Telefónica

TELEFONICA EUROPE B.V.

Annual Report

December 31, 2023

Contents

DIRECTORS' REPORT

The management herewith submits the Financial Statements of Telefonica Europe B.V. ("the Company") for the financial year ended on December 31, 2023. Unless stated otherwise the amounts presented below should be read in thousands of EURO.

General Information and Principal Activities

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

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

Company's main stakeholders

The Company is a wholly owned subsidiary of Telefónica, S.A., located in Madrid, Spain. Telefónica, S.A. is the ultimate parent and controlling company. At December 31, 2023 the Company does not own, directly or indirectly, any capital stock or other equity interests in any subsidiary.

Result

During the year under review, the Company recorded a profit after taxes of EUR 1,562 thousand (2022: EUR 2,312 thousand), which is set out in detail in the enclosed Statement of Profit and Loss.

The Financial Net Result has increased, from EUR 4,129 thousand in 2022 to EUR 4,545 thousand in 2023 mainly due to higher interest accrual for subordinated obligations on-lent volumes in average terms.

Operational expenses, including personnel expenses, are EUR 2,462 thousand in 2023 after having increased when compared to the same period of 2022 (EUR 1,075 thousand at December 31, 2022) mainly due to increases in legal fees related to the non-executed hybrid in USD.

Financing Activity

In regular course of business, the Company continued its financing activities by entering into several financing agreements unconditionally and irrevocably guaranteed by its parent company. The most relevant financing operations formalized during 2023 are the following:

i) On February 2, 2023, the Company issued EUR 1,000,000 thousand Undated Deeply Subordinated Guaranteed Fixed Rate Reset Securities (commonly known as hybrids) 7.25 years Non-Call and carrying an interest rate of 6.135% and on February 3, 2023, the Company repurchased and cancelled EUR 612,400 thousand of its Undated Deeply Subordinated Guaranteed Fixed Rate Reset Securities issued on March 31, 2014 with an annual coupon of 5.875% and repurchased and cancelled EUR 387,600 thousand of its Undated Deeply Subordinated Guaranteed Fixed Rate Reset Securities issued on March 22, 2018 with an annual coupon of 3%. The notional amount outstanding (after the cancellation of the notes) was EUR 387,600 thousand for its Undated Deeply Subordinated Guaranteed Fixed Rate Reset Securities issued on March 31, 2014 with an annual coupon of 5.875% and 362,400 thousand for its Undated Deeply

Subordinated Guaranteed Fixed Rate Reset Securities issued on March 22, 2018 with an annual coupon of 3%.

ii) On September 7, 2023, the Company issued EUR 750,000 thousand Undated Deeply Subordinated Guaranteed Fixed Rate Reset Securities (commonly known as hybrids) 8 years Non-Call and carrying an interest rate of 6.75% and on September 8, 2023, the Company repurchased and cancelled EUR 242,400 thousand of its Undated Deeply Subordinated Guaranteed Fixed Rate Reset Securities issued on March 31, 2014 with an annual coupon of 5.875%. The notional amount outstanding (after the cancellation of the notes) was EUR 145,200 thousand and on October 11, 2023, the Company called (following a Substantial Purchase Event contemplated in the Terms and conditions of the instruments) and cancelled in full the total outstanding amount EUR 145,200 thousand of its Undated Deeply Subordinated Guaranteed Fixed Rate Reset Securities issued on March 31, 2014 with an annual coupon of 5.875%.

iii) On December 4, 2023, the Company called (exercising its Issuer Call Option contemplated in the Terms and conditions of the instruments) and cancelled in full the total outstanding amount EUR 362,400 thousand of its Undated Deeply Subordinated Guaranteed Fixed Rate Reset Securities issued on March 22, 2018 with an annual coupon of 3%.

iv) In the short term, the Company continued with its issuing activity under the EUR 5,000,000 thousand Euro Commercial Paper Programme and, during 2023, placed among several international investors 42 ECPs denominated in euro for a notional amount of EUR 3,263,000 thousand. The notional outstanding at December 31, 2023 is EUR 1,000,000 thousand (December 31, 2022: EUR 500,000 thousand).

Research and development

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

Subsequent events

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

Future developments

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

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

Risks and uncertainties

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

i) Liquidity and credit risk:

Liquidity and credit risks management is implemented according to the Telefonica Group policies. As of December 31, 2023, the Company has lent the funds borrowed, to Telefónica, S.A. which guarantees most of the external debt subscribed by the Company. However, from time to time the Company could invest funds in other companies within the Group. In addition, the Company holds cash balances in several financial institutions.

