	–	(2.0)	–	–	–
Other income	0.2	(8.8)	–	(0.7)	–	–	–
Supplies	0.4	–	–	(1.5)	–	–	–
Personnel expenses	0.1	–	24.6	(2.8)	–	–	–
Other expenses	0.2	(0.1)	(0.0)	(2.6)	(0.2)	–	1.2
OIBDA	0.0	(1.4)	(10.6)	(1.5)	0.1	–	(1.0)
Depreciation and amortization	0.1	–	–	(1.8)	–	–	(0.3)
Operating income	(0.0)	(4.3)	(33.5)	(0.9)	0.5	–	(2.6)
CapEx	0.1	–	–	0.1	–	(1.6)	–
OIBDA-CapEx	(0.0)	(2.5)	(19.3)	(2.9)	0.3	1.3	(1.8)

1.10.3. Analysis of results

Revenues in 2023 totaled 40,652 million euros, increasing 1.6% year-on-year in reported terms, despite the reported variation of the operators in countries with hyperinflationary economies (-2.0 p.p.). In organic terms, revenues grew by 3.7%, thanks to the positive growth in service revenues (+3.7%), and handset sales (+3.2%).

Other income mainly includes capitalized costs on fixed assets, gains on disposals and other operating income. In 2023, other income totaled 1,541 million euros compared to 2,065 million euros recorded in 2022, a decrease of 25.4%. The higher amount in 2022 was impacted by the capital gains resulting from the sale of fiber optic assets in Colombia (162 million euros). In organic terms, other revenues fell by 16.0%.

The evolution of expenses is explained below:

- **Supplies** amounted to 13,298 million euros in 2023, up 2.8% year-on-year in reported terms compared to 2022, as a result of the impact of changes in foreign exchange rates (+0.4 p.p.), in spite of the variation of the companies in countries with hyperinflationary economies (-1.5 p.p.). In organic terms, supplies increased by 4.6% year-on-year, mainly due to higher handset costs due to higher commercial activity with a higher number of gross adds and continued inflation rates.
- **Personnel expenses** amounted to 7,207 million euros in 2023, up by 30.5% year-on-year in reported terms compared to 2022, mainly as a result of higher restructuring costs (+24.6 p.p.) which relate mainly to the Collective Redundancies Plan adopted by certain companies in Telefónica Spain in 2023 resulting in a provision of 1,320 million euros, before taxes, partially offset by the variation of the companies in countries

with hyperinflationary economies (-2.8 p.p.). In organic terms, personnel expenses grew 7.1% year-on-year due to higher costs in all segments.

The average headcount was 104,124 employees in 2023, up 1.5% compared to 2022.

- **Other expenses** amounted to 10,298 million euros in 2023, down 4.1% year-on-year in reported terms. This decrease was mainly attributable to the variation of the companies in countries with hyperinflationary economies (-2.6 p.p.), negatively impacted by a provision related to regulatory contingencies (+0.7 p.p.). In organic terms, other expenses decreased by 1.9% year-on-year due to lower expenses in Telefónica Spain, as a result of lower energy costs as well as savings associated with higher efficiencies, mainly related to network and system costs, and Telefónica Brazil due to the acquisition price adjustment recorded in connection with Oi's assets and cost efficiencies due to digitalization.

As a result of the foregoing, OIBDA totaled 11,390 million euros in 2023, compared to 12,852 million euros in 2022, decreasing by 11.4%. The year-on-year evolution was strongly impacted by the total restructuring expenses in 2023 of 1,538 million euros (-10.6 p.p.), which relate mainly to the Collective Redundancies Plan adopted by certain companies in Telefónica Spain in 2023 (1,320 million euros, before taxes) and the variation of the companies in countries with hyperinflationary economies (-1.5 p.p.), the decrease in capital gains recorded in "Other income" in 2022 (-1.4 p.p.). In organic terms, OIBDA grew 3.1% year-on-year due to higher revenues.

Depreciation and amortization amount to 8,797 million euros in 2023. It remained stable compared to 2022. In organic terms, as explained above, considering 50% of the results of VMO2, amortizations would decrease by 0.3 year-on-year.

Operating income for 2023 totaled 2,593 million euros compared to 4,056 million euros recorded in 2022, strongly impacted by the total restructuring expenses in 2023 (-33.5 p.p.), which relate mainly to the Collective Redundancies Plan adopted by certain companies in Telefónica Spain in 2023 (resulting in a provision of 1,320 million euros, before taxes) and the decrease in capital gains on the sale of businesses compared to 2022 (-4.3 p.p.). In organic terms, operating income grew by 11.3% year-on-year due to the revenue growth in all segments.

The **share of (loss) income of investments** accounted for by the equity method in 2023 was a loss of 2,162 million euros, compared to an income of 217 million euros in 2022, mainly due to the results of VMO2, which were adversely affected by a goodwill impairment amounting to 3,572 million euros (1,786 million euros of which is reflected in the consolidated income statement of the Telefónica Group), mainly due to the decrease in projected cash flows of VMO2 as a consequence of the effects of the macroeconomic conditions and competitive environment in the United Kingdom and the increase in the discount rate (WACC).

Net financial expense amounted to 1,904 million euros in 2023, increasing 591 million euros compared to 2022. The lower amount in 2022 was mainly due to extraordinary income of 526 million euros related to payments by the Spanish administration to the Group of delayed interest in connection with tax litigation in Spain.

Corporate income tax represents an income of 899 million euros in 2023 compared to an expense of 641 million euros in 2022, mainly due to the tax effect of the provision associated with the Collective Redundancies Plan and the recognition of deferred tax assets for the future use of tax credits, both in Spain.

As a result, **losses for the year attributable to equity holders of the parent** in 2023 was 892 million euros, compared to 2,011 million euros in 2022.

Profit attributable to non-controlling interests was 318 million euros in 2023 (308 million euros in 2022). The variation is mainly due to an increase in profit attributable to non-controlling interests in Brazil, partially offset by a decrease in profit attributable to non-controlling interests in Colombia.

CapEx totaled 5,579 million euros in 2023, down 4.1% year-on-year in reported terms, impacted by lower spectrum purchases in 2023 (-1.6 p.p.). In organic terms, Capex decreased by 3.0% year-on-year.

OIBDA-CapEx stood at 5,811 million euros in 2023, decreasing by 17.4% year-on-year in reported terms, strongly affected by restructuring expenses (-19.3 p.p.), which relate mainly to the Collective Redundancies Plan adopted by certain companies in Telefónica Spain in 2023 (resulting in a provision of 1,320 million euros before taxes), the variation of the companies in countries with hyperinflationary economies (-2.9 p.p.) and the decrease in capital gains on the sale of businesses compared to 2022 (-2.5 p.p.), partially offset by lower spectrum purchase (+1.3 p.p.). In organic terms, OIBDA-CapEx grew by 8.0% year-on-year.

1.10.4. 2023/2022 Segment results

TELEFÓNICA SPAIN

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

ACCESSES

Thousands of accesses	2022	2023	%Reported YoY
Fixed telephony accesses ⁽¹⁾	8,102.3	7,948.4	(1.9%)
Broadband	5,854.5	5,934.7	1.4%
FTTH	5,042.2	5,345.4	6.0%
Mobile accesses	19,347.3	20,115.0	4.0%
Prepay	796.0	705.4	(11.4%)
Contract	15,099.5	15,296.8	1.3%
IoT	3,451.8	4,112.8	19.1%
Pay TV	3,526.3	3,426.4	(2.8%)
Retail Accesses	36,838.9	37,424.5	1.6%
Wholesale Accesses	3,653.6	3,567.8	(2.3%)
FTTH Wholesale Accesses	3,206.1	3,289.7	2.6%
Total Accesses	40,492.6	40,992.3	1.2%

Notes:

⁽¹⁾ Includes "fixed wireless" and Voice over IP accesses.

