

Telefónica, S.A.

Auditor's Report,
Annual Accounts and Management report
at December 31, 2019



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

Independent auditor's report on the annual accounts

To the shareholders of Telefónica, S.A.:

Report on the annual accounts

Opinion

We have audited the annual accounts of Telefónica, S.A. (the Company), which comprise the balance sheet as at December 31, 2019, the income statement, statement of changes in equity, cash flow statement and related notes for the year then ended.

In our opinion, the accompanying annual accounts present fairly, in all material respects, the equity and financial position of the Company as at December 31, 2019, as well as its financial performance and cash flows for the year then ended, in accordance with the applicable financial reporting framework (as identified in note 2.a of the notes to the annual accounts), and, in particular, with the accounting principles and criteria included therein.

Basis for opinion

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

We are independent of the Company in accordance with the ethical requirements, including those relating to independence, that are relevant to our audit of the annual accounts in Spain, in accordance with the legislation governing the audit practice. In this regard, we have not rendered services other than those relating to the audit of the accounts, nor have situations or circumstances arisen that, in accordance with the provisions of the aforementioned legislation, have affected our necessary independence such that it has been compromised.

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

Key audit matters

Key audit matters are those that, based on our professional judgement, have been of the most significance in the audit of the annual accounts for the current period. These matters have been addressed in the context of our audit of the annual accounts as a whole and in the preparation of our opinion thereon, and we do not express a separate opinion on these matters.

Key audit matters	How the matter was addressed in the audit
<p data-bbox="256 465 722 528">Measurement of investments in Group companies</p> <p data-bbox="256 560 842 741">A relevant part of Telefónica, S.A.'s assets consist of equity investments in Group companies. As described in note 8, non-current investments in Group companies and associates (equity instruments) amount to €69,267 million at 31 December 2019.</p> <p data-bbox="256 772 842 1048">To assess if there is an impairment in the investments in Group companies, management conducts an impairment test at least annually or more frequently if events or circumstances indicate the carrying value might not be fully recoverable. Management determine the recoverable amount at the lower of the fair value less costs to sell and the value in use to which the investment relates.</p> <p data-bbox="256 1079 842 1541">As described in notes 4.c) and 8.2, when the recoverable amount is determined by calculating the present value of future cash flows from the investments, management refers to the strategic plans approved by the Board of Directors. Management's cash flows projections involved significant judgements when considering key assumptions such as long-term OIBDA margin, long-term capital expenditure ratio, discount rates and perpetuity growth rates which would be significantly affected by the future trends in the economic, competitive, regulatory and technological environment in each of the countries in which the Telefónica Group operates.</p> <p data-bbox="256 1572 842 1664">As described in note 8.2, a reversal of impairment provision of €2,226 million has been recognised in the income statement for the year.</p> <p data-bbox="256 1695 842 1906">We identify this as a key audit matter due to the significant judgements made by management when estimating the key assumptions that supports the recoverable amount of the investments in Group companies and have required a high degree of auditor judgements in evaluating those key assumptions.</p>	<p data-bbox="842 560 1497 741">We have performed audit procedures, assisted by our valuation experts, on the process followed by the directors and management to determine the recoverable amount, fair value less cost to sell or value in use of investments in Group companies, including:</p> <ul data-bbox="842 772 1497 1547" style="list-style-type: none"> <li data-bbox="842 772 1497 958">• Understanding of the control environment, assessment and verification of the relevant controls over the Telefónica Group's process for calculating the present value of future cash flows from investments in Group companies. <li data-bbox="842 990 1497 1115">• Verification of the consistency of the data used to calculate the present value of future cash flows with respect to the strategic plans approved by the Board of Directors. <li data-bbox="842 1146 1497 1238">• Analysis of the degree of fulfilment of the budget versus the strategic plan approved in the previous year. <li data-bbox="842 1270 1497 1424">• Assessment of the key assumptions employed to determine the recoverable amount, testing reasonableness and consistency based on a comparison with market information and industry data. <li data-bbox="842 1456 1497 1547">• Checking of the disclosures included in the annual accounts in accordance with applicable legislation. <p data-bbox="842 1579 1497 1794">On the basis of the procedures carried out, we consider management's assessment to be reasonable as the estimation of key assumptions is within a reasonable range and the conclusions drawn on the value of investments in Group companies are consistent with the information contained in the accompanying annual accounts.</p>

Other information: Management report

Other information refers exclusively to the 2019 management report, the preparation of which is the responsibility of the Company's directors and is not an integral part of the annual accounts.

Our opinion on the annual accounts does not cover the management report. Our responsibility regarding the information contained in the management report is defined in the regulations governing financial statement audit work, which establish two distinct levels of responsibility:

- a) A specific level applicable to the non-financial statement and to some of the information included in the Annual Corporate Governance Report, as defined in article 35.2. b) of Spanish Law 22/2015, the Audit Act, which consists of solely checking that the required information has been provided in the management report, or where appropriate, a reference to the separate report on non-financial information has been included on this one as required by regulations; otherwise, reporting that it has not.
- b) A general level applicable to the rest of the information included in the management report, which consists of assessing and reporting on the consistency of the said information with the annual accounts based on the knowledge of the Company obtained in the course of auditing the said statements (not including other information not obtained as evidence during the course of the audit); and assessing and reporting on whether the content and presentation of this part of the management report are in conformity with applicable regulations. If, based on the work carried out, we conclude that there are material misstatements, we are required to disclose them.

Based on the work performed, as described before, we have verified the management report includes a reference confirming that the non-financial information stipulated in item a) above is presented in the consolidated management report of the Telefónica Group in which the Company is integrated, that the aforementioned information from the Annual Corporate Governance Report is included in the management report and that the rest of the information contained in the management report is consistent with that provided in the 2019 annual accounts and, that its content and presentation are in conformity with applicable regulations.

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

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

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

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

Auditor's responsibilities for the audit of the annual accounts

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

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



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

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

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

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

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

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

Report on other legal and regulatory requirements

Report to the audit and control committee

The opinion expressed in this report is consistent with the content of our additional report to the company's audit and control committee dated February 18, 2020.



Appointment period

The General Ordinary Shareholders' Meeting held on May 12, 2016 appointed us as auditors for a period of three years, as from the year ended December 31, 2017.

Services provided

Services provided to the Company for services other than the audit of the accounts are described in note 20.g) of the accompanying annual accounts.

PricewaterhouseCoopers Auditores, S.L. (S0242)

A handwritten signature in blue ink, appearing to read "Virginia Arce Peralta", with a stylized flourish at the end.

Virginia Arce Peralta (16096)

February 20, 2020

2019

Telefónica, S.A.

*Annual financial statements and
management report for the year
ended December 31, 2019*

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Telefónica, S.A.

Balance sheet at December 31

Millions of euros			
ASSETS	Notes	2019	2018
NON-CURRENT ASSETS		76,554	75,034
Intangible assets	5	24	20
Software		9	8
Other intangible assets		15	12
Property, plant and equipment	6	136	177
Land and buildings		86	123
Plant and other property, plant and equipment items		46	48
Property, plant and equipment under construction and prepayments		4	6
Investment property	7	332	404
Land		100	100
Buildings		232	304
Non-current investments in Group companies and associates	8	70,130	68,040
Equity instruments		69,267	66,530
Loans to Group companies and associates		831	1,503
Other financial assets		32	7
Financial investments	9	3,871	3,415
Equity instruments		314	298
Derivatives	16	3,145	2,421
Other financial assets	9	412	696
Deferred tax assets	17	2,061	2,978
CURRENT ASSETS		9,501	10,810
Net assets held for sale	8	291	69
Trade and other receivables	10	336	388
Current investments in Group companies and associates	8	2,853	4,510
Loans to Group companies and associates		2,777	4,473
Derivatives	16	61	8
Other financial assets		15	29
Investments	9	2,373	1,821
Loans to companies		1,149	972
Derivatives	16	1,218	842
Other financial assets		6	7
Current deferred expenses		11	11
Cash and cash equivalents		3,637	4,011
TOTAL ASSETS		86,055	85,844