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

ii) Interest rate and Foreign Exchange risk:

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

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

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

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

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

In recent years, successive shocks have ushered in a period characterized by extraordinary uncertainty and the simultaneous occurrence of multiple negative disruptions. Inflationary pressures arising from bottlenecks associated with the rapid post-pandemic recovery, coupled with increases in commodity prices, led to a robust response from central banks (raising interest rates and withdrawing liquidity from the system) and a significant loss of purchasing power for consumers. Additionally, the recent higher wage demands observed internationally, reflecting both the strength of labor markets, especially those in major developed economies, and the prevalence (though to a lesser extent than in the past) of wage indexation mechanisms, have also contributed to these inflationary pressures.

There are also doubts about the timing of the conclusion of the inflationary period, as geopolitical events such as the Russia-Ukraine and the Israel-Hamas armed conflicts, among others, negatively impact energy prices or maritime transport. Moreover, there is a risk that the decrease in global liquidity and elevated interest rates could generate increased financial volatility, giving rise to new stress episodes, as observed in the United Kingdom, especially if inflation proves to be more persistent than expected. Additionally, premature monetary easing by central banks could lead to resurgent inflation, potentially triggering a new stagflationary period akin to the 1970s.

Looking forward, elements that could worsen the effects of the current situation include the escalation of armed conflicts and potential disruptions to energy and goods supply, as well as possible additional increases in commodity prices. This could result in a potential de-anchoring of inflation expectations and higher-than-expected wage hikes, prolonging and amplifying the inflation-recession scenario. As a consequence of the above, economic growth is expected to remain weak in the short term, with the risk of recession still present in many parts of the world.

In Europe, there are several economic and political risks. Firstly, the evolution of armed conflicts poses a threat to growth and inflation prospects. Any worsening in the supply of gas, oil, food, or other goods due to disruptions in the transportation chain would negatively impact their prices, with a consequent effect on the disposable income of both households and businesses. In the medium term, this could result in wage increases, a persistent rise in inflation, and tighter monetary policy. Any of the above could have a negative impact on the cost of financing for the private sector, including Telefónica, and could trigger episodes of financial stress. In addition, there is also a risk of financial fragmentation in the transmission of monetary policy in the eurozone, meaning that interest rates may react differently in different countries within the eurozone, leading to differences in yields on bonds issued by peripheral countries (such as Spain) and those issued by core countries, making it challenging for the former to access credit. Lastly, Europe faces two significant long-term risks. First, a risk that Europe may fall behind in the global technological race in particular because of its dependence on several critical raw materials, indispensable for key sectors, that must be imported from other regions. Second, demographic factors such as declining birth rates and population aging may have a negative impact on the region's labor force and long-term growth prospects. Regarding political risk, the 2024 European Parliament election may deepen political fragmentation and result in a reduced representation of moderate positions in favor of extreme options, potentially weakening governance and hindering the implementation of the ongoing agenda with respect to fiscal and economic matters, climate and energy policy and other critical aspects of state governance.

iv) Fraud/Bribery/Anticorruption:

Telefónica Europe, B.V as a company belonging to Telefónica, S.A. falls within the control environment of the Telefónica S.A. group. In ethics and compliance management, we follow several lines of action to ensure ethical behavior throughout our Company, based on zero tolerance of corruption and bribery. The system is based on legal compliance, employee training, and the establishment of internal mechanisms for reporting potential non-compliance. It is accompanied by principles of fair competition, political neutrality, fiscal transparency and responsible communication, and is monitored by the Company's internal control processes including processes such as the authorization of payments. Telefónica Europe, B.V has accessibility to the same whistleblower channel as Telefónica S.A. that allows employees and stakeholders to make a complaint anonymously or personally to report any alleged irregularity or act contrary to the law or internal regulations. Since the end of 2020, it has been accessible through a form on the website to give access to all stakeholders and thus comply with the European Directive on the Protection of Persons Reporting Breaches of EU Law and with the update of the Good Governance Code for listed companies. Management of the Complaints Channel is governed by the principles of confidentiality of the data provided, i.e. respect, substantiation and completeness. In cases where irregularities are Identified, the Audit and Control Committee of Telefónica S.A. and the board of directors of Telefónica Europe B.V. are informed. In 2023, no instances have been reported with respect to Telefónica Europe B.V.

v) Climate Change:

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

ESG reporting regulation, Corporate Sustainability Reporting Directive (short: CSRD), is being implemented in Europe. The broader group is implementing CSRD at a group level to report over financial year 2024. Telefónica Europe B.V. is monitoring the enactment of the regulation into Dutch law. Only after this enactment is completed will it become clear what the standalone reporting requirements of the entity will be, potentially over financial year 2025 in 2026.