In Telefónica Spain, the following new developments stand out in 2023. In January 2023, Telefónica Spain made all customers' data plans unlimited (except for prepaid plans), eliminating all out-of-bundle excess data charges, allowing users to continue to navigate the Internet (at reduced speeds) after crossing specified usage thresholds.

In addition to unlimited voice and data, Movistar now offers Movistar Cloud, an unlimited cloud storage service available to all mobile customers, allowing customers to save all files, photos, videos and documents in a single place or consult them from the application included in the Movistar Plus+ decoder. In addition, Movistar's offering also now includes an integrated Secure Connection service, allowing users to navigate securely on mobile devices and on the home Wi-Fi network.

With these new features, customers can choose the products and services they need, with the confidence of having best-in-class connectivity and unlimited mobile navigation, supported by best-in-class experience in quality navigation and by broad 5G coverage, which as of December 2023 reached 87.0% of the population in Spain.

Additionally, Movistar continues to expand its offering aimed at making the lives of its customers easier, aspiring to become a comprehensive provider of services for the home and people. In May 2023, the TeCuida smartwatch

was presented, a new telecare device and service for people over 60 years and people with a low degree of dependency that detects falls, inside and outside the home. It also assists users in emergency situations, anywhere, 24 hours a day, 7 days a week, locating the person, notifying their contacts and arranging for any needed assistance.

In August 2023, Movistar Plus+ was launched, a reinforced new OTT TV service that replaces Movistar Plus Lite. The streaming service is available regardless of the customer's TV or Internet provider.

The service includes: one movie premiere per day, the main sports events, original and international series, documentaries, and entertainment programs, as well as one game of "LaLiga" and of the Champions League per match day.

In addition, as part of its commitment to sustainability, Movistar has developed an online platform and tools to support the Ecomar Foundation in raising awareness among young people about caring for the seas and waste management problems.

Additionally, Movistar Prosegur Alarmas, the joint venture of Prosegur and Telefónica Spain, reached 487 thousand customers as of December 31, 2023, an increase of 9.7% as compared to December 31, 2022.

Telefónica Spain had 41.0 million **accesses** as of December 31, 2023, an increase of 1.2% as compared to

December 31, 2022, due mainly to an increase in the IoT accesses base.

The **convergent offer** (residential and SMEs) had a customer base of 4.5 million customers as of December 31, 2023, a decrease of 0.1% y-o-y.

Retail fixed accesses totaled 7.9 million and decreased 1.9% as compared to December 31, 2022, with a net loss of 154 thousand accesses as of December 31, 2023.

Retail broadband accesses totaled 5.9 million (+1.4% y-o-y), with a net gain of 80 thousand accesses as of December 31, 2023.

Retail fiber (FTTH) accesses reached 5.3 million customers (+6.0% as compared to December 31, 2022), representing 90.1% of total retail broadband customers (+3.9 p.p. y-o-y) with net adds of 303 thousand accesses as of December 31, 2023. At December 31, 2023, fiber deployment reached 29.3 million premises, 1.2 million more than at December 31, 2022.

Total retail mobile accesses stood at 20.1 million as of December 31, 2023, an increase of 4.0% as compared to December 31, 2022 as a result of an increase in the IoT accesses base (+19.1% y-o-y) and contract accesses (+1.3% y-o-y), with a decrease in mobile prepay accesses (-11.4% y-o-y).

Pay TV accesses reached 3.4 million at December 31, 2023, decreasing 2.8% year-on-year due to a higher penetration of customers in service bundles that do not include TV.

Wholesale accesses stood at 3.6 million at December 31, 2023, down 2.3% year-on-year, and wholesale fiber (FTTH) accesses were up 2.6% year-on-year (92.2% of total wholesale accesses at December 31, 2023 compared with 87.8% at December 31, 2022).

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

Millions of euros

TELEFÓNICA SPAIN	2022	2023	% Reported YoY	% Organic YoY (1)
Revenues	12,497	12,654	1.3%	1.3%
Mobile handset revenues	548	518	(5.4%)	(5.4%)
Revenues ex-mobile handset sales	11,948	12,136	1.6%	1.6%
Retail	9,662	9,872	2.2%	2.2%
Wholesale and Other	2,286	2,264	(1.0%)	(1.0%)
Other income	803	526	(34.5%)	(34.5%)
Supplies	(5,008)	(5,027)	0.4%	0.4%
Personnel expenses	(1,765)	(3,194)	81.0%	9.7%
Other expenses	(1,939)	(1,730)	(10.8%)	(13.9%)
OIBDA	4,588	3,229	(29.6%)	(0.8%)
Depreciation and amortization	(2,157)	(2,200)	2.1%	2.1%
Amortization of intangible assets, depreciation of property, plant and equipment	(1,747)	(1,690)	(3.2%)	(3.2%)
Amortization of rights of use	(410)	(510)	24.5%	24.5%
Operating income	2,431	1,029	(57.7%)	(3.2%)
CapEx	1,550	1,607	3.7%	2.4%
OIBDA-CapEx	3,038	1,622	(46.6%)	(2.3%)

Notes:

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

The table below shows 2023/2022 variations in reported and organic terms (the latter, calculated in accordance with the adjustments referred to above) of certain line items of the income statement and other measures, and the contribution of each item for which we have adjusted to our reported growth:

TELEFÓNICA SPAIN 2023	YoY variation		Contribution to reported growth (percentage points)		
	% Reported YoY	% Organic YoY	Optimization Distribution Network	Restructuring costs	Spectrum acquisition
Revenues	1.3%	1.3%		—	—
Other income	(34.5%)	(34.5%)		—	—
Supplies	0.4%	0.4%		—	—
Personnel expenses	79.9%	9.7%		71.6	—
Other expenses	(10.8%)	(13.9%)	3.1	—	—
OIBDA	(29.2%)	(0.8%)	(1.3)	(27.5)	—
Depreciation and amortization	2.1%	2.1%		—	—
Operating income	(56.9%)	(3.2%)	(2.5)	(51.9)	—
CapEx	3.7%	2.4%		—	1.3
OIBDA-CapEx	(46.0%)	(2.3%)	(2.0)	(41.6)	(0.7)

Analysis of results

Revenues in 2023 amounted to 12,654 million euros, growing 1.3% y-o-y. This trend was supported by the evolution of revenues excluding mobile handset sales, which grew 1.6% year-on-year and is described below. This growth was partially offset by the 5.4% y-o-y decline in mobile handset revenues driven by higher volumes achieved during 2022 as a result of including the possibility to add devices in the convergent portfolio (beginning in February 2022 for the total convergent customer base) that boosted these revenues at the beginning of the initiative.

- **Retail revenues** totaled 9,872 million euros in 2023, increasing by 2.2% year-on-year, due in part to the recovery of the retail commercial activity and higher IT revenues as a result of higher demand for digitalization projects in the B2B segment.
- **Wholesale and other revenues** totaled 2,264 million euros in 2023, decreasing by 1.0% year-on-year, due mainly to the decrease in fixed traffic revenues, mobile interconnection revenues due to lower mobile termination rates, and the impact of less "LaLiga" (Spanish football league) content available in the wholesale offer after mid-August 2022 (after a competitor obtained a portion of the broadcasting rights for the 2022/2023 season), partially offset by the growth of roaming-in revenues and the growth of revenues from MVNOs.