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

Millions of euros			
EQUITY AND LIABILITIES	Notes	2019	2018
EQUITY		24,821	20,949
CAPITAL AND RESERVES		25,145	21,497
Share capital	11	5,192	5,192
Share premium	11	4,538	4,538
Reserves	11	10,441	9,439
Legal & Statutory		1,106	1,111
Other reserves		9,335	8,328
Treasury shares and own equity instruments	11	(766)	(686)
Profit for the year	3	5,740	3,014
UNREALIZED GAINS (LOSSES) RESERVE	11	(324)	(548)
Available-for-sale financial assets		(48)	(49)
Hedging instruments		(276)	(499)
NON-CURRENT LIABILITIES		45,438	46,371
Non-current provisions	18	653	494
Non-current borrowings	12	4,341	4,408
Bank borrowings	14	1,306	2,033
Derivatives	16	2,339	2,207
Other debts		696	168
Non-current borrowings from Group companies and associates	15	40,285	41,154
Deferred tax liabilities	17	143	291
Long term deferred revenues		16	24
CURRENT LIABILITIES		15,796	18,524
Current provisions	18	15	93
Current borrowings	12	903	2,483
Bonds and other marketable debt securities	13	75	181
Bank borrowings	14	364	2,094
Derivatives	16	457	208
Other financial liabilities	14	7	—
Current borrowings from Group companies and associates	15	14,551	15,578
Trade and other payables	18	307	362
Current deferred revenues		20	8
TOTAL EQUITY AND LIABILITIES		86,055	85,844

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

Telefónica, S.A.

Income statements for the years ended December 31

Millions of euros	Notes	2019	2018
Revenue	19	4,810	4,921
Rendering of services to Group companies and associates		475	517
Rendering of services to non-group companies		20	21
Dividends from Group companies and associates		4,242	4,259
Interest income on loans to Group companies and associates		73	124
Impairment and gains (losses) on disposal of financial instruments	8	2,444	(412)
Impairment losses and other losses		2,226	(587)
Gains (losses) on disposal and other gains and losses		218	175
Other operating income	19	45	68
Non-core and other current operating revenue - Group companies and associates		22	46
Non-core and other current operating revenue - non-group companies		23	22
Employees benefits expense	19	(245)	(143)
Wages, salaries and others		(209)	(118)
Social security costs		(36)	(25)
Other operational expense		(307)	(316)
External services - Group companies and associates	19	(107)	(102)
External services - non-group companies	19	(190)	(198)
Taxes other than income tax		(10)	(16)
Depreciation and amortization	5, 6 and 7	(29)	(32)
Gains (losses) on disposal of fixed assets		92	—
OPERATING PROFIT		6,810	4,086
Finance revenue	19	478	359
Finance costs	19	(2,209)	(2,230)
Exchange rate gains (losses)	19	43	49
NET FINANCIAL EXPENSE		(1,688)	(1,822)
PROFIT BEFORE TAX	21	5,122	2,264
Income tax	17	618	750
PROFIT FOR THE YEAR		5,740	3,014

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

Telefónica, S.A.

Statements of changes in equity for the years ended December 31

A) Statement of recognized income and expense

Millions of euros	Notes	2019	2018
Profit of the period		5,740	3,014
Total income and expense recognized directly in equity	11	615	652
From valuation of available-for-sale financial assets		1	(91)
From cash flow hedges		818	991
Income tax impact		(204)	(248)
Total amounts transferred to income statement	11	(391)	(545)
From valuation of available-for-sale financial assets		—	—
From cash flow hedges		(521)	(727)
Income tax impact		130	182
TOTAL RECOGNIZED INCOME AND EXPENSE		5,964	3,121

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

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

Millions of euros	Share capital	Share premium and Reserves	Treasury shares	Profit for the year	Net unrealized gains (losses) reserve	Total
Balance at December 31, 2017	5,192	15,462	(688)	554	(655)	19,865
Total recognized income and expense	—	—	—	3,014	107	3,121
Transactions with shareholders and owners	—	(2,039)	2	—	—	(2,037)
Dividends paid (Note 11)	—	(2,051)	—	—	—	(2,051)
Other transactions with shareholders and owners	—	12	2	—	—	14
Other movements	—	—	—	—	—	—
Appropriation of prior year profit (loss)	—	554	—	(554)	—	—
Balance at December 31, 2018	5,192	13,977	(686)	3,014	(548)	20,949
Total recognized income and expense	—	—	—	5,740	224	5,964
Transactions with shareholders and owners	—	(2,012)	(80)	—	—	(2,092)
Dividends paid (Note 11)	—	(2,046)	—	—	—	(2,046)
Other transactions with shareholders and owners	—	34	(80)	—	—	(46)
Appropriation of prior year profit (loss)	—	3,014	—	(3,014)	—	—
Balance at December 31, 2019	5,192	14,979	(766)	5,740	(324)	24,821

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

Telefónica, S.A.

Cash flow statements for the years ended December 31

Millions of euros	Notes	2019	2018
A) CASH FLOWS FROM OPERATING ACTIVITIES		5,260	2,364
Profit before tax		5,122	2,264
Adjustments to profit:		(5,090)	(2,117)
Depreciation and amortization	5, 6 and 7	29	32
Impairment of investments in Group companies and associates	8	(2,226)	587
Change in long term provisions		44	—
Gains on the sale of financial assets		(218)	(175)
Losses on disposal of fixed and intangible assets		(92)	—
Dividends from Group companies and associates	19	(4,242)	(4,259)
Interest income on loans to Group companies and associates	19	(73)	(124)
Net financial expense		1,688	1,822
Change in working capital		(70)	(272)
Trade and other receivables		(11)	51
Other current assets		(71)	(134)
Trade and other payables		12	(189)
Other cash flows from operating activities	21	5,298	2,489
Net interest paid		(1,547)	(1,618)
Dividends received and other		5,018	3,518
Income tax receipts		1,827	589
B) CASH FLOWS (USED IN)/FROM INVESTING ACTIVITIES	21	1,745	(64)
Payments on investments		(2,647)	(2,139)
Proceeds from disposals		4,392	2,075
C) CASH FLOWS USED IN FINANCING ACTIVITIES		(7,399)	(1,130)
Proceeds from equity instruments		13	—
(Payments)/Proceeds from financial liabilities	21	(5,257)	918
Debt issues		5,651	9,983
Repayment and redemption of debt		(10,908)	(9,065)
Acquisition of treasury shares		(99)	—
Dividends paid	21	(2,056)	(2,048)
D) NET FOREIGN EXCHANGE DIFFERENCE		20	(27)
E) NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(374)	1,143
Cash and cash equivalents at January 1		4,011	2,868
Cash and cash equivalents at December 31		3,637	4,011

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

Telefónica, S.A.

*Annual financial statements for
the ended December 31, 2019*

Note 1. Introduction and general information

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

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

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

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

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

Note 2. Basis of presentation

a) True and fair view

These financial statements have been prepared from Telefónica, S.A.'s accounting records by the Company's Directors in accordance with the accounting principles and standards contained in the Spanish GAAP in force approved by Royal Decree 1514/2007, on November 16 (PGC 2007), modified by Royal Decree 602/2016, dated December 2, 2016 and other prevailing legislation at the date of these financial statements, to give a true and fair view of the Company's equity, financial position, results of operations and of the cash flows obtained and applied in 2019.

The accompanying financial statements for the year ended December 31, 2019 were prepared by the Company's Board of Directors at its meeting on February 19, 2020 for submission for approval at the General Shareholders' Meeting, which is expected to occur without modification.

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

b) Comparison of information

In 2019 and 2018 there have not been significant transactions that should be taken into account in order to ensure the comparison of information included in the annual financial statements of both years.

c) Materiality

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

d) Use of estimates

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

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

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

Provisions for impairment of investments in Group companies and associates

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

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

Deferred taxes

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

The appropriate valuation of tax assets and liabilities depends on a series of factors, including estimates as to the timing and realization of deferred tax assets and the projected tax payment schedule. Actual income tax receipts and payments could differ from the estimates made by the Company as a result of changes in tax legislation, the outcome of ongoing tax proceedings or unforeseen future transactions that could affect tax balances. The information about deferred tax assets and unused tax credits for loss carryforwards, whose effect has been registered when necessary in balance, is included in Note 17.