Although Telefónica Europe B.V. is working hard to comply with new ESG reporting requirements, to achieve its objectives, and to meet the expectations of its stakeholders in these matters, if the Company is unable to meet these expectations, fails to adequately address ESG matters or fails to achieve the reported objectives (including its CO2 emission reduction targets), the Telefónica Group's reputation, its business, financial position, results of operations and/or cash flows could be materially and adversely affected.

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

Dutch Act on Management and Supervision

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

Given the law enactment the Company did not meet the above-mentioned gender balance in 2023 (25%) neither in 2022 (25%). The Company will pursue a policy to comply with the guidelines of the act and continue to strive for an adequate and balanced composition of its board of directors in future appointments, by considering all relevant selection criteria, including but not limited to gender balance and executive experience.

On an annual basis and starting this year the Company has reported for the first time to the Diversity Portal and established a plan of action to set an appropriate and ambitious target to comply with the guidelines of the act and continue to strive for an adequate and balanced composition of its board of directors in future appointments (The Diversity Portal is an initiative of the SER to motivate and facilitate companies in the Netherlands to work on gender diversity in the boardrooms).

Audit Committee

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

Average number of employees

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

Amsterdam, February 20, 2024

Mr. Carlos David Maroto Sobrado

Mr. François V. N. Declève

Mr. Miguel Ángel Contreras Contreras

Mrs. Priscilla Schraal

Responsibility Statement

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

The Directors of the Company wish to state:

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

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

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

Amsterdam, February 20, 2024

Mr. Carlos David Maroto Sobrado

Mr. François V. N. Declève

Mr. Miguel Ángel Contreras Contreras

Mrs. Priscilla Schraal

FINANCIAL STATEMENTS

BALANCE SHEET
AS AT DECEMBER 31, 2023
(before appropriation of result)

Euros in thousands

ASSETS	Note	2023	2022
Fixed Assets			
Tangible fixed assets	1	1	2
Financial fixed assets	2	9,238,280	9,291,518
Total Fixed Assets		**9,238,281**	**9,291,520**
Current Assets			
Loans receivable	3	985,792	497,699
Interest receivable		240,713	219,454
Other current assets		1,517	803
Cash at bank	4	2,300	3,088
Total Current Assets		**1,230,322**	**721,044**
TOTAL ASSETS		10,468,603	10,012,564

SHAREHOLDER'S EQUITY AND LIABILITIES	Note	2023		2022
Shareholder's Equity	5			
Issued share capital			46	46
Retained earnings			4,701	2,889
Result for the year		1,562		2,312
Interim dividend		(1,206)		
Undivided result			356	
Total Shareholder´s Equity			**5,103**	**5,247**
Long Term Liabilities				
Bonds and loans	6		9,238,562	9,291,595
Total Long Term Liabilities			**9,238,562**	**9,291,595**
Current Liabilities				
Short term loans and bonds	7		985,792	497,699
Interest payable			238,522	217,427
Taxes payable			89	117
Other debts and accrued liabilities			535	479
Total Current Liabilities			**1,224,938**	**715,722**
TOTAL EQUITY & LIABILITIES			10,468,603	10,012,564

STATEMENT OF PROFIT AND LOSS FOR THE YEAR ENDED DECEMBER 31, 2023

Euros in thousands

	Note	2023	2022
Financial Income and Expenses			
Interest Income		499,056	422,489
Interest Expense		(494,512)	(418,369)
Currency Exchange result		1	9
Net financial result	**8**	**4,545**	**4,129**
Operational Expenses			
Personnel expenses		(186)	(162)
Administrative expenses	9	(2,276)	(913)
Result from ordinary activities before taxation		**2,083**	**3,054**
Taxation	10	(521)	(742)
RESULT AFTER TAXATION		1,562	2,312

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED DECEMBER 31, 2023

General Information and Principal Activities

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

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

The authorized share capital of the Company consists of 100 shares with a par value of EUR 460 each (EUR 46,000). On December 31, 2023 and December 31, 2022, the issued capital of the Company consists of 100 shares, which have been fully paid and which represent a total paid up capital in the amount of EUR 46,000.

Group Affiliation

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

At December 31, 2023 and December 31, 2022, the Company does not own, directly or indirectly, any capital stock or other equity interests in any subsidiary.