The evolution of expenses is explained below:

- **Supplies** amounted to 5,027 million euros in 2023, up 0.4% year-on-year compared to 2022, mainly attributable to the increase in costs related to IT revenue growth.
- **Personnel expenses** amounted to 3,194 million euros in 2023, up 81.0% year-on-year compared to 2022. The year-on-year evolution was mainly attributable to the

Collective Redundancies Plan adopted by certain companies in Telefónica Spain in 2023 (resulting in a provision of 1,320 million euros before taxes) In organic terms, personnel expenses increased by 9.7% due to the wage increase driven by inflation.

- **Other expenses** amounted to 1,730 million euros in 2023, down 10.8% year-on-year compared to 2022. In organic terms, other expenses decreased by 13.9% due mainly to lower energy costs as well as savings associated to higher efficiencies.

OIBDA reached 3,229 million euros in 2023, a year-on-year decrease of 29.6%, (-0.8% year-on-year in organic terms).

Depreciation and amortization amounted to 2,200 million euros in 2023, increasing by 2.1% year-on-year both in reported and organic terms, mainly explained by growth of the amortizable base of rights of use.

Operating income amounted to 1,029 million euros in 2023, a year-on-year decrease of 57.7% in reported terms. The year-on-year increase was mainly driven by the Collective Redundancies Plan adopted by certain companies in Telefónica Spain in 2023, resulting in a provision of 1,320 million euros, before taxes, in 2023 (-51.9 p.p.), as well as the provisions recorded in Telefónica Spain to optimize the distribution network (-2.5 p.p.). Excluding these impacts, the decrease is 3.2%. The organic variation was impacted by higher personnel and IT costs related to the IT revenue growth and the higher inflation rate in the period, partially offset by higher service revenues.

VMO2

In accordance with applicable accounting standards, Telefónica's share in the results of VMO2, our 50:50 joint venture with Liberty Global plc in the United Kingdom, is presented in a single line of the income statement, "Share of (loss) income of investments accounted for by the equity method". However, the VMO2 segment information included in this section is presented using management criteria and shows 100% of VMO2's results; Telefónica's actual percentage ownership of VMO2 is 50%.

In 2023, VMO2 recorded an impairment of goodwill amounting to 3,572 million euros, with an 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 Telefónica Group. The impairment is related to an increase in VMO2's weighted average cost of capital and the impacts of the macroeconomic conditions and the competitive environment in the United Kingdom on estimated future cash flows of VMO2.

More than two years after the formation of VMO2, the company continues to integrate and innovate while investing heavily to expand and upgrade its fiber and 5G networks to provide the highest quality connectivity to more regions of the country, all in a context of economic headwinds due to adverse macroeconomic conditions in the United Kingdom.

VMO2's gigabit fixed network footprint reached the milestone of 17 million premises at the end of 2023. The company rolled its fiber out faster than ever before, delivering 833,100 additional premises serviceable in the

year, with the majority of these premises forming part of the FTTH network of nexfibre, a joint venture among T. Infra, Liberty Global and InfraVia (for additional information on this joint venture, see "Item 10. Additional Information—Material Contracts—Agreement reached by T. Infra, Liberty Global and InfraVia for the establishment of a fiber-to-the-home (FTTH) joint venture in the United Kingdom").

Across 2023, through a mix of the continued upgrade of VMO2's own network and expansion of the nexfibre network, the company expanded its fiber footprint by 1.7 million premises, bringing its total fiber reach to over 4 million homes.

In its mobile business, VMO2 reached the target of 50% UK outdoor 5G population coverage, and there is a commitment to meet the UK government's stated target of providing 5G standalone coverage in all populated areas of the United Kingdom by 2030. Additionally, the company improved network reliability by boosting 4G capacity in 465,000 postcodes during 2023 and delivered its one hundredth site as part of the Shared Rural Network program, a collaborative effort among the UK's major network operators and the government.

Company integration continued to advance with the migration of more than 3 million Virgin Mobile customers to O2 in November 2023 and further mobile backhaul integration utilizing the company's own fixed network.

The following table shows the evolution of accesses in VMO2 in 2023 compared to 2022:

ACCESSES

Thousands of accesses	2022	2023	%Reported YoY
Fixed telephony accesses ⁽¹⁾	4,239.7	3,876.5	(8.6%)
Broadband	5,661.6	5,724.7	1.1%
UBB	5,653.8	5,717.6	1.1%
Mobile accesses	33,831.3	35,216.3	4.1%
Prepay	7,968.3	7,617.9	(4.4%)
Contract	16,087.6	16,122.3	0.2%
IoT	9,775.5	11,476.1	17.4%
Pay TV	3,194.1	3,146.9	(1.5%)
Retail Accesses	46,926.8	47,964.4	2.2%
Wholesale Accesses	10,818.6	9,644.9	(10.8%)
Total Accesses	57,745.4	57,609.3	(0.2%)

The **total accesses base** decreased 0.2% year-on-year and stood at 57.6 million as of December 31, 2023, mainly driven by the decrease in wholesale caused by the migration of customers from one of the business's smaller MVNO partners to BT (completed in the second half of 2023), partially offset by the increase in the mobile

accesses base, which grew 4.1% year-on-year and reached 35.2 million accesses supported by growth in contract and IoT accesses.

The **contract mobile customer base** grew 0.2% year-on-year and reached 16.1 million accesses adding 35 thousand new accesses to the base in 2023.

The **prepay mobile customer base** decreased 4.4% year-on-year and totaled 7.6 million accesses, a decline of 350 thousand accesses in 2023.

IoT mobile customer base grew 17.4% year-on-year and reached 11.5 million accesses underpinned by the Smart Metering Implementation Programme roll out. The Smart Metering Implementation Programme (SMIP) is an energy-industry led program which aims to roll-out approximately 53 million smart electricity and gas meters to domestic properties and non-domestic sites in the United Kingdom.

The **fixed broadband base** grew 1.1% year-on-year and reached 5.7 million accesses, adding 63 thousand new

accesses in 2023 supported by the increase in customer demand for higher speeds. UBB accesses grew 1.1% year-over-year with a net gain of 64 thousand new accesses in 2023. The company's average broadband speed is 358 Mbps and increased 18.9% year-on-year, reaching speeds five times higher than the national speed average, according to Ofcom.

The table below shows 2023/2022 variations in reported and organic terms (the latter, calculated in accordance with the adjustments referred to above) of certain line items of the income statement and other measures and the contribution of each item for which we have adjusted to our reported growth:

Millions of euros

VMO2	2022	2023	% Reported YoY	% Organic YoY
Revenues	12,155	12,547	3.2%	5.2%
Mobile Business	6,938	6,840	(1.4%)	0.6%
Handset revenues	1,894	1,749	(7.7%)	(5.8%)
Fixed Business	4,639	4,453	(4.0%)	(2.3%)
Other	578	1,254	117.0%	120.0%
Other income	551	516	(6.3%)	(4.4%)
Supplies	(4,019)	(4,294)	6.8%	9.0%
Personnel expenses	(1,348)	(1,303)	(3.3%)	(7.9%)
Other expenses	(2,938)	(3,035)	3.3%	3.3%
Impairment of goodwill	—	(3,572)	c.s.	c.s.
OIBDA	4,401	859	(80.5%)	5.6%
Depreciation and amortization	(4,170)	(3,685)	(11.6%)	(9.8%)
Operating (loss) income	231	(2,826)	c.s.	183.3%
Share of income of investments accounted for by equity method	1	2	n.s.	
Financial income	24	55	126.3%	
Financial expenses	(1,020)	(1,436)	40.7%	
Realized and unrealized gains on derivate instruments, net ⁽¹⁾	2,567	(924)	c.s.	
Foreign currency transaction losses, net	(1,296)	677	c.s.	
Net financial result	275	(1,628)	c.s.	
Result before taxation	507	(4,452)	c.s.	
Net result	492	(4,187)	c.s.	
CapEx	2,707	2,408	(11.1)%	(3.3%)
OIBDA-CapEx	1,694	(1,549)	c.s.	15.7%

c.s: change of sign

Notes:

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

The table below shows 2023/2022 variations in reported and organic terms (the latter, calculated in accordance with the adjustments referred to above) of certain line items of the income statement and other measures, and the contribution of each item for which we have adjusted to our reported growth:

	YoY variation		Contribution to reported growth (percentage points)		
	% Reported YoY	% Organic YoY	Exchange rate effect	JV adjustments	Impairment of goodwill and other assets
VMO2 2023					
Revenues	3.2%	5.2%	(2.1)	0.1	—
Other income	(6.3%)	(4.4%)	(1.9)	—	—
Supplies	6.8%	9.0%	(2.2)	—	—
Personnel expenses	(3.3%)	(7.9%)	(2.0)	6.1	—
Other expenses	3.3%	3.3%	(2.1)	2.1	—
Impairment of goodwill	n.m	n.m	—	—	n.m
OIBDA	(80.5%)	5.6%	(2.1)	(3.0)	(81.2)
Depreciation and amortization	(11.6%)	(9.8%)	(1.8)	—	—
Operating income	c.s.	183.3%	(6.6)	(57.0)	n.s
CapEx	(11.1%)	(3.3%)	(1.8)	(6.3)	—
OIBDA-CapEx	c.s.	15.7%	(2.4)	2.3	(210.9)

Analysis of results

In 2023, **revenues** amounted to 12,547 million euros, growing 3.2% year-on-year in reported terms. In organic terms, revenues grew 5.2% year-on-year, mainly due to the nexfibre revenues contribution (where VMO2 is the anchor wholesale tenant) and the price increases implemented by VMO2, partially offset by the pound sterling depreciation (-2.1 p.p.) and the lower customer base.

- **Mobile business revenues** amounted to 6,840 million euros in the year 2023, declining by 1.4% in reported terms due to the pound sterling depreciation (-2.0 p.p.). In organic terms, the year-on-year growth was 0.6%, as price increase was partially offset by the decrease in handset revenues (where there were deteriorating margins).
- **Fixed business revenues** amounted to 4,453 million euros in the year 2023, decreasing by 4.0% in reported terms impacted by the pound sterling depreciation (-2.0 p.p.). In organic terms, decreasing by 2.3% year-on-year, mainly due to reduced customer spend (driven by the increased cost of living), partially offset by the price increases implemented by VMO2. Moreover, B2B fixed revenue decreased due to lower prices offered upon customer contract renewals and customer shifts to lower-cost products and services.

- **Other revenues** amounted to 1,254 million euros in the year 2023, a 117.0% increase in reported terms in spite of the pound sterling depreciation (-4.4 p.p.). In organic terms, the year-on-year growth was 120.0% mainly from construction, network and other revenues services provided to nexfibre, the FTTH joint venture formed by Telefónica Infra, Liberty Global and InfraVia.

The evolution of expenses is explained below:

- **Supplies** amounted to 4,294 million euros in 2023, up 6.8% year-on-year in reported terms compared to 2022 due to the depreciation of the pound sterling (-2.2 p.p.). In organic terms, the year-on-year growth was 9.0% driven by nexfibre growth offset in part by synergies realization, cost efficiencies and lower handset sales purchases.
- **Personnel expenses** amounted to 1,303 million euros in 2023, down 3.3% year-on-year in reported terms compared to 2022 due to the depreciation of the pound sterling (-2.0 p.p.), negatively impacted by restructuring adjustments (+6.1 p.p.). In organic terms, the year-on-year decline was 7.9% positively impacted by the realization of synergies through the execution of restructuring plans aiming to deliver a single operating model and a leaner company.
- **Other expenses** amounted to 3,035 million euros in 2023, up 3.3% year-on-year in reported terms compared to 2022 driven by higher integration costs

(+2.1 p.p.), partially offset by the depreciation of the pound sterling (-2.1 p.p.). In organic terms, the year-on-year growth was 3.3%, mainly attributable to inflationary tensions, including higher energy costs.

- In addition, VMO2 recorded an **impairment of goodwill** amounting to 3,572 million euros, related to an increase in VMO2's weighted average cost of capital and the impacts of the macroeconomic conditions in the United Kingdom on estimated future cash flows of VMO2.

OIBDA in 2023 reached 859 million euros, decreasing 80.5% year-on-year in reported terms impacted by the impairment of goodwill (-81.2 p.p.), other adjustments including restructuring (-3.0 p.p.) and the depreciation of the pound sterling (-2.1 p.p.). In organic terms OIBDA increases 5.6% year-on-year.

Depreciation and amortization amounted to 3,686 million euros in 2023, decreasing by 11.6% in reported terms impacted by lower depreciable base and the pound sterling (-1.8 p.p.). In organic terms, depreciation and amortization would decrease by 9.8% year-on-year.

Operating loss amounted to 2,826 million euros in the year 2023, compared to an Operating income of 231 million euros in 2022, mainly due to the impairment of goodwill amounting to 3,572 million euros. In organic terms, the year-on-year was 183.3%, mainly due to the decline in depreciation and amortization, synergies realization, the prices increases implemented by VMO2 and costs efficiencies.

TELEFÓNICA GERMANY

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

ACCESSES

Thousands of accesses	2022	2023	%Reported YoY
Fixed telephony accesses ⁽¹⁾	2,211.6	2,299.9	4.0%
Broadband ⁽²⁾	2,294.2	2,384.3	3.9%
UBB	1,939.1	2,064.6	6.5%
FTTH	13.9	28.3	103.4%
Mobile accesses ⁽³⁾	44,306.6	45,072.4	1.7%
Prepay	16,274.8	15,526.6	(4.6%)
Contract	26,336.2	27,686.4	5.1%
IoT ⁽⁴⁾	1,695.7	1,859.3	9.7%
Retail Accesses	48,891.6	49,832.2	1.9%
Total Accesses	48,891.6	49,832.2	1.9%

Notes:

⁽¹⁾ Includes "fixed wireless" and Voice over IP accesses.

In 2023, Telefónica Germany continued solid growth due to robust commercial traction underpinned by its "more for more" O2 Mobile portfolio and its low churn levels.

Telefónica Germany's key milestones in 2023 were as follows:

- Continued commercial success, with contract net additions up 9.9% year-on-year (1.4 million new clients supported by O2 and partner brands) in combination with low churn rates.
- Telefónica Germany made good progress with the densification and further roll-out of its green network. 5G network coverage stood at 95% as of December 31, 2023, thus achieving and exceeding the goal set for 2023, and leaving Telefónica Germany well on track to achieve nationwide 5G coverage by 2025 at the latest.
- In November 2023, Telefónica Germany and the 1&1 Group expanded the scope of a May 2021 national roaming agreement to include 5G mobile services, which services were activated on December 8, 2023. The expansion of the roaming agreement followed the 1&1 Group's disclosure on August 2, 2023 that it will switch its host network operator in Germany from Telefónica Germany to Vodafone in the second half of 2024, under a long-term, exclusive national roaming partnership with Vodafone Group. This exclusivity arrangement includes the non-discriminatory provision of national roaming services in areas not yet covered by the new 1&1 mobile network and in particular includes access to the 5G network of Vodafone Group, including mobile communication standards 2G and 4G and future mobile communication standards and technologies.

The agreement between the 1&1 Group and Vodafone will limit future network sharing opportunities with 1&1.

The **total access base** increased 1.9% year-on-year and stood at 49.8 million on December 31, 2023, mainly driven by a 1.7% increase in the mobile accesses base, which reached 45.1 million.