Note 3. Proposed appropriation of profit

Telefónica, S.A. obtained 5,740 million euros of profit in 2019.

Accordingly, the Company's Board of Directors will submit the following proposed appropriation of 2019 profit for approval at the Shareholders' Meeting:

Millions of euros	
Proposed appropriation:	
Profit for the year	5,740
Distribution to:	
Unrestricted reserves	5,740

Note 4. Recognition and measurement accounting policies

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

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

a) Intangible assets

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

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

b) Property, plant and equipment and investment property

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

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

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

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

c) Impairment of non-current assets

Non-current assets are assessed at each reporting date for indicators of impairment. Where such indicators exist, or in the case of assets which are subject to an annual impairment test, the Company estimates the asset's recoverable amount as the higher of its fair value less costs to sell and its value in use. In assessing value in use, the estimated future post-tax cash

flows deriving from the use of the asset or its cash generating unit, as applicable, are discounted to their present value, using a post-tax discount rate reflecting current market assessments of the time value of money and the risks specific to the asset, whenever the result obtained is the same that would be obtained by discounting pre-tax cash flows at a pre-tax discount rate.

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

d) Financial assets and liabilities

Financial investments

All regular way purchases and sales of financial assets are recognized on the trade date, i.e. the date that the Company commits to purchase or sell the asset.

"Investments in group companies, joint ventures and associates" are classified into a category of the same name and are shown at cost less any impairment loss (see Note 4.c). Group companies are those over which the Company exercises control, either by exercising effective control or by virtue of agreements with the other shareholders. Joint ventures are companies which are jointly controlled with third parties. Associates are companies in which there is significant influence, but not control or joint control with third parties. Telefónica assesses the existence of significant influence not only in terms of percentage ownership but also in qualitative terms such as presence on the board of directors, involvement in decision-making, the exchange of management personnel, and access to technical information.

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

Derivative financial instruments and hedge accounting

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

e) Revenue and expenses

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

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

f) Related party transactions

In mergers and spin-offs of businesses involving the parent company and its direct or indirect subsidiary, in cases of non-monetary contributions of businesses between Group companies, and in cases of dividends, the contributed assets are valued, in general, at their pre-transaction carrying amount in the individual financial statements, given that the Telefónica Group does not prepare its consolidated financial statements in accordance with the Standards on Preparing Consolidated Financial Statements (Spanish "NOFCAC").

In these same operations, companies may also opt to use the consolidated values under International Financial Reporting Standards (IFRS) as adopted by the European Union, providing that the consolidated figures do not differ from those obtained under the NOFCAC. Lastly, the Company may also opt to use the values resulting from a reconciliation to the NOFCAC. Any accounting difference is recognized in reserves.

g) Financial guarantees

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

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

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

h) Consolidated data

As required under prevailing legislation, the Company has prepared separate consolidated annual financial statements, drawn up in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The balances of the main headings of the Telefónica Group's consolidated financial statements for 2019 and 2018 are as follows:

Millions of euros		
Item	2019	2018
Total assets	118,877	114,047
Equity:		
Attributable to equity holders of the parent	17,118	17,947
Attributable to minority interests	8,332	9,033
Revenue from operations	48,422	48,693
Profit for the year:		
Attributable to equity holders of the parent	1,142	3,331
Attributable to minority interests	522	619

Note 5. Intangible assets

The movements in the items composing intangible assets and the related accumulated amortization in 2019 and 2018 are as follows:

2019					
Millions of euros	Opening balance	Additions and allowances	Disposals	Transfers	Closing balance
INTANGIBLE ASSETS, GROSS	248	11	—	—	259
Software	153	5	—	1	159
Other intangible assets	95	6	—	(1)	100
ACCUMULATED AMORTIZATION	(228)	(7)	—	—	(235)
Software	(145)	(5)	—	—	(150)
Other intangible assets	(83)	(2)	—	—	(85)
NET CARRYING AMOUNT	20	4	—	—	24

2018					
Millions of euros	Opening balance	Additions and allowances	Disposals	Transfers	Closing balance
INTANGIBLE ASSETS, GROSS	236	10	(1)	3	248
Software	146	3	—	4	153
Other intangible assets	90	7	(1)	(1)	95
ACCUMULATED AMORTIZATION	(219)	(10)	1	—	(228)
Software	(138)	(7)	—	—	(145)
Other intangible assets	(81)	(3)	1	—	(83)
NET CARRYING AMOUNT	17	—	—	3	20

As of December 31, 2019 and 2018 commitments to acquire intangible assets amount to 0.4 and 0.9 million euros, respectively.

As of December 31, 2019 and 2018, the Company had 220 million euros and 189 million euros, respectively, of fully amortized intangible assets.

In December 2019 the Company has disposed of trademarks in non-strategic markets with a net carrying value of 0.1 million euros. The "gain in disposal of assets" is 4.5 million euros, shown in the profit and loss account.

Note 6. Property, plant and equipment

The movements in the items composing property, plant and equipment (PP&E) and the related accumulated depreciation in 2019 and 2018 are as follows:

2019					
Millions of euros	Opening balance	Additions and allowances	Disposals	Transfers	Closing balance
PROPERTY, PLANT AND EQUIPMENT, GROSS	564	7	(29)	(1)	541
Land and buildings	221	2	(25)	—	198
Plant and other PP&E items	337	5	(4)	1	339
PP&E under construction and prepayments	6	—	—	(2)	4
ACCUMULATED DEPRECIATION	(387)	(18)	—	—	(405)
Buildings	(98)	(14)	—	—	(112)
Plant and other PP&E items	(289)	(4)	—	—	(293)
NET CARRYING AMOUNT	177	(11)	(29)	(1)	136

2018					
Millions of euros	Opening balance	Additions and allowances	Disposals	Transfers	Closing balance
PROPERTY, PLANT AND EQUIPMENT, GROSS	588	7	—	(31)	564
Land and buildings	223	3	—	(5)	221
Plant and other PP&E items	329	4	—	4	337
PP&E under construction and prepayments	36	—	—	(30)	6
ACCUMULATED DEPRECIATION	(378)	(9)	—	—	(387)
Buildings	(97)	(1)	—	—	(98)
Plant and other PP&E items	(281)	(8)	—	—	(289)
NET CARRYING AMOUNT	210	(2)	—	(31)	177

Firm commitments to acquire property, plant and equipment at December 31, 2019 and 2018 amounted to 2 million euros and 0.5 million euros, respectively. At December 31, 2019 and 2018, the Company had 259 and 241 million euros, respectively, of fully depreciated items of property, plant and equipment.

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

"Property, plant and equipment" includes the net carrying amount of the land and buildings occupied by Telefónica, S.A. at its Distrito Telefónica headquarters, amounting to 68 million euros at 2019 and 2018 year-ends, respectively. It also includes the net carrying amount of the remaining assets in this site (mainly property, plant and equipment items) of 12 and 10 million euros at December 31, 2019 and 2018, respectively.

In 2018, a new parking for the Group employees was completed. The value of the area that the Company allocates for its own use was included as Additions of Land and Buildings in the 2018 chart of movements amounting to 3 million euros.

The land and buildings rented to other Group Companies (approximately 80% of the total value in 2019 and 78% in 2018) have been included as "Investment properties" in Note 7.

Disposals in 2019 refer to the sale of the land related to the building Diagonal 00, transaction that is disclosed in Note 7.

Note 7. Investment properties

The movements in the items composing investment properties in 2019 and 2018 and the related accumulated depreciation are as follows:

2019					
Millions of euros	Opening balance	Additions and allowances	Disposals	Transfers	Closing balance
INVESTMENT PROPERTIES, GROSS	523	—	(92)	1	432
Land	100	—	—	—	100
Buildings	423	—	(92)	1	332
ACCUMULATED DEPRECIATION	(119)	(4)	23	—	(100)
Buildings	(119)	(4)	23	—	(100)
NET CARRYING AMOUNT	404	(4)	(69)	1	332

2018					
Millions of euros	Opening balance	Additions and allowances	Disposals	Transfers	Closing balance
INVESTMENT PROPERTIES, GROSS	495	—	—	28	523
Land	94	—	—	6	100
Buildings	401	—	—	22	423
ACCUMULATED DEPRECIATION	(106)	(13)	—	—	(119)
Buildings	(106)	(13)	—	—	(119)
NET CARRYING AMOUNT	389	(13)	—	28	404

"Investment properties" mainly includes in both 2019 and 2018 the value of land and buildings leased by Telefónica, S.A. to other Group companies at Distrito Telefónica, headquarters in Madrid.