Basis of Presentation

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

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

Euro Medium Term Note Debt Programme

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

As at December 31, 2023, the EMTN Debt Issuance Programme includes:

Euro Notes due 2033	EUR	500,000,000 (EUR 500,000 thousand on December 31, 2022)

Global bonds

As at December 31, 2023, there is only one outstanding note USD 1,250,000 thousand (USD 1,250,000 thousand on December 31, 2022) carrying a semi-annual coupon of 8.25% and maturing on September 2030 and is quoted in Frankfurt and New York.

Euro Commercial Paper Programme (ECP Programme)

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

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

The notional outstanding amount as at December 31, 2023 is EUR 1,000,000 thousand (EUR 500,000 thousand on December 31, 2022). In the balance sheet the outstanding ECP issues are stated at their discounted notional amounts and were accounted for EUR 985,792 thousand at December 31, 2023 (EUR 497,699 thousand on December 31, 2022).

JPY Dual Currency Loan

The Company borrowed JPY 15,000,000 thousand in three loans from a Japanese investor with a maturity on July 2037. Under this agreement interests are payable in USD on a semi-annual basis at a fix annual rate of 4.75%. The notional outstanding amount as at December 31, 2023 and December 31, 2022 is JPY 15,000,000 thousand.

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

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

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

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

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

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

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

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

On February 12, 2021, the Company issued a new tranche of Non-Call 8.25 years Hybrids of EUR 1,000,000 thousand and carrying an interest rate of 2.376%. On February 15, 2021 the Company repurchased and cancelled EUR 757,600 thousand of hybrid securities and on July 12, 2021 the Company repurchased and cancelled EUR 114,900 thousand of hybrid securities. After the liquidation and cancellation of the repurchased hybrids, and as agreed in the terms and conditions, the Company announced the option to exercise the clean-up call and on September 1, 2021, the Company called (following a substantial purchase event) and cancelled in full the total outstanding amount EUR 127,500 thousand of its Undated Deeply Subordinated Guaranteed Fixed Rate Reset Securities issued on September 15, 2016 with an annual coupon of 3.75%. On November 24, 2021, the Company issued a new tranche of Non-Call 6.5 years Hybrids of EUR 750,000 thousand and carrying an interest rate of 2.88%. On November 25, 2021 the Company repurchased and cancelled EUR 750,000 thousand across two Euro denominated hybrid securities.

On November 23, 2022, the Company issued a new tranche of Non-Call 6 years Hybrids of EUR 750,000 thousand and carrying an interest rate of 7.125%. On November 24, 2022, the Company repurchased and cancelled EUR 621,000 thousand across two Euro denominated hybrid securities. After the liquidation and cancellation of the repurchased hybrids, and as agreed in the terms and conditions, the Company announced the option to exercise the clean-up call and on December 27, 2022, the Company called (following a substantial purchase event) and cancelled in full the total outstanding amount EUR 129,000 thousand of its Undated Deeply Subordinated Guaranteed Fixed Rate Reset Securities issued on December 7, 2017 with an annual coupon of 2.625%.

On February 2, 2023, the Company issued a new tranche of Hybrids Non-Call 7.25 years of EUR 1,000,000 thousand and carrying an interest rate of 6.135%. On February 3, 2023, the Company repurchased and cancelled EUR 1,000,000 thousand across two Euro denominated hybrid securities: EUR 612,400 thousand of the Non-Call 10 years with an annual coupon of 5.875% and EUR 387,600 thousand of the Non-Call 5.7 with an annual coupon of 3%.

On September 7, 2023, the Company issued a new tranche of Hybrids Non-Call 8 years of EUR 750,000 thousand and carrying an interest rate of 6.75%. On September 8, 2023, the Company repurchased and cancelled EUR 242,400 thousand of the Non-Call 10 years with an annual coupon of 5.875%. After the liquidation and cancellation of the repurchased hybrids the Company announced the option to exercise the clean-up call and on October 11, 2023, the Company called (following a substantial purchase event) and cancelled in full the total outstanding amount EUR 145,200 thousand of its Non-Call 10 years with an annual coupon of 5.875%.

On December 4, 2023, the Company called (exercising its Issuer Call Option) and cancelled in full the total outstanding amount EUR 362,400 thousand of the Non-Call 5.7 years with an annual coupon of 3%.