The **contract mobile customer base** grew 5.1% year-on-year and reached 27.7 million accesses, increasing the share over the total mobile accesses base to 61.4%. Net adds reached 1.4 million accesses driven by own brand gross adds momentum in combination with low churn levels. Churn rates remained at low levels based on the high network and service quality combination.

The **prepay mobile customer base** decreased 4.6% year-on-year to 15.5 million accesses, reflecting the German market trend of prepaid to postpaid migration. There was a net loss of 0.7 million prepay customers in 2023.

Broadband accesses reached 2.4 million accesses (up 3.9% y-o-y) with a net add of 90 thousand accesses in 2023, mainly driven by the good performance of "O2 myHome" tariff, continued VDSL demand and a low level of churn. Fiber and cable technologies are gaining more and more traction with high-value customers in these technologies.

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

Millions of euros

TELEFÓNICA GERMANY	2022	2023	% Reported YoY	% Organic YoY (1)
Revenues	8,224	8,614	4.7%	4.7%
Mobile Business	7,394	7,767	5.0%	5.0%
Handset revenues	1,652	1,872	13.3%	13.3%
Fixed Business	806	827	2.7%	2.7%
Other income	153	160	4.7%	4.7%
Supplies	(2,524)	(2,677)	6.1%	6.1%
Personnel expenses	(622)	(669)	7.6%	8.2%
Other expenses	(2,673)	(2,788)	4.3%	4.4%
OIBDA	2,558	2,640	3.2%	3.0%
Depreciation and amortization	(2,295)	(2,323)	1.2%	1.2%
Amortization of intangible assets, depreciation of property, plant and equipment	(1,659)	(1,650)	(0.5%)	(0.5%)
Amortization of rights of use	(636)	(673)	5.7%	5.7%
Operating income	263	317	20.8%	17.6%
CapEx	1,209	1,133	(6.3%)	(6.3%)
OIBDA-CapEx	1,349	1,507	11.7%	11.1%

Notes:

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

n.m.: not meaningful

The table below shows 2023/2022 variations in reported and organic terms (the latter, calculated in accordance with the adjustments referred to above) of certain line items of the income statement and other measures and the contribution of each item for which we have adjusted to our reported growth:

TELEFÓNICA GERMANY 2023	YoY variation		Contribution to reported growth
	% Reported YoY	% Organic YoY	(percentage points)
Revenues	4.7%	4.7%	—
Other income	4.7%	4.7%	—
Supplies	6.1%	6.1%	—
Personnel expenses	7.6%	8.2%	(0.6)
Other expenses	4.3%	4.4%	(0.1)
OIBDA	3.2%	3.0%	0.2
Depreciation and amortization	1.2%	1.2%	—
Operating income	20.8%	17.6%	2.1
CapEx	(6.3%)	(6.3%)	—
OIBDA-CapEx	11.7%	11.1%	0.4

n.m.: not meaningful

Analysis of results

Total **revenues** were 8,614 million euros in 2023, year-on-year increase of 4.7% driven by the increase in the mobile business.

- **Mobile business revenues** totaled 7,767 million euros, increasing 5.0% year-on-year in reported terms. This reflects the sustained mobile service revenue momentum on the back of the ongoing strong commercial traction of the O2 brand and a solid contribution from partner brands selling O2 services.
- **Handset revenues** (which are included in mobile business revenues) amounted to 1,872 million euros, increasing 13.3% year-on-year in reported terms due to high demand for accessories and high value devices

supported by the "O2 myHandy" (monthly-installment financing model).

- **Fixed business revenues** were 827 million euros, increasing 2.7% y-o-y in reported terms due to the good performance of "O2 myHome" tariff, and the increasing demand of fiber and cable technologies.

Mobile ARPU was 10.8 euros (+6.5% y-o-y) in reported terms due to the 15.3% year-on-year increase in prepay ARPU, offset in part by the 0.1% y-o-y decrease in contract ARPU. Data ARPU was 7.4 euros (+9.2% y-o-y), supported by the successful "O2 Mobile" portfolio.

TELEFÓNICA GERMANY	2022	2023	% Reported YoY
ARPU (EUR)	10.1	10.8	6.5%
Prepay	6.7	7.8	15.3%
Contract ⁽¹⁾	13.3	13.2	(0.1%)
Data ARPU (EUR)	6.7	7.4	9.2%

⁽¹⁾ Excludes IoT.

The evolution of expenses is explained below:

- **Supplies** amounted to 2,677 million euros in 2023, increasing 6.1% year-on-year in reported and organic terms, mainly attributable to higher handset cost of sales partially offset by positive effects from cuts in the MTR (Mobile Termination Rate) fees paid to other operators.
- **Personnel expenses** amounted to 669 million euros in 2023, increasing 7.6% year-on-year in reported terms, partially offset by lower restructuring costs in 2023 compared to 2022 (-0.6 p.p.). In organic terms, personnel expenses increased 8.2% year-on-year reflecting the staff and wage increases in 2023, which were intended to support Telefónica Germany's transformation and growth plans.
- **Other expenses** amounted to 2,788 million euros in 2023, increasing 4.3% year-on-year in reported terms compared to 2022, partially offset by lower restructuring costs in 2023 compared to 2022 (-0.1 p.p.). In organic terms, other expenses increased 4.4% year-on-year, reflecting commercial costs, higher energy costs and higher technology costs required for the digital transformation of the company.

Depreciation and amortization amounted to 2,323 million euros in 2023, increasing by 1.2% year-on-year both in reported and organic terms mainly due to higher amortization of rights-of-use assets.

Operating income totaled 317 million euros in 2023, increasing 20.8% year on year in reported terms. In organic terms, increase 17.6%, due good performance in both fixed and mobile businesses, own brand momentum, and further efficiency gains.

OIBDA totaled 2,640 million euros in 2023, increasing by 3.2% year-on-year in reported terms. In organic terms, OIBDA increased by 3.0% year-on-year, due to higher revenues.

TELEFÓNICA BRAZIL

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

ACCESSES

Thousands of accesses	2022	2023	%Reported YoY
Fixed telephony accesses ⁽¹⁾	7,012.7	6,457.7	(7.9%)
Broadband ⁽²⁾	6,419.6	6,677.9	4.0%
UBB	5,967.7	6,386.5	7.0%
FTTH	5,482.4	6,174.7	12.6%
Mobile accesses ⁽³⁾	97,973.0	99,070.2	1.1%
Prepay	39,305.9	37,267.3	(5.2%)
Contract	43,947.2	45,902.7	4.4%
IoT	14,719.9	15,900.2	8.0%
Pay TV	966.3	844.9	(12.6%)
IPTV	898.3	844.9	(5.9%)
Retail Accesses	112,423.7	113,101.8	0.6%
Total Accesses	112,424.0	113,102.1	0.6%

Notes:

⁽¹⁾ Includes "fixed wireless" and Voice over IP accesses.

In 2023, Telefónica Brazil maintained its leadership in the mobile segment and, after the incorporation of Oi's customer base in April 2022 and in a more consolidated market environment, is positioned with a market share of 38.7%, standing at +4.8 p.p. ahead of its closest competitor, based on market-share data published by ANATEL in December 2023. Telefónica Brazil's strategy remains focused on strengthening its high-value customer base, and it reached a contract market share (excluding IoT accesses) of 43.4%, as of December 31, 2023, according to ANATEL.

In the fixed business, Telefónica Brazil continued with the implementation of strategic technologies, focusing on the deployment of fiber and IPTV, centering its commercial offer around Vivo Total and maintaining low churn rates.