In addition, until the sale of the building in May 2019, it was also included here the net carrying value of Diagonal 00, the headquarters in Barcelona. The transaction has been included as Disposals in the chart of movements of 2019 and has generated a profit of 47 millions of euros shown as "Gains on disposal of fixed assets" of the income statement. On the same date, the Company has signed a 10-year contract to rent this same building. The compromised payments for this rent are included in Note 19.

"Transfers" in 2018 chart of movements refer to the value of the area rented to other Group companies in the new parking for employees described in the previous note (approximately 78% of the value).

In 2019, the Company has buildings with a total area of 323,979 square meters (356,171 square meters in 2018) leased to several Telefónica Group companies, equivalent to an occupancy rate of 91.68% of the buildings it has earmarked for lease (90.29% in 2018).

Total income from leased buildings in 2019 and 2018 (see Note 19.1.a) amounted to 43 million euros in both years.

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

	2019	2018
Millions of euros	Future minimum recoveries	Future minimum recoveries
Up to one year	39	40
Between two and five years	1	2
Over 5 years	—	1
Total	40	43

The most significant lease contracts held with subsidiaries occupying Distrito Telefónica have been renewed in 2019 for a non-cancellable period of 12 months.

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

Note 8. Investments in group companies and associates

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

2019

Millions of euros	Opening balance	Additions	Disposals	Transfers	Exchange losses	Dividends	Net investment hedges	Closing balance	Fair value
Equity instruments (Net) (1)	66,530	410	2,226	416	—	(520)	205	69,267	122,759
Equity instruments (Cost)	92,809	410	(53)	416	—	(520)	205	93,267	
Impairment losses	(26,279)	—	2,279	—	—	—	—	(24,000)	
Loans to Group companies and associates	1,503	73	(36)	(749)	40	—	—	831	812
Other financial assets	7	25	—	—	—	—	—	32	32
Total non-current investment in Group companies and associates	68,040	508	2,190	(333)	40	(520)	205	70,130	123,571
Loans to Group companies and associates	4,473	3,772	(5,442)	—	(26)	—	—	2,777	2,651
Derivatives	8	61	(8)	—	—	—	—	61	61
Other financial assets	29	5	(19)	—	—	—	—	15	15
Total current investments in Group companies and associates	4,510	3,838	(5,469)	—	(26)	—	—	2,853	2,727

(1) Fair value at December 31, 2019 of Group companies and associates quoted in an active market (Telefônica Brasil, S.A.) was calculated taking the listing of the investments on the last day of the year; the rest of the shareholdings are stated at the value of discounted cash flows based on those entities' business plans.

2018

Millions of euros	Opening balance	Additions	Disposals	Transfers	Exchange losses	Dividends	Net investment hedges	Closing balance	Fair value
Equity instruments (Net) (1)	67,025	113	(209)	(69)	—	(281)	(49)	66,530	122,108
Equity instruments (Cost)	92,717	700	(209)	(69)	—	(281)	(49)	92,809	
Impairment losses	(25,692)	(587)	—	—	—	—	—	(26,279)	
Loans to Group companies and associates	2,141	73	(186)	(550)	25	—	—	1,503	1,492
Other financial assets	—	7	—	—	—	—	—	7	7
Total non-current investment in Group companies and associates	69,166	193	(395)	(619)	25	(281)	(49)	68,040	123,600
Loans to Group companies and associates	3,426	4,845	(4,326)	550	(22)	—	—	4,473	3,967
Derivatives	10	8	(10)	—	—	—	—	8	8
Other financial assets	24	29	(24)	—	—	—	—	29	29
Total current investments in Group companies and associates	3,460	4,882	(4,360)	550	(22)	—	—	4,510	4,004

(1) Fair value at December 31, 2018 of Group companies and associates quoted in an active market (Telefônica Brasil, S.A.) was calculated taking the listing of the investments on the last day of the year; the rest of the shareholdings are stated at the value of discounted cash flows based on those entities' business plans.

The most significant transactions occurred in 2019 and 2018 as well as their accounting impacts are described below:

2019

On February 14, 2019, after the pertinent regulatory approvals have been obtained, Telefónica, S.A. sold 100% of the investment in Seguros de Vida y Pensiones Antares, S.A. (Antares) to Grupo Catalana Occidente for 161 million euros. The profit of the transaction has amounted to 88 million euros.

On February 20, 2019, the Board of Directors of Telefónica, S.A. has authorized the sale of the Group operators in Central América. The direct ownership in Costa Rica amounts to 291 million euros and it has been transferred to "Net assets held for sale" and shown as Transfers in 2019 chart of movements.

As a consequence of the policy of asset management in the Group, on July 25, 2019, the Company has sold 11 Data Centers located in 7 countries (Spain, Brazil, USA, Mexico, Peru, Chile and Argentina) to Asterion Industrial Partners SGEIC, S.A. for 550 million euros. Two of the sales require further regulatory approvals. Telefónica S.A. had a direct investment in the parent company owning the Data Centers, Daytona, S.L. (previously known as Panamá Cellular Holdings, S.L.). The profit of the transaction has amounted to 126 million euros. On December 18, 2019, after the pertinent regulatory approvals have been obtained, the propriety of the Miami Data Center has been transferred with an additional gain in sale of companies of 4 million euros.

2018

On July 13, 2018, a new company named Reginatorium Participaciones, S.L.U. was incorporated by Telefónica, S.A. On July 26, 2018 Telefónica made a non-monetary contribution to this new subsidiary equivalent to the net carrying value of its stake in Telxius Telecom, S.A. ("Telxius") corresponding to 60% of Telxius' share capital.

On July 27, 2018, the company was renamed Pontel Participaciones, S.L. ("Pontel") and on the same date, Telefónica sold 16.65% of it to the Pontegadea Group amounting to 378.8 million euros (a valuation of 15.2 euros per share of Telxius). An investment of 16.65% in Pontel is equivalent to a 9.99% indirect ownership in Telxius. The transaction generated a revenue of 175 million euros in the profit and loss account of 2018.

On November 8, 2018, Telefónica reached an agreement with Catalana Occidente Group for the sale of its total stake in Antares, its insurance company in Spain. As of December 31, 2018, the net carrying value of the investment was transferred to "Long Term assets held for sale" totaling 69 million euros and shown as Transfers in the 2018 chart of movements.

Other movements

On January 24, 2019 Telefónica Centroamérica Inversiones, S.L. has distributed dividends to its shareholders after the sale of Telefónica Guatemala, S.A. The Company has registered an impact of 168 million euros for this concept.

Moreover, on May 16, 2019, Telefónica Centroamérica Inversiones, S.L. has distributed dividends to its shareholders after the sale of Telefónica Nicaragua, S.A. The Company has registered an impact of 83 million euros for this concept.

Later this year, on August 28, 2019, Telefónica Centroamérica Inversiones, S.L. has distributed dividends to its shareholders after the sale of Telefónica Panamá, S.A. The Company has registered an impact of 205 million euros for this concept.

On December 23, 2019, Telefónica Centroamérica Inversiones, S.L. has distributed additional dividends to its shareholders. Telefónica, S.A. has registered an impact of 4 million euros for this concept.

In 2019 chart of movements, the sum of these distributions, 460 million euros, has been shown as "Dividends".

On May 17, 2019 and on December 2, 2019, Pontel Participaciones, S.L. has distributed reserves by 19 and 41 million euros shown as "Dividends" in 2019 chart of movements.

In 2018 the column "Dividends" included distributions of reserves made by Telxius Telecom, S.A. amounting to 217 million euros and by Pontel Participaciones, S.L. amounting to 64 million euros.

On December 31, 2019 the Company has executed a partial capitalization of the notional amounts of the credits granted to Telefónica Móviles México, S.A. de C.V. as well as the full amount of interests from these credit for a total amount of 707 million euros. The withholding taxes of the interets have been transferred to an account receivable from Tax Authorities amounting to 42 million euros. The transaction is shown as "Transfers" in the 2019 chart of movements and disclosed in Note 8.5.