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

Euros in thousands

ISIN	Description	Repurchase Notional amount	Premium	Total amount paid*
XS1050461034	EUR 1,000,000,000 5.875% perpetual (non-call 10 years) Hybrid Securities	EUR 1,000,000	EUR 12,465	EUR 1,012,465
XS1795406575	EUR 1,250,000,000 3% perpetual (non-call 5.7 years) Hybrid Securities	EUR 750,000	(EUR 1,938)	EUR 748,062
Total Euro denominated Hybrid securities		**1,750,000**	**10,527**	**1,760,527**

**Excluding accrued interests*

The hybrid securities outstanding at December 31, 2023, amounted a total notional amount equivalent to EUR 7,550,000 thousand. At December 31, 2023 all hybrid securities issued by the Company are listed for trading on the Irish Stock Exchange (through Euronext Dublin and the Global Exchange Market).

The main terms of the tranches currently outstanding at December 31, 2023 are the following:

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

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

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

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

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

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

vii. EUR 750,000 thousand issued on November 23, 2022, and with a first reset date on Nov 23, 2028, with an annual coupon of 7.125% (ISIN: XS2462605671);

viii. EUR 1,000,000 thousand issued on February 3, 2023, and with a first reset date on May 3, 2030, with an annual coupon of 6.135% (ISIN: XS2582389156) and

ix. EUR 750,000 thousand issued on September 7, 2023, and with a first reset date on Sep 7, 2031, with an annual coupon of 6.75% (ISIN: XS2646608401).

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

Investments of the Company

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

Cash flow statement

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

ACCOUNTING POLICIES

General

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

Going concern

Management believes that there is no going concern risk as there isn't a material uncertainty for the Company and concluded that there is not a risk of going concern for the next 12 months.

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

The Company will continue to monitor its solvency and liquidity position and believes that neither the energy crisis nor the inflation or the Russia-Ukraine and the Israel-Hamas armed conflicts would have material adverse effect on the Company's liquidity and solvency position.

Foreign currencies

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

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

Accounting policies in respect of the Balance Sheet

Tangible fixed assets

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

Furniture and office equipment: 3 to 5 years

Financial fixed assets

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

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

Transactions with related parties

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

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

Impairment of financial assets

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

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

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

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

Current loans receivables and other payables

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

Interest receivables and interest payables

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

Cash at banks

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

Bonds and loans

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

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

Estimates

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

Accounting policies in respect of result determination

Interest incomes and expenses

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

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

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

Taxation

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

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

In the Netherlands, the bill ('Minimum Tax Act 2024') was adopted by the Senate. The law came into force on December 31, 2023, and will take effect for the first time with regard to reporting years starting on or after December 31, 2023. The law establishes a complementary tax to guarantee a global minimum level of taxation for multinational groups and large national groups. The Company is assessing the impact of the new law. The Company applies the mandatory exception to recognizing and disclosing information on deferred tax assets and liabilities related to this tax, as provided in the amendments to RJ 272 as issued in February 2024.

FINANCIAL RISKS

General

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

i. Liquidity and credit risk

Liquidity and credit risk management is implemented according to the Telefonica Group policies. As of December 31, 2023, the Company has invested the funds borrowed in Telefónica, S.A. which guarantees most of the external debt subscribed by the Company. However, from time to time the Company could also invest the funds in other companies within the Group. In addition, the Company holds cash balances in several financial institutions. In summary, any substantial credit or liquidity risk would be related to credit risk of Telefónica, S.A. and its Group.

As of December 31, 2023, Telefónica, S.A. and Telefónica Europe B.V. have been granted the same company credit ratings. These ratings are the following:

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

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

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

ii. Interest rate and Foreign Exchange risk

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

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

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

1. Tangible Fixed Assets

The tangible fixed assets are comprised as follows:

Euros in thousands

	2023	2022
Tangible fixed assets	1	2

The movement in the tangible fixed assets is as follows:

Euros in thousands

	2023	2022
Carrying value		
Balance January 1	97	95
Additions	-	2
Balance	**97**	**97**
Accumulated depreciation		
Balance January 1	(95)	(94)
Change for the period	(1)	(1)
Balance	**(96)**	**(95)**
Net book value	**1**	**2**

2. *Financial fixed assets*

Euros in thousands

	2023	2022
Long term receivables from related companies	9,238,280	9,291,518
Financial Fixed assets	**9,238,280**	**9,291,518**

The movement in the financial fixed assets is as follows:

Euros in thousands

	2023	2022
Balance January 1	9,291,518	9,230,671
Deferred Commissions amortization	8,524	7,675
Repayments	(1,751,288)	(748,712)
New Loans	1,739,775	743,331
Foreign Exchange result	(50,249)	58,553
Balance as at December 31	**9,238,280**	**9,291,518**

On February 2, 2023, the Company lent to Telefónica, S.A. an amount equal to EUR 1,000,000 thousand which corresponds to the principal amount of the issuance of the securities by the Lender and on February 3, 2023 the Company cancelled in advance EUR 1,000,000 thousand loans with Telefónica, S.A.