In addition, Telefónica Brazil continued to advance in the development of an ecosystem with relevant partners to promote its consolidation as a digital services hub. The value proposition it offers is strengthened with a broad portfolio of services, highlighting those described below:

- Vida V - Health & Wellness, in March 2023, Telefónica Brazil announced the acquisition of Vale Saúde Semper, expanding its presence in digital health services. Vale Saúde Semper is a startup that acts as a health services marketplace, connecting more than 70 thousand customers with more than 5 thousand clinics and laboratories throughout Brazil. This service is obtained with a monthly subscription.

- Viva E – Education: commercially launched in March 2023, this platform provides digital courses focused on lifelong learning and employability. The platform is owned and operated by a joint venture created by Telefónica Brazil and Ânima Educação offers more than 400 hours of content.
- Vivo Ventures (an investment fund that focuses on startups) made its first two investments in the financial platforms Klavi and Klubi. Continuing with its expansion strategy in the sector, in June 2023 Vivo Ventures announced its third investment, in Digibee, an iPaaS service integration platform. Moreover, Vivo Ventures has agreed to invest 25 million Brazilian reais in Conexa Health LLC, Latin America's largest independent telemedicine platform and digital health ecosystem.

Total accesses stood at 113.1 million as of December 31, 2023, increasing by 0.6% year-on-year mainly due to the growth in contract thanks to Telefónica Brazil's totalization strategy (expanding the services we offer to provide customers with a complete experience) and the growth in FTTH, which offset the decrease in prepaid mobile accesses, the decline in the fixed voice business due to the continuous migration from fixed to mobile, the contraction of the lower-value fixed broadband customer base, and the loss of DTH customers as a result of the company's strategic decision to discontinue legacy technologies.

Contract mobile accesses grew by 4.4% year-on-year and reached 45.9 million with net adds of 2.0 million new accesses in 2023, with a churn at historical low levels (1.0%), driven by the totalization strategy and by the launch of new attractive bundles (packaged offers with more than one service) in control postpaid (postpaid accesses with usage limits, requiring customers to purchase “top-ups” if they exceed these limits).

Prepaid mobile accesses decreased by 5.2% year-on-year, reaching 37.3 million accesses with a net loss of 2.0 million accesses in 2023. The lower customer base has been mainly a consequence of the disconnection of inactive customers, mostly from Oi’s customer base incorporated in 2022, as well as the strategy of migrating prepaid customers to control postpaid (postpaid accesses with usage limits, requiring customers to purchase “top-ups” if they exceed these limits).

Broadband accesses grew by 4.0% year-on-year and reached 6.7 million accesses with net adds of 258

thousand new accesses in 2023. Telefónica Brazil maintained its strategic focus on the deployment of fiber, reaching 6.2 million homes connected with FTTH as of December 2023, growing 12.6% year-on-year. Telefónica Brazil reached 26.2 million real estate units, which managed to offset the decrease in other accesses of legacy broadband services (xDSL).

Traditional voice accesses decreased by 7.9% year-on-year due to fixed-mobile substitution, reaching 6.5 million accesses.

Pay TV accesses reached 0.8 million as of December 31, 2023, decreasing by 12.6% year-on-year, mainly as a result of the strategic decision to discontinue the DTH service.

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

Millions of euros

TELEFÓNICA BRAZIL	2022	2023	% Reported YoY	% Organic YoY (1)
Revenues	8,870	9,650	8.8%	8.4%
Mobile Business	6,106	6,792	11.2%	10.9%
Handset revenues	573	640	11.6%	11.2%
Fixed Business	2,764	2,858	3.4%	3.1%
Other income	416	427	2.8%	2.5%
Supplies	(1,783)	(2,170)	21.7%	21.3%
Personnel expenses	(1,097)	(1,220)	11.2%	10.9%
Other expenses	(2,674)	(2,559)	(4.3%)	(4.6%)
OIBDA	3,732	4,128	10.6%	10.2%
Depreciation and amortization	(2,369)	(2,511)	6.0%	5.6%
Amortization of intangible assets, depreciation of property, plant and equipment	(1,807)	(1,890)	4.6%	4.3%
Amortization of rights of use	(562)	(621)	10.3%	10.0%
Operating income	1,363	1,617	18.6%	18.3%
CapEx	1,795	1,671	(6.9%)	(6.0%)
OIBDA-CapEx	1,937	2,457	26.8%	24.7%

Notes:

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

The table below shows 2023/2022 variations in reported and organic terms (the latter, calculated in accordance with the adjustments referred to above) of certain line items of the income statement and other measures, and the contribution of each item for which we have adjusted to our reported growth:

	YoY variation		Contribution to reported growth (percentage points)	
	% Reported YoY	% Organic YoY	Exchange rate effect	Spectrum acquisition
TELEFÓNICA BRAZIL 2023				
Revenues	8.8%	8.4%	0.3	—
Other income	2.8%	2.5%	0.3	—
Supplies	21.7%	21.3%	0.4	—
Personnel expenses	11.2%	10.9%	0.4	—
Other expenses	(4.3%)	(4.6%)	0.3	—
OIBDA	10.6%	10.2%	0.4	—
Depreciation and amortization	6.0%	5.6%	0.3	—
Operating income	18.6%	18.3%	0.4	—
CapEx	(6.9%)	(6.0%)	0.3	(1.3)
OIBDA-CapEx	26.8%	24.7%	0.4	1.2

Analysis of results

In 2023, **revenues** amounted to 9,650 million euros, growing by 8.8% year-on-year in reported terms driven mainly by the appreciation of the Brazilian real (+0.3 p.p.). In organic terms, revenues grew by 8.4% year-on-year. This evolution is mainly driven by the growth in service revenues (mobile business), businesses associated with new technologies like FTTH, IPTV and Digital Services and higher handset sales. To a lesser extent, revenues grew due to the price increases implemented by Telefónica Brazil. These impacts offset the revenue erosion associated with voice and traditional accesses and to a lesser extent due to lower Pay TV revenues.

- **Mobile business revenues** totaled 6,792 million euros in 2023, increasing by 11.2% in reported terms, mainly due to the appreciation of the Brazilian real (+0.4 p.p.). In organic terms, mobile business revenues increased by 10.9%, mainly as a result of the larger contract customer base and the price increases implemented by Telefónica Brazil.

- **Fixed business revenues** amounted to 2,858 million euros in 2023, growing 3.4% in reported terms mainly due to the appreciation of the Brazilian real (+0.3 p.p.). In organic terms, revenues grew 3.1%, mainly explained by higher FTTH revenues in line with the strategic focus on such services, as well as higher IT service revenues.

Mobile ARPU grew 7.2% year-on-year in reported terms mainly due to the appreciation of the Brazilian real. In local currency, mobile ARPU grew 6.8% year-on-year supported by the good evolution of the contract business, helped by the totalization strategy (expanding the services we offer to provide customers with a complete experience), mobile shelf plans with new hybrid bundles (packaged offers including, e.g., health insurance and entertainment services as Vale Saúde and VIVOplay), and to a lesser extent the price increases implemented by Telefónica Brazil.

TELEFÓNICA BRAZIL	2022	2023	% Reported YoY	%Local Currency YoY
ARPU (EUR)	4.7	5.0	7.2%	6.8%
Prepay	2.3	2.4	4.0%	3.7%
Contract ⁽¹⁾	8.3	8.8	6.3%	5.9%
Data ARPU (EUR)	3.7	4.1	8.6%	8.3%

⁽¹⁾ Excludes IoT.