"Transfers" of "Loans to Group Companies and Associates" in 2018 included the reclassification between long-term and current loans in accordance with the loan maturity schedule as well as the accrued interests rendered by those loans, outstanding at year end.

In 2019 and 2018, Telefónica, S.A. bought and sold the following shareholdings:

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

Millions of euros		
Companies	2019	2018
Telefónica Digital España, S.L.U.	137	194
Telefónica Móviles México, S.A. de C.V.	250	460
Telefónica Innovación Alpha, S.L.	19	—
Telefónica Ingeniería de Seguridad, S.A.U.	—	32
Other companies	4	14
Total Group companies and associates	410	700

2019

In order to provide the funds needed to rebalance its equity and to execute share capital increases in its direct affiliates, Telefónica Digital España, S.L.U. on January 10, 2019 carried out a capital increase amounting to 137 million euros, totally subscribed and disbursed by Telefónica, S.A.

On this same date, Telefónica Innovación Alpha, S.L. has completed a capital increase of 19 million euros fully subscribed and paid by Telefónica, S.A.

On July 18, 2019 and on December 11, 2019, Telefónica Móviles México S.A. de C.V. completed capital increases of 2,350 million Mexican pesos (equivalent to 109 million euros) and 3,000 million Mexican pesos (equivalent to 141 million euros), respectively. The transactions have been fully subscribed and paid by Telefónica, S.A.

2018

On January 11, 2018, with the aim of rebalancing the equity, Telefónica Digital España, S.L.U. made a capital increase of 194 million euros fully subscribed and paid by the Company.

On March 22, 2018 Telefónica Móviles México S.A. de C.V. completed a capital increase of 4,000 million Mexican pesos, equivalent to 176 million euros. On December 17, 2018 an additional capital increase of 6,550 million Mexican pesos, equivalent to 284 million euros was launched. Both transactions were fully subscribed and paid by Telefónica, S.A.

On July 17, 2018, the Company decided to capitalize a credit granted to its subsidiary Telefónica Ingeniería de Seguridad, S.A.U. amounting to 26.4 million euros. In addition, on December 27, 2018 a capital increase made by the subsidiary totaling 5.2 million euros, fully subscribed and paid by Telefónica, S.A.

b) Disposals of investments and capital decreases:

Millions of euros		
Companies	2019	2018
Daytona, S.L. (formerly Panamá Cellular Holdings, S.L.)	53	—
Pontel Participaciones, S.L.	—	204
Others	—	5
Total Group companies and associates	53	209

2019

Disposal of Daytona, S.L. relates to the sale of the investment detailed at the beginning of the note.

2018

The disposal of Pontel Participaciones, S.L. reflected the sale of shares to the Pontegadea Group, as fully described at the beginning of this note.

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

At each year end, the Company re-estimates the future cash flows derived from its investments in Group companies and associates. The estimate is based on the expected cash flows to be received from each subsidiary in its functional currency, discounted using the appropriate rate, net of the liabilities associated with each investment (mainly net debt), considering the percentage of ownership in each subsidiary and translated to euros at the official closing rate of each currency at December 31. The main assessments used to determine the discounted cash flows are the long term OIBDA margin, the long term investment ratio, the weighted average cost of capital (WACC) and the perpetual growth rate, indicators employed by the Group in its investments valuation.

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

As a result of these estimations and the effect of the net investment hedge in 2019, a reversal of impairment provision of 2,226 million euros was recognized (write down of 587 million euros in 2018). This amount derives mainly from the following companies:

- a. a write down reversal, net of hedges, of 2,947 million euros for Telefónica O2 Holdings Limited (write down reversal of 4,062 million euros, net of hedges, was registered in 2018);
- b. a write down reversal of 484 million euros for Telefônica Brasil, S.A. (write down amounting to 1,038 million euros in 2018) and a write down reversal of 100 million euros for Sao Paulo Telecomunicações, Ltda (write down amounting to 243 million euros in 2018);

- c. a write down by 224 million euros for Telefónica Móviles México, S.A. de C.V. (write down by 1,075 million euros in 2018);
- d. a write down of 146 million euros for Telefónica Digital España, S.L.U. (a write down of 219 million euros in 2018) and
- e. a write down of 875 million euros for Telefónica Latinoamérica Holding, S.L.U. (write down by 1,962 million euros in 2018). The write down is mainly originated by the decrease in the estimated cash flows from the Argentinian subsidiaries.

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

With respect to the political and economic situation, 2019 has been a transition year for UK. Regarding politics, the Treaty to leave the EU has finally been signed after three years of negotiation, and accordingly legal stability will be achieved for future decisions. From the economic point of view, the country continued with a growth rate over 1% (even if lower than the previous years) benefited from the favourable labour market conditions (with an unemployment rate at its lowest) and the restraint of inflation rate, increasing benefits on a real basis. Investment is the variable with the weakest performance due to the uncertainty of the new relationship with the EU. The Group forecasts a limited impact of Brexit in the business. The Strategic Plan of O2 UK reflects the expectancy of keeping its market share thanks to the quality of services, the adaptation of its offer to the customers and the enhancement in B2B and IoT (Internet of Things) businesses. In this sense, revenues in the plan are in line with the analysts' average estimations for the next three years. OIBDA is improved based on the speeding efficiency plan whose key target is containing the expense below inflation rate, the network sharing with Vodafone and the optimization of spectrum. Long term OIBDA margin envisages significant growth in line with analysts' estimations. With respect to the investment over revenues ratio, the estimation included in the Strategic Plan is aligned with the analysts' forecast, around 12%.

Despite the growth rate in 2019 in Brazil has been lower than its target during the first half of the year (1.2% versus target of 2.5%), it was due to external and sporadic effects (such as commercial war, crisis in Argentina and environmental damages). Since July 2019, a visible change in the trend is observed and the economic variables behaved in a more dynamic way. In addition, a decrease in the inflation rate was registered and accordingly, the interest rates have been reduced by 250 bps to the lowest historical figure both in a notional and real basis to encourage private consumption. Fiscal objectives for the year have been over-fulfilled, strengthening the credibility of the country regarding this aspect. On the other hand, relevant political reforms have been

approved, with respect to Social Security system, among others and these reforms guide Brazil into a path of debt stability and productivity rise. In terms of the variables used in the Strategic Plan of the company, The OIBDA margin for Brazil is around 40%, within the range of analysts' long-term forecasts (at around 43%). Over the term of the business plans, the operator will invest a percentage in line with the investment needs forecasted by analysts (around 18%). The scenario of low interest rates already mentioned has resulted in a decrease in the cost of debt of the company, and the WACC (Weighted average cost of capital) has fallen from 11.2% in 2018 to 10% in 2019.

Mexican economy was stagnated in 2019 with the worst figures of the last decade, caused both by the fall in consumption and investment. The investment decreased because of the uncertainty surrounding the internal and international scenario; The negative performance of the investment is caused by the policies set in-force by the new government, the delay in the sign of the commercial agreement with the US and the negative impact of the manufacturing variables globally. Moreover, interest rates have been abnormally high. This fact has affected the labour market with a decrease of 30% in new people employed year-on-year and a steep slowdown in private consumption. On November 2019, Telefónica Móviles México, S.A. de C.V. and AT&T Comunicaciones Digitales, S. de R.L. de C.V. ("AT&T Mexico") entered into a Wholesale Access Services Agreement, under which AT&T Mexico will provide wholesale wireless access to Telefónica Mexico on 3G, 4G and any other future technology available in Mexico. The agreement means the transformation of the operating model of the company in 2019 and this change in the model is reflected in its Strategic Plan.

8.3. Detail of subsidiaries and associates

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

8.4. Transactions protected for tax purposes

This chapter relates to the operations that qualify for special tax treatment, as defined in Articles 76 and 87, as applicable, of Chapter VII of Title VII of Legislative Royal Decree 27/2014 of November 27 approving the Spanish Corporate Income Tax Law.

During 2019 there are no transactions carried out that are qualified for special tax treatment. The transactions carried out in prior years are disclosed in the financial statements for those years.