On September 7, 2023, the Company lent to Telefónica, S.A. an amount equal to EUR 750,000 thousand which corresponds to the principal amount of the issuance of the securities by the Lender and on September 8, 2023, the Company cancelled in advance EUR 242,400 thousand loans with Telefónica, S.A. After this cancelation, and as agreed in the terms and conditions, the Company announced the option to exercise the clean-up call and on October 11, 2023, the Company called (following a Substantial Purchase Event) and cancelled EUR 145,200 thousand loans with Telefónica, S.A.

On December 4, 2023, the Company called (exercising its Issuer Call Option) and cancelled EUR 362,400 thousand loans with Telefónica, S.A.

Long-term receivables from related companies

The long-term receivables from related companies represent loans to Telefónica, S.A. and total a book value of EUR 9,238,280 thousand on December 31, 2023 (EUR 9,291,518 thousand at December 31, 2022). The average interest rate for the long-term receivables is 4.86% for financial year 2023 and 4.41% for financial year 2022.

Euros in thousands

Description	2023	2022
USD 1,250,000,000, maturity September 15, 2030	1,126,369	1,165,628
EUR 500,000,000, maturity February 14, 2033	495,305	494,950
JPY 5,000,000,000/USD 42,640,287, maturity July 27, 2037	31,868	35,392
JPY 5,000,000,000/USD 42,640,287, maturity July 27, 2037	31,868	35,392
JPY 5,000,000,000/USD 42,640,287, maturity July 27, 2037	31,868	35,392
EUR 1,000,000,000, maturity March 31, 2054	-	998,923
EUR 1,000,000,000 maturity September 22, 2058	997,772	997,013
EUR 1,250,000,000 maturity December 04, 2058	-	750,450
EUR 1,300,000,000 maturity March 14, 2060	1,298,323	1,296,995
EUR 500,000,000 maturity September 24, 2060	498,512	498,141
EUR 500,000,000 maturity February 05, 2060	498,520	498,103
EUR 1,000,000,000 maturity May 12, 2061	996,091	995,425
EUR 750,000,000 maturity May 24, 2062	746,931	746,288
EUR 750,000,000 maturity Nov 23, 2062	744,351	743,426
EUR 1,000,000,000 maturity May 3, 2063	994,794	-
EUR 750,000,000 maturity Sep 7, 2063	745,708	-
Total Long-term receivable from related companies	**9,238,280**	**9,291,518**

The fair value for the long term receivables from the related companies are not substantially different to the fair value of the long term bonds and loans (disclosed at in note 6), since the terms and conditions of these long term receivables are almost equal to the terms and conditions of the bonds and loans issued. These issuances have all been guaranteed by Telefonica SA and subsequently the loans are also issued to Telefonica SA.

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

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

3. *Loans receivable*

The loans receivable comprises short-term loans due by the shareholder (granted by means of loan agreement dated May 10, 2012) and other related companies (if any) and amounted EUR 985,792 thousand on December 31, 2023 (EUR 497,669 thousand on December 31, 2022). The average interest rate is 3.70% for financial year 2023 and 0.33% for financial year 2022.

Euros in thousands

	2023	2022
Loans Receivable	985,792	497,699
Total loans receivable	**985,792**	**497,699**

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

4. *Cash at bank*

The cash at bank is freely disposable and is generating interests obtained from the bank accounts. All the external banks we work with, have BBB+ credit rating or higher. The balances on December 31, 2023 and December 31, 2022 are comprised as follows:

Euros in thousands

	2023	2022
Current bank account balances	**2,300**	**3,088**

5. *Shareholder's equity*

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

Euros in thousands

	Issued share capital	Retained earnings	Result for the period	Interim dividend	Total Shareholder's Equity
Balance as at January 1, 2022	46	2,350	2,716	-	5,112
Allocation of result	-	2,716	(2,716)	-	-
Result for the period	-	-	2,312	-	2,312
Dividend payment	-	(2,177)	-	-	(2,177)
Balance as at December 31, 2022	**46**	**2,889**	**2,312**		**5,247**
Balance as at January 1, 2023	46	2,889	2,312	-	5,247
Allocation of result	-	2,312	(2,312)	-	-
Result for the period	-	-	1,562	-	1,562
Dividend payment:	-	(500)	-	(1,206)	(1,706)
Result for the period Nov-Dec 2022	-	*(500)*	-	-	*(500)*
Result for the period Jan-Oct 2023	-	-	-	*(1,206)*	*(1,206)*
Balance as at December 31, 2023	**46**	**4,701**	**1,562**	**(1,206)**	**5,103**

The distribution of dividend for the year 2023 corresponds to the result of the period November 2022 to October 2023. The profit from November and December 2023 will be accumulated to retained earnings. The result for the period and interim dividend together forms the Undivided result of 356.