The evolution of expenses is explained below:

- **Supplies** amounted to 2,170 million euros in 2023, increasing 21.7% year-on-year in reported terms, impacted by the appreciation of the Brazilian real (+0.4 p.p.). In organic terms, supplies increased by 21.3% year-on-year due to higher equipment purchases and handset costs associated with increased commercial activity.
- **Personnel expenses** amounted to 1,220 million euros in 2023, increasing 11.2% year-on-year in reported terms compared to 2022, impacted by the appreciation of the Brazilian real (+0.4 p.p.). In organic terms, personnel expenses increased by 10.9% year-on-year, as result mainly of the salary increases due to inflation.
- **Other expenses** amounted to 2,559 million euros in 2023, decreasing 4.3% year-on-year in reported terms compared to 2022, impacted by the appreciation of the Brazilian real (+0.3 p.p.). In organic terms, other expenses decreased by 4.6% year-on-year due mainly to the acquisition price adjustment recorded in connection with Oi's assets and cost efficiencies due to digitalization.

OIBDA stood at 4,128 million euros in 2023, growing by 10.6% year-on-year in reported terms. In organic terms, OIBDA grew by 10.2%.

Depreciation and amortization amounted to 2,511 million euros in 2023, increasing 6.0% in reported terms. In organic terms, depreciation and amortization would increase by 5.6% year-on-year due to higher amortization of intangible assets.

Operating income stood at 1,617 million euros in 2023, increasing by 18.6% year-on-year in reported terms, impacted positively by the appreciation of the Brazilian real (+0.4 p.p.). In organic terms, the operating income increased by 18.3%, as a result of the good performance of service revenues as result of higher commercial activity and the price increases implemented by Telefónica Brazil, which together with good cost management more than offset the growth in expenses and depreciation and amortization.

TELEFÓNICA HISPAM

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

ACCESSES

Thousands of accesses	2022	2023	%Reported YoY
Fixed telephony accesses ⁽¹⁾	6,375.7	5,678.7	(10.9%)
Broadband	6,030.6	6,029.2	0.0%
UBB	5,155.0	5,534.6	7.4%
FTTH	5,053.9	5,466.7	8.2%
Mobile accesses	95,579.7	97,945.7	2.5%
Prepay	65,340.7	66,649.7	2.0%
Contract	24,771.9	25,125.8	1.4%
IoT	5,467.2	6,170.1	12.9%
Pay TV	2,899.8	2,840.3	(2.1%)
IPTV	1,384.7	1,682.7	21.5%
Retail Accesses	110,958.9	112,563.5	1.4%
Total Accesses	110,970.7	112,575.3	1.4%

Notes:

⁽¹⁾ Includes "fixed wireless" and Voice over IP accesses.

Telefónica Hispam's **total accesses** amounted to 112.6 million as of December 31, 2023 (+1.4% year-on-year), as a result of the increase in mobile and FTTH accesses.

Mobile accesses amounted to 97.9 million, increasing by 2.5% y-o-y mainly due to the higher prepay customer base.

- **Contract accesses** increased by 1.4% year-on-year due to the increase in accesses in Mexico (+22%), Venezuela (+4.1%) and Peru (+2.4%), partially offset by the decrease in Chile (-2.2%) and Colombia (-1.3%). This evolution is mainly thanks to attractive commercial offers which result in a higher number of gross adds.
- **Prepay accesses** increased by 2.0% year-on-year, with a net gain of 1.3 million accesses as of December 31, 2023. The year-on-year accesses evolution was greatly impacted by the gain of accesses in Colombia (+912 thousand accesses), Chile (+900 thousand accesses) and Venezuela (+673 thousand accesses) due to lower churn. The year-on-year increase was partially offset by an access decrease in Peru (-998 thousand accesses), and to a lesser extent Mexico (-151 thousand accesses) and Uruguay (-38 thousand accesses).

Fixed accesses stood at 5.7 million as of December 31, 2023 (-10.9% year-on-year) with a net loss of 0.7 million accesses due to the continued erosion of the traditional fixed business.

Fixed broadband accesses amounted to 6.0 million as of December 31, 2023 (stable year-on-year). The penetration of FBB accesses over fixed accesses stood at 106.2% (+11.6 p.p. y-o-y), as a result of the focus on Ultra Broadband (UBB) deployment in the region reaching 5.5 million connected accesses (+8.2% y-o-y) and 20.3 million premises. The penetration of UBB accesses over fixed broadband accesses stood at 91.7% (+6.2 p.p. y-o-y).

Pay TV accesses stood at 2.8 million as of December 31, 2023, a decrease of 2.1% y-o-y or a net loss of 60 thousand customers, a consequence of the decrease in Direct-to-Home (DTH) technology accesses (-146.2 thousand accesses) due to the change in commercial strategy, as well as the decreasing cable access base (-211.2 thousand accesses). This evolution was partially offset by the increase in IPTV accesses (+298 thousand accesses), on which the Company is placing strategic focus.

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

Millions of euros

TELEFÓNICA HISPAM	2022	2023	% Reported YoY	% Organic YoY ⁽¹⁾
Revenues	9,141	8,381	(8.3%)	(0.1%)
Mobile Business	6,003	5,493	(8.5%)	(1.4%)
Handset revenues	1,541	1,416	(8.1%)	(2.1%)
Fixed Business	3,138	2,888	(8.0%)	2.4%
Other income	448	263	(41.3%)	(4.3%)
Supplies	(3,384)	(3,211)	(5.1%)	(0.5%)
Personnel expenses	(1,201)	(1,126)	(6.3%)	3.9%
Other expenses	(3,046)	(2,797)	(8.1%)	1.6%
OIBDA	1,958	1,510	(22.9%)	(4.8%)
Depreciation and amortization	(1,799)	(1,557)	(13.5%)	(3.3%)
Amortization of intangible assets, depreciation of property, plant and equipment	(1,345)	(1,207)	(10.3%)	1.2%
Amortization of rights of use	(454)	(350)	(23.0%)	(17.1%)
Operating loss	159	(47)	c.s.	(17.6%)
CapEx	1,058	938	(11.4%)	(4.4%)
OIBDA-CapEx	900	572	(36.4%)	(5.1%)

Notes:

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

c.s.: change of sign

n.m.: not meaningful

The table below shows 2023/2022 variations in reported and organic terms (the latter, calculated in accordance with the adjustments referred to above) of certain line items of the income statement and other measures, and the contribution of each item for which we have adjusted to our reported growth:

TELEFÓNICA HISPAM 2023	YoY variation		Contribution to reported growth (percentage points)						
	% Reported YoY	% Organic YoY	Exchange rate effect	Capital gains/ losses on sale of companies	Reported var. in hyperinflationary countries	Restructuring cost	Spectrum acquisition	Transformation T. Mexico	Impairment of goodwill and other assets
Revenues	(8.3%)	(0.1%)	0.7	—	(8.9)	—	—	—	—
Other income	(41.3%)	(4.3%)	0.9	(36.5)	(3.0)	—	—	—	—
Supplies	(5.1%)	(0.5%)	1.6	—	(6.3)	—	—	—	—
Personnel expenses	(6.3%)	3.9%	0.3	—	(12.7)	2.6	—	—	—
Other expenses	(8.1%)	1.6%	0.5	—	(9.5)	—	—	—	(0.6)
OIBDA	(22.9%)	(4.8%)	(0.2)	(8.3)	(9.0)	(1.6)	—	—	1.0
Depreciation and amortization	(13.5%)	(3.3%)	—	—	(8.8)	—	—	(1.4)	—
Operating loss	c.s.	n.m.	(1.5)	(103.0)	(11.7)	(19.4)	—	15.4	12.1
CapEx	(11.4%)	(4.4%)	—	—	0.6	—	(8.3)	—	—
OIBDA-CapEx	(36.4%)	(5.1%)	(0.4)	(18.2)	(20.3)	(3.4)	9.7	—	2.1

c.s.: change of sign

n.m.: not meaningful

Analysis of results

Venezuela and Argentina are considered countries with hyperinflationary economies in 2023 and 2022, and hyperinflation in Argentina had a significant impact on the segment's results in 2023. The exchange rate used to translate inflation-adjusted items denominated in Argentine pesos in the consolidated financial statements as of and for the year ended December 31, 2023 was the closing exchange rate as of December 31, 2023 which was 893.45 Argentine pesos per euro (189.08 Argentine pesos per euro as of December 31, 2022). The annual inflation rate for 2023 was 211%. As a result, in 2023 Telefónica Argentina contributed 1,237 million euros to the consolidated revenues of the Telefónica Group and an operating loss of 199 million euros to the consolidated operating income of the Telefónica Group (2,066 million euros and a loss of 270 million euros, respectively, in 2022).