8.5. The breakdown and maturity of loans to Group companies and associates in 2019 and 2018 are as follows:

2019

Millions of euros

Company	2020	2021	2022	2023	2024	2025 and subsequent years	Final balance, current and non-current
Telefónica Móviles España, S.A.U.	869	—	—	—	—	—	869
Telefónica Móviles México, S.A. de C.V.	—	222	—	—	—	—	222
Telfisa Global, B.V.	178	—	—	—	—	—	178
Telefónica de España, S.A.U.	1,233	—	—	—	—	—	1,233
Telxius Telecom, S.A.	—	—	280	—	140	140	560
Telefônica de Brasil, S.A.	210	—	—	—	—	—	210
Telefónica Latinoamérica Holding, S.L.U.	113	—	—	—	—	—	113
Other companies	174	—	16	—	—	33	223
Total	2,777	222	296	—	140	173	3,608

2018

Millions of euros

Company	2019	2020	2021	2022	2023	2024 and subsequent years	Final balance, current and non-current
Telefónica Móviles España, S.A.U.	756	—	—	—	—	—	756
Telefónica Móviles México, S.A. de C.V.	—	860	—	—	—	—	860
Telfisa Global, B.V.	700	—	—	—	—	—	700
Telefónica de España, S.A.U.	2,352	—	—	—	—	—	2,352
Telxius Telecom, S.A.	—	—	—	280	—	280	560
Telefônica de Brasil, S.A.	258	—	—	—	—	—	258
Telefónica Latinoamérica Holding, S.L.U.	89	—	—	—	—	8	97
Other companies	318	—	35	16	—	24	393
Total	4,473	860	35	296	—	312	5,976

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

- The financing extended to Telefónica Móviles España, S.A.U. in 2019 includes dividends distributed and unpaid in December 2019 amounting to 774 million euros.

Moreover, 95 million euros of taxes are receivable from this subsidiary for its tax expense declared in the consolidated tax return (204 million euros in 2018).

- On December 31, 2019 Telefónica, S.A. has capitalized 6,997 million Mexican pesos of the credits granted to Telefónica Móviles de México, S.A. de C.V. as well as the total amount of the uncollected interests (8,856 million Mexican pesos). The credit still unpaid after this capitalization amounts to 4,700 million Mexican pesos equivalent to 222 million euros. The concept is registered as long term receivable according to the collection expectancy.

As of December 31, 2018 the notional of these credits amounted to 11,697 million Mexican pesos equivalent to 520 million euros and the unpaid interest was 340 million

euros. These two concepts were registered as long term receivables according to the collection expectancy.

- In December 2019, Telfisa Global, B.V. distributed dividends totaling 178 million euros that remain unpaid as of the formulation date of these annual accounts.
- The 2019 balance of Telefónica de España, S.A.U. consists of dividends distributed in December 2019 amounting to 1,214 million euros that are outstanding as of the preparation date of these financial statements.

The 550 million euros credit facility granted and drawn down in full in November 2014 has been cancelled and paid in accordance with its maturity in 2019.

Additionally, there is also a balance of 19 million euros comprising tax receivables from the subsidiary for its tax expense declared in the consolidated tax return (227 million euros in 2018).

- On May 27, 2016, with the aim of enabling the necessary funds for restructuring the infrastructure business line of the Group, the Company granted its subsidiary, Telxius Telecom,

S.A. with a credit of 280 million euros at a fix interest rate and maturity in 2022, a credit of 140 million euros at a fix interest rate and maturity in 2024, a credit of 140 million euros at a fix rate and maturity in 2026 and a credit of 140 million euros and an interest rate referred to euribor maturing 2021. This last credit was cancelled prior to its maturity in 2018.

- The balance totaling 210 million euros shown in 2019 with Telefônica Brasil, S.A. entirely corresponds to dividends agreed by the subsidiary and unpaid at year end (258 million euros in December 2018).
- The amount due from Telefónica Latinoamérica Holding, S.L. is originated in full by tax group liquidations.

In the 2019 chart of movements, additions of current loans to group companies and associates comprise 247 million euros (589 million euros in 2018) of loans in connection with the taxation of Telefónica, S.A. as the head of the tax group pursuant to the consolidated tax regime applicable to corporate groups (see Note 17). The most significant amounts have already been disclosed through this note. All these amounts fall due in the short term.

Disposals of current loans to group companies and associates includes the cancellation of balances receivable from subsidiaries on account of their membership of Telefónica, S.A.'s tax group totaling 589 million euros (686 million euros in 2018).

Total accrued interest receivable at December 31, 2019 included under "Current loans to group companies and associates" amount to 1 million euros (2 million euros in 2018).

8.6. Other financial assets with Group companies and associates

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

Invoices of share plans that were already vested and are outstanding at year end are shown as other current financial assets. Amounts derived from the new share plans launched in 2018 and 2019 with a maturity date longer than 2020 are included as other non-current financial assets (see Note 19.3).

Note 9. Financial investments

9.1. The breakdown of "Financial investments" at December 31, 2019 and 2018 is as follows:

2019

Millions of euros	Assets at fair value							Assets at amortized cost					
	Available-for-sale financial assets	Financial assets held for trading	Hedges	Subtotal assets at fair value	Measurement hierarchy			Loans and receivables	Other financial assets	Subtotal assets at amortized cost	Fair value	Total carrying amount	Total fair value
					Level 1: quoted prices	Level 2: Estimates based on other directly observable market inputs	Level 3: Estimates not based on observable market data						
Non-current financial investments	314	949	2,196	3,459	314	3,145	—	—	412	412	412	3,871	3,871
Equity instruments	314	—	—	314	314	—	—	—	—	—	—	314	314
Derivatives (Note 16)	—	949	2,196	3,145	—	3,145	—	—	—	—	—	3,145	3,145
Loans to third parties and other financial assets	—	—	—	—	—	—	—	—	412	412	412	412	412
Current financial investments	—	194	1,024	1,218	—	1,218	—	1,149	6	1,155	1,158	2,373	2,376
Loans to third parties and other financial assets	—	—	—	—	—	—	—	1,149	6	1,155	1,158	1,155	1,158
Derivatives (Note 16)	—	194	1,024	1,218	—	1,218	—	—	—	—	—	1,218	1,218
Total financial investments	314	1,143	3,220	4,677	314	4,363	—	1,149	418	1,567	1,570	6,244	6,247

2018

Millions of euros	Assets at fair value							Assets at amortized cost					
	Available- for-sale financial assets	Financial assets held for trading	Hedges	Subtotal assets at fair value	Measurement hierarchy			Loans and receivables	Other financial assets	Subtotal assets at amortized cost	Fair value	Total carrying amount	Total fair value
					Level 1: quoted prices	Level 2: Estimates based on other directly observable market inputs	Level 3: Estimates not based on observable market data						
Non-current financial investments	298	826	1,595	2,719	298	2,421	—	—	696	696	696	3,415	3,415
Equity instruments	298	—	—	298	298	—	—	—	—	—	—	298	298
Derivatives (Note 16)	—	826	1,595	2,421	—	2,421	—	—	—	—	—	2,421	2,421
Loans to third parties and other financial assets	—	—	—	—	—	—	—	—	696	696	696	696	696
Current financial investments	—	322	520	842	—	842	—	972	7	979	980	1,821	1,822
Loans to third parties and other financial assets	—	—	—	—	—	—	—	972	7	979	980	979	980
Derivatives (Note 16)	—	322	520	842	—	842	—	—	—	—	—	842	842
Total financial investments	298	1,148	2,115	3,561	298	3,263	—	972	703	1,675	1,676	5,236	5,237

Derivatives are measured using the valuation techniques and models normally used in the market, based on money-market curves and volatility prices available in the market. Additionally, on this valuation, the credit valuation adjustment or CVA net for counterparty (CVA + DVA), which is the methodology used to measure the credit risk of the counterparties and of Telefónica itself is calculated to adjust the fair value determination of the derivatives. This adjustment reflects the possibility of insolvency or deterioration of the credit quality of the counterparty and Telefónica.

9.2 Financial assets Held-for-trading and hedges

These two categories include the fair value of outstanding derivative financial instruments at December 31, 2019 and 2018 (see Note 16).