6. *Bonds and loans*

The long term bonds and loans balance is the following:

Euros in thousands

	2023	2022
Long term bonds and loans	**9,238,562**	**9,291,595**

The movement in long term liabilities is as follows:

Euros in thousands

	2023	2022
Balance January 1	9,291,595	9,230,933
Prepaid Commissions amortization	8,010	7,258
Repayments	(1,751,288)	(748,712)
New Issuances	1,740,375	743,681
Foreign Exchange result	(50,248)	58,553
Non-Active Hybrid Commissions (*)	118	(118)
Balance as at December 31	**9,238,562**	**9,291,595**

(*) Includes commissions already paid related to hybrids not issued in the year.

On February 2, 2023, the Company issued a new tranche of Hybrids Non-Call 7.25 years of EUR 1,000,000 thousand and carrying an interest rate of 6.135%. On February 3, 2023, the Company repurchased and cancelled EUR 1,000,000 thousand across two Euro denominated hybrid securities: EUR 612,400 thousand of the Non-Call 10 years with an annual coupon of 5.875% and EUR 387,600 thousand of the Non-Call 5.7 with an annual coupon of 3%.

On September 7, 2023, the Company issued a new tranche of Hybrids Non-Call 8 years of EUR 750,000 thousand and carrying an interest rate of 6.75%. On September 8, 2023, the Company repurchased and cancelled EUR 242,400 thousand of the Non-Call 10 years with an annual coupon of 5.875%. After the liquidation and cancellation of the repurchased hybrids the Company announced the option to exercise the clean-up call and on October 11, 2023, the Company called (following a substantial purchase event) and cancelled in full the total outstanding amount EUR 145,200 thousand of its Non-Call 10 years with an annual coupon of 5.875%.

On December 4, 2023, the Company called (exercising its Issuer Call Option) and cancelled in full the total outstanding amount EUR 362,400 thousand of the Non-Call 5.7 years with an annual coupon of 3%.

The average interest rate for the long-term liabilities is 4.82% for financial year 2023 and 4.37% for financial year 2022.

Long-term bonds and loans are comprised as follows:

The book value of the long term loans and bonds subscribed by the Company at December 31, 2023 totals EUR 9,238,562 thousand (EUR 9,291,595 thousand at 31 December, 2022).

Euros in thousands

Description	2023	2022
Global USD 1,250,000,000, 8.250%, maturity September 15, 2030 (ISIN: US879385AD49)	1,126,375	1,165,634
EMTN EUR 500,000,000, 5.875%, maturity February 14, 2033 (ISIN: XS0162869076)	495,315	494,960
JPY/USD Dual Currency Loan A JPY 5,000,000,000/USD 42,640,287, 4.750% on USD basis, maturity July 27, 2037	31,869	35,392
JPY/USD Dual Currency Loan B JPY 5,000,000,000/USD 42,640,287, 4.750% on USD basis, maturity July 27, 2037	31,869	35,392
JPY/USD Dual Currency Loan C JPY 5,000,000,000/USD 42,640,287, 4.750% on USD basis, maturity July 27, 2037	31,869	35,392
EUR 1,000,000,000 5.875% perpetual (non-call 10 years) Hybrid Securities (ISIN: XS1050461034)	-	998,893
EUR 1,000,000,000 3.875% perpetual (non-call 8.5 years) Hybrid Securities (ISIN: XS1795406658)	997,779	997,023
EUR 1,250,000,000 3.000% perpetual (non-call 5.7 years) Hybrid Securities (ISIN: XS1795406575)	-	750,452
EUR 1,300,000,000 4.375% perpetual (non-call 6 years) Hybrid Securities (ISIN: XS1933828433)	1,298,338	1,297,021
EUR 500,000,000 2.875% perpetual (non-call 8 years) Hybrid Securities (ISIN: XS2056371334)	498,526	498,159
EUR 500,000,000 2.502% perpetual (non-call 7.25 years) Hybrid Securities (ISIN: XS2109819859)	498,566	498,162
EUR 1000,000,000 2.376% perpetual (non-call 8.25 years) Hybrid Securities (ISIN: XS2293060658)	996,128	995,467
EUR 750,000,000 2.88% perpetual (non-call 6.5 years) Hybrid Securities (ISIN: XS2410367747)	746,952	746,313
EUR 750,000,000 7.125% perpetual (non-call 6 years) Hybrid Securities (ISIN: XS2462605671)	744,376	743,453
EUR 1,000,000,000 6.135% perpetual (non-call 7.25years) Hybrid Securities (ISIN: XS2582389156)	994,840	-
EUR 750,000,000 6.75% perpetual (non-call 8 years) Hybrid Securities (ISIN: XS2646608401)	745,760	-
Non-Active Hybrid Commissions	-	(118)
Total long-term bond and loans	**9,238,562**	**9,291,595**