Revenues amounted to 8,381 million euros in 2023, decreasing 8.3% year-on-year in reported terms. This decrease was caused by the reported variation of companies in hyperinflationary countries (-8.9 p.p.), marginally compensated by exchange rate effects (+0.7 p.p.). In organic terms, revenues decreased by 0.1% year-on-year, mainly due to a decrease in handset sales revenues, lower prepaid B2C (Business to Customer) and TV revenues, partially offset by higher broadband and new services revenues.

Mobile business revenues amounted to 5,493 million euros in 2023, decreasing 8.5% year-on-year in reported terms. This decrease was caused by the reported variation of companies in hyperinflationary countries (-8.4 p.p.) partially offset by exchange rate effects (+1.3 p.p.). In organic terms, revenues decreased by 1.4% year-on-year, mainly due to revenue the decrease in handset sales, as a result of the slowdown in commercial activity with a lower number of gross adds and lower prepaid B2C (Business to Customer) revenues.

The performance by country was as follows:

- In Argentina, mobile revenues amounted to 862 million euros 2023, decreasing 37.5% year-on-year in reported terms. Excluding the exchange rate effects (-154.4 p.p.), given the depreciation of the Argentine peso, revenues increased 117.0% year-on-year explained by higher postpaid and prepaid B2C (Business to Customer) revenues due to the increase in accesses and higher handset sales.
- In Chile, mobile revenues amounted to 988 million euros in 2023, increasing 2.0% year-on-year in reported terms. Excluding the impact of exchange rate effects (+1.1 p.p) revenues grew 0.9% explained by higher handset sales and mobile postpaid revenues.
- In Peru, mobile revenues amounted to 840 million euros in 2023, decreasing 9.1% year-on-year in reported

terms, impacted by exchange rate effects (-0.4 p.p.). Excluding this impact revenues decreased 8.7% affected by an aggressive competitive environment in postpaid which has led to a lower ARPU, lower commercial activity with lower number of gross adds in prepaid and lower handset sales.

- In Colombia, mobile revenues amounted to 774 million in 2023, decreasing 13.1% year-on-year in reported terms. Excluding the impact of exchange rate effects (-3.9 p.p.), revenues decreased 9.2% due to lower prepaid and handset revenues, as a result of the slowdown in commercial activity, with a lower number of gross adds, partially offset by higher postpaid revenues.
- In Mexico, mobile revenues amounted to 1,318 million euros in 2023, increasing 12.5% year-on-year in reported terms. Excluding the impact of exchange rate effects (+10.5 p.p.), revenues grew 2.0%, leveraged on higher B2C (Business to Customer) postpaid revenues with a the good level of commercial activity resulting in a higher number of gross adds and higher handset sales revenues.

Fixed business revenues amounted to 2,888 million euros in 2023, decreasing 8.0% year-on-year in reported terms. This decrease was affected by the reported variation of companies in hyperinflationary countries (-10.0 p.p.) and exchange rate effects (-0.5 p.p.). Excluding these impacts, revenues increased by 2.4%, driven by higher broadband and new services revenues and the increase in voice accesses in Chile and Colombia, that partially offset the decrease in fixed business revenues in Peru, affected by an aggressive competitive environment.

The evolution of expenses is explained below:

- **Supplies** amounted to 3,211 million euros in 2023, decreasing 5.1% year-on-year in reported terms compared to 2022. This decrease was mainly attributable to the reported variation of companies in hyperinflationary countries (-6.3 p.p.) partially offset by foreign exchange effects (+1.6 p.p.). In organic terms, supplies decreased by 0.5% driven by lower direct costs partially offset by higher commercial costs.
- **Personnel expenses** amounted to 1,126 million euros in 2023, decreasing 6.3% year-on-year in reported terms compared to 2022. This decrease was mainly attributable to the reported variation of companies in hyperinflationary countries (-12.7 p.p.) partially offset by the year-on-year increase in restructuring costs in several operating businesses in the region (+2.6 p.p.). Excluding these impacts personnel expenses increased by 3.9% mainly due to higher wages.

- **Other expenses** amounted to 2,739 million euros in 2023, down 10.0% year-on-year in reported terms compared to 2022. This decrease was mainly due to the reported variation of companies in hyperinflationary countries (-9.5 p.p.). In organic terms these costs increase by 1.6% year-on-year despite the cost efficiencies carried out in the region.

OIBDA reached 1,510 million euros in 2023, decreasing 22.9% year-on-year in reported terms 4.8% in organic terms).

Depreciation and amortization amounted to 1,557 million euros in 2023, decreasing 13.5% year-over-year in reported terms (-3.3% in organic terms), mainly due to the effect of the devaluation of the Argentine peso and to the lower amortization base in Telefónica México.

Operating Loss was 47 million euros in 2023, compared to Operating Income of 159 million euros in 2022. This year-on-year variation was mainly affected by the recording of capital gains in 2022 from the sale of fiber assets in Colombia (-103.0 p.p.), the higher restructuring expenses carried out in several operating businesses in the segment in 2023 compared to 2022 (-19.4 p.p.), partially offset by the lower depreciation and amortization base in Telefónica Mexico in 2023 compared to 2022, related to the transformation of the operating model (as a result of the 2019 wholesale access services agreement with AT&T); (+15.4 p.p.), the difference in the impairment recorded in 2023 in Ecuador (amounting to 58 million euros) and the other assets impairment recorded in 2022 relating to Telefónica Argentina (amounting to 77 million euros); (+12.1 p.p.). In organic terms, Operating Income decreased by 17.6% year-on-year, due to lower revenues in spite of the lower expenses.

Below is additional information by country:

- In Argentina, operating loss was 199 million euros in 2023 compared to an operating loss of 270 million euros in 2022, a 26.5% year-on-year decrease mainly due to the devaluation of the Argentine peso and lower depreciation and amortizations expense in 2023.
- In Chile operating income was 35 million euros in 2023 (-80.6% year-on-year in reported terms). Excluding foreign exchange effects operating income decreased 80.9% year-on-year, explained mainly by the capital gain recorded in 2022 from the sale of a data center in such year.
- In Peru the operating loss was 33 million euros in 2023 compared to operating income of 60 million euros in 2022, not impacted by foreign exchange effects, mainly due to lower revenues.
- In Colombia, operating income was 64 million euros in 2023 (-75.6% year-on-year in reported terms). Excluding foreign exchange effects, operating income decreased by 74.5% year-on-year, mainly due to the capital gains recorded in 2022 in connection with in fiber asset sales in such year.

- In Mexico operating income was 3 million euros in 2023 compared to operating loss of 176 million euros in 2022. The better performance was due in part to the lower depreciation and amortization base in 2023 compared to 2022, related to the transformation of the operating model of Telefónica México (as a result of the 2019 wholesale access services agreement with AT&T).