9.3 Available-for-sale financial assets

This category mainly includes the fair value of investments in listed companies (equity instruments) over which the Company does not have significant control or influence. The movement of items composing this category at December 31, 2019 and 2018 are as follows:

December 31, 2019					
Millions of euros	Opening balance	Additions	Disposals	Fair value adjustments	Closing balance
Banco Bilbao Vizcaya Argentaria, S.A.	205	—	—	15	220
Promotora de Informaciones, S.A. (PRISA)	93	15	—	(14)	94
Total	298	15	—	1	314

December 31, 2018					
Millions of euros	Opening balance	Additions	Disposals	Fair value adjustments	Closing balance
Banco Bilbao Vizcaya Argentaria, S.A.	313	—	—	(108)	205
Promotora de Informaciones, S.A. (PRISA)	27	49	—	17	93
Total	340	49	—	(91)	298

In accordance with the change introduced in 2017 by the article 21 of Income Tax Law 27/2014 with respect to the non-deductible nature of the net losses generated by the sale of some investments with certain characteristics, the Company is not accruing the tax impacts of the fair value adjustments in its available-for-sale investments.

Banco Bilbao Vizcaya Argentaria, S.A.

The impacts shown in the column "Fair value adjustments" on both years include the fair value adjustment of Banco Bilbao Vizcaya Argentaria, S.A. (BBVA). These impacts are registered in the Equity of the Company (Note 11.2.).

At December 31, 2019 Telefónica, S.A.'s investment in BBVA represents 0.66% of that company's share capital.

Promotora de Informaciones, S.A. (Prisa)

On April 11, 2019 the company launches a capital increase and Telefónica acquires and subscribes 11.3 million of new shares and sells the rest of its rights in the market. The net amount of this transaction is shown as Additions in 2019 chart of movements.

On February 16, 2018 the company launched a capital increase. Telefónica subscribed and acquired 42.2 million new shares and the rest of the preferred subscription rights were sold. The net amount of the transaction is reflected as Additions in the 2018 chart of movements.

Neither in 2019 nor in 2018 write-downs have been registered for this investment.

9.4 Other financial assets and loans to third parties

The breakdown of investments included in this category at December 31, 2019 and 2018 is as follows:

Millions of euros	2019	2018
Other non-current financial assets:		
Deposits related to investment properties	9	9
Collateral guarantees	403	687
Other current financial assets:		
Loans to third parties	1,149	972
Other current financial assets	6	7
Total	1,567	1,675

Collaterals included in both years under the caption "Other non-current financial assets" are classified in accordance with the maturity of the underlying derivative instruments which they relate to.

In relation with these collateral contracts, there is an additional guarantee of 145,000 bonds issued by Telefónica Emisiones, S.A.U. deposited in a securities account owned by Telefónica, S.A. with a notional of 129 million euros (there were 120,000 bonds with a notional of 105 million euros in 2018).

9.4.1 Loans to third parties

In 2019 Telefónica, S.A. has set up bank deposit contracts with a maturity period between 3 and 12 months totaling 1,149 million euros (972 million euros in 2018).

Outstanding interest revenues amount to 0.3 million euros in 2019 (0.2 million euros in 2018), are registered as other current financial assets.

Note 10. Trade and other receivables

The breakdown of "Trade and other receivables" at December 31, 2019 and 2018 is as follows:

Millions of euros	2019	2018
Trade receivables	68	13
Trade receivables from Group companies and associates	163	193
Other receivables	1	2
Employee benefits receivable	1	1
Tax receivables (Note 17)	103	179
Total	336	388

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

"Trade receivables" and "Trade receivables from Group companies and associates" in 2019 and 2018 include balances in foreign currency equivalent to 78 million and 86 million euros, respectively.

In 2019 and 2018 these amounts relate to receivables in US dollars and Venezuelan bolivars. The balance in Venezuelan bolivars arises after the change in 2017 of the brand fee contract, which is being invoiced in that currency since March 31, 2017.

These balances give rise to exchange rate losses in the income statement of 2 million euros in 2019 (4 million euros of exchange rate losses in 2018).

Note 11. Equity

11.1 Capital and reserves

a) Share capital

2019

At December 31, 2019 Telefónica, S.A.'s share capital amounted to 5,192,131,686 euros and consisted of 5,192,131,686 fully paid ordinary shares of a single series, par value of 1 euro, all recorded by the book-entry system and traded on the Spanish electronic trading system ("Continuous Market"), where they form part of the "Ibex 35" Index, on the four Spanish Stock Exchanges (Madrid, Barcelona, Valencia and Bilbao) and listed on the New York and Lima Stock Exchanges, through American Depositary Shares ('ADSs').

On May 16, 2019 Telefónica, S.A.'s shares were delisted from London Stock Exchange and on July 12, 2019 were delisted from Argentinian Stock Exchanges.

2018

At December 31, 2018 Telefónica, S.A.'s share capital amounted to 5,192,131,686 euros and consisted of 5,192,131,686 fully paid ordinary shares of a single series, par value of 1 euro, all recorded by the book-entry system.

Authorizations by Shareholders' Meeting

With respect to share capital-related authorizations, on June 12, 2015, authorization was given at the Annual Shareholders' Meeting of Telefónica, S.A. for the Board of Directors, at its discretion and in accordance with the Company's needs, to increase the Company's capital, once or several times, within a maximum five years period from that date, up to a maximum nominal increase of 2,469,208,757 euros, equivalent to half of Telefónica, S.A.'s share capital at that date, by issuing and placing new shares, with or without a share premium, and, in all cases, in exchange for cash, expressly considering the possibility that the new shares may not be fully subscribed. The Board of Directors was also empowered to exclude, partially or fully, pre-emptive subscription rights under the terms of article 506 of the Spanish Corporate Enterprises Act. However, the power to exclude pre-emptive rights is limited to 20% of the Company's share capital on the date of adoption of this resolution. Pursuant to the aforementioned authorizations, as of December 31, 2019, the Board of Directors may increase the share capital up to the maximum nominal amount of 2,469,208,757 euros.

In addition, at the June 9, 2017 Shareholders' Meeting of Telefónica, S.A., authorization was given for the Board of Directors to issue debentures, bonds, promissory notes and other fixed-income securities and hybrid instruments, including preferred shares, in all cases be they simple, tradable, and/or convertible and/or granting the holders thereof a share in the earnings of the company, as well as warrants, with the power to exclude the pre-emptive rights of shareholders. The issuance of the aforementioned securities may be conducted at one or several times, at any time, within a maximum five-year period from that date. These securities may be in the form of debentures, bonds, promissory notes or any other kind of fixed-income security, or debt instruments of similar category or hybrid instruments in any legally admitted form (including yet not restricted to preferred shares), plain or, in the case of debentures, bonds and hybrid instruments convertible into shares of the Company and/or exchangeable for shares of any of the Group companies, or any other company and/or giving the holders thereof a share in the earnings of the Company. This delegation also includes warrants or other similar securities that might give the right to directly or indirectly subscribe or acquire shares, whether newly issued or outstanding, and which may be paid for by physical delivery or by offset. The aggregated amount of the issuance(s) of securities approved under this delegation of powers may not exceed the sum of 25,000 million euros or the equivalent in another currency at any time. For promissory notes, the outstanding balance of promissory notes issued under this authorization will be calculated for the purpose of the aforementioned limit. Likewise, for the sake of the aforementioned limit, in the case of warrants, the sum of the premiums and exercise prices of the warrants for each issuance approved under this delegation shall be taken into account.

Furthermore, on June 8, 2018, shareholders voted to authorize the acquisition by the Board of Directors of Telefónica, S.A. treasury shares, up to the limits and pursuant to the terms and conditions established at the Shareholders' Meeting, within a maximum five-year period from that date. However, it specified that in no circumstances could the par value of the shares acquired, added to that of the treasury shares already held by Telefónica, S.A. and by any of its controlled subsidiaries, exceed the maximum legal percentage at any time (currently 10% of Telefónica, S.A.'s share capital).