The fair value of the long term loans and bonds subscribed by the Company at December 31, 2023 totals EUR 9,410,499 thousand (EUR 8,799,736 thousand at 31 December, 2022). The higher fair value is explained by the movement in the market during the year as the price of the bonds has increased significantly.

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

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

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

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

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

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

7. *Short term loans and bonds*

As at December 31, 2023, the short term loans and bonds payable comprises the amount due under the Company's EUR 5,000,000 thousand Euro Commercial Paper Program. The balance on December 31, 2023 totals EUR 985,792 thousand (EUR 497,699 thousand at December 31, 2022). The average interest rate is 3.65% for financial year 2023 and 0.28% for financial year 2022.

Euros in thousands

	2023	2022
EUR 5,000,000,000 ST European Commercial Paper Programme	985,792	497,699
Balance	**985,792**	**497,699**

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

8. *Net Financial Result*

The Net Financial Result is comprised as follows:

Euros in thousands

	2023	2022
Interest income	499,056	422,489
Interest expense	(494,512)	(418,369)
Currency exchange result	1	9
Net Financial Result	**4,545**	**4,129**

Interest income fully derives from related companies as all loans receivable have been granted to related companies. During both years it also includes the one-off impacts to P&L for the repurchase and cancellation of hybrid securities that took place on November 24, 2022, February 3, 2023, and September 8, 2023.

9. *Administrative expenses*

For the year ended December 31, 2023 the administrative expenses total EUR 2,276 thousand (EUR 913 thousand for the year ended December 31, 2022). The increase in administrative expenses (when compared to last year) is mainly due to increases in legal fees related to the non-executed hybrid in USD.

Euros in thousands

	2023	2022
Administrative expenses	(2,276)	(913)
Total	**(2,276)**	**(913)**

10. *Taxation*

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

Euros in thousands

	2023	2022
Corporate income tax 2023	524	-
Corporate income tax 2022	(3)	745
Corporate income tax 2021	-	3
Corporate income tax 2020	-	(6)
Total	**521**	**742**

The Company is subject to Dutch taxation and tax calculations are made in accordance with a Transfer Pricing report prepared by an international tax advisor.

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

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

The applicable tax rate for the current financial statements is 25.8% (2022: 25.8%) and the effective tax rate is 25.03% (2022: 24.30%). The difference between the applicable tax rate and the effective tax rate is caused by a different tax rate considered for the first EUR 200 thousand in 2023 (19%) (in 2022 was 15% for the first EUR 395 thousand).

Average number of employees

During the period under review the Company employed on average 2 persons, (2022:2) none of them working outside The Netherlands.

Independent auditor's fees

The independent auditor's fees for the 2023 financial statements audit come up to EUR 54 thousand (EUR 50 thousand in 2022).

The amount paid in respect of fees for other audit services rendered by PricewaterhouseCoopers Accountants N.V., amounted to EUR 85 thousand in 2023 (EUR 154 thousand in 2022).

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

Subsequent events

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

Appropriation of Result

The management proposal is to accumulate to the retained earnings the difference from the net result of year ended December 2023 and the accumulated result until October 2023 already declared and distributed.

Board of directors

The Company's board of directors consists of 4 directors (2022: 4), who received a total remuneration of EUR 0 thousand (2022: EUR 0 thousand).

Amsterdam, February 20, 2024

Mr. Carlos David Maroto Sobrado

Mr. François V. N. Declève

Mr. Miguel Ángel Contreras Contreras

Mrs. Priscilla Schraal

OTHER INFORMATION

Independent Auditor's report

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

Statutory provision regarding appropriation of Result

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

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

Telefónica

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