At December 31, 2019 and 2018, Telefónica, S.A. held the following treasury shares:

	Number of shares	Euros per share		Market value (*)	%
		Acquisition price	Trading price		
Treasury shares at 12/31/19	77,562,635	9.88	6.23	483	1.49385%
Treasury shares at 12/31/18	65,496,120	10.48	7.34	481	1.26145%

(*) Millions of euros

The movement in treasury shares of Telefónica, S.A. during the years 2019 and 2018 is as follows:

	Number of shares
Treasury shares at 12/31/17	65,687,859
Employee share option plan (see Note 19.3)	(191,739)
Treasury shares at 12/31/18	65,496,120
Acquisitions	14,033,446
Employee share option plan (see Note 19.3)	(1,966,931)
Treasury shares at 12/31/19	77,562,635

Acquisitions

In 2019 acquisition of treasury shares amounting to 99 million euros have been registered (see Note 21). There were no acquisitions of treasury shares in 2018.

Share redemption and disposals

In 2019 and 2018 there have been no share redemption or disposals of treasury shares.

Employee share option plan

Treasury shares related to share plans redemptions in 2019 and 2018 amount to 20 and 2 million euros, respectively.

On September 30, 2018 the second phase of the "Performance and Investment Plan 2014-2019" ("PIP 2014-2019") as well as the second phase of the "Talent for the future Share Plan" (TFSP2) ended. No shares were delivered to Telefónica Group executives or managers (see Note 19).

Other instruments

The Company also has a derivative instrument, to be settled by offset, on a nominal value equivalent to 48 million of Telefónica shares in 2019 (21.7 million of Telefónica shares in 2018), recognized in both years under "Current interest-bearing debt" in the accompanying balance sheet.

b) Legal reserve

According to the text of the Corporate Enterprises Act, companies must transfer 10% of profit for the year to a legal reserve until this reserve reaches at least 20% of share capital. The legal reserve can be used to increase capital by the amount exceeding 10% of the increased share capital amount. Except for this purpose, until the legal reserve exceeds the limit of 20% of share capital, it can only be used to offset losses, if there are no other reserves available. At December 31, 2019 and 2018,

this reserve is fully constituted and amounts to 1,038 million euros.

c) Other reserves

"Other reserves" includes:

- The "Revaluation reserve" which arose as a result of the revaluation made pursuant to Royal Decree-Law 7/1996 dated June 7. The revaluation reserve may be used, free of tax, to offset any losses incurred in the future and to increase capital. From January 1, 2007, it may be allocated to unrestricted reserves, provided that the capital gain has been realized. The capital gain will be deemed to have been realized in respect of the portion on which the depreciation has been recorded for accounting purposes or when the revalued assets have been transferred or derecognized. In this respect, at the end of 2019 and 2018, an amount of 5 and 6 million euros, respectively, corresponding to revaluation reserves subsequently considered unrestricted has been reclassified to "Other reserves". The balance of this reserve at December 31, 2019 and 2018 was 67 million euros and 72 million euros, respectively.
- Reserve for cancelled share capital: In accordance with Section 335.c) of the Corporate Enterprises Act and to render null and void the right of opposition provided for in Section 334 of the same Act, whenever the Company decreases capital it records a reserve for cancelled share capital for an amount equal to the par value of the cancelled shares, which can only be used if the same requirements as those applicable to the reduction of share capital are met. The cumulative amount of the reserve for cancelled share capital at December 31, 2019 and 2018 totals 731 million euros.
- Pursuant to the provisions of Royal Decree 1514/2007, since 2008, after the distribution of profits for each year, the Company set aside a non-distributable reserve of 2 million euros for goodwill amortization. Pursuant to the provisions of Royal Decree 602/2016 of December 2, 2016 regarding the mandatory amortization of all intangible assets, the goodwill amortization as of January 1, 2015, amounting to 10 million euros was registered with a counterparty in this reserve.
- In addition to the restricted reserves explained above, "Other reserves" includes unrestricted reserves from gains obtained by the Company in prior years.

d) Dividends**Dividend distribution in 2019**

Approval was given at the General Shareholders Meeting of June 7, 2019 to pay a gross dividend of 0.40 for each company share issued, in circulation and carrying entitlement to this distribution against unrestricted reserves, payable in two tranches. The first payment of a gross amount of 0.20 in cash per share was made on June 20, 2019 amounting to 1,023 million euros and the second payment of a gross amount of 0.20 in cash per share was made on December 19, 2019 amounting to 1,023 million euros.

Dividend distribution in 2018

Approval was given at the General Shareholders Meeting of June 8, 2018 to pay a gross dividend of 0.40 for each company

share issued, in circulation and carrying entitlement to this distribution against unrestricted reserves, payable in two tranches. The first payment of a gross amount of 0.20 in cash per share was made on June 15, 2018 amounting to 1,025 million euros and the second payment of a gross amount of 0.20 in cash per share was made on December 20, 2018 amounting to 1,026 million euros.

11.2 Unrealized gains (losses) reserve

The movements in the items composing "Unrealized gains (losses) reserve" in 2019 and 2018 are as follows:

2019

Millions of euros	Opening balance	Valuation at market value	Tax effect of additions	Amounts transferred to income statement	Tax effect of transfers	Closing balance
Available-for-sale financial assets (Note 9.3)	(49)	1	—	—	—	(48)
Cash flow hedges	(499)	818	(204)	(521)	130	(276)
Total	(548)	819	(204)	(521)	130	(324)

2018

Millions of euros	Opening balance	Valuation at market value	Tax effect of additions	Amounts transferred to income statement	Tax effect of transfers	Closing balance
Available-for-sale financial assets (Note 9.3)	42	(91)	—	—	—	(49)
Cash flow hedges	(697)	991	(248)	(727)	182	(499)
Total	(655)	900	(248)	(727)	182	(548)

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

Note 12. Financial liabilities

The breakdown of "Financial liabilities" at December 31, 2019 and 2018 is as follows:

2019

Millions of euros	LIABILITIES AT FAIR VALUE						LIABILITIES AT AMORTIZED COST			
	Financial liabilities held for trading	Hedges	Subtotal financial liabilities at fair value	MEASUREMENT HIERARCHY			Trade and other payables	Trade and other payables at fair value	TOTAL CARRYING AMOUNT	TOTAL FAIR VALUE
				Level 1: quoted prices	Level 2: Estimates based on other directly observable market inputs	Level 3: Estimates not based on other directly observable market data				
Non-current financial liabilities	917	1,422	2,339	—	2,339	—	42,287	48,093	44,626	50,432
Payable to Group companies and associates	—	—	—	—	—	—	40,285	46,078	40,285	46,078
Bank borrowings	—	—	—	—	—	—	1,306	1,364	1,306	1,364
Derivatives (Note 16)	917	1,422	2,339	—	2,339	—	—	—	2,339	2,339
Other financial liabilities	—	—	—	—	—	—	696	651	696	651
Current financial liabilities	246	211	457	—	457	—	14,997	15,044	15,454	15,501
Payable to Group companies and associates	—	—	—	—	—	—	14,551	14,598	14,551	14,598
Bank borrowings	—	—	—	—	—	—	364	364	364	364
Bonds and other marketable debt securities	—	—	—	—	—	—	75	75	75	75
Derivatives (Note 16)	246	211	457	—	457	—	—	—	457	457
Other financial liabilities	—	—	—	—	—	—	7	7	7	7
Total financial liabilities	1,163	1,633	2,796	—	2,796	—	57,284	63,137	60,080	65,933

2018

Millions of euros	LIABILITIES AT FAIR VALUE						LIABILITIES AT AMORTIZED COST			
	Financial liabilities held for trading	Hedges	Subtotal financial liabilities at fair value	MEASUREMENT HIERARCHY			Trade and other payables	Trade and other payables at fair value	TOTAL CARRYING AMOUNT	TOTAL FAIR VALUE
				Level 1: quoted prices	Level 2: Estimates based on other directly observable market inputs	Level 3: Estimates not based on other directly observable market data				
Non-current financial liabilities	821	1,386	2,207	—	2,207	—	43,355	44,501	45,562	46,708
Payable to Group companies and associates	—	—	—	—	—	—	41,154	42,279	41,154	42,279
Loans with financial entities	—	—	—	—	—	—	2,033	2,059	2,033	2,059
Derivatives (Note 16)	821	1,386	2,207	—	2,207	—	—	—	2,207	2,207
Other financial liabilities	—	—	—	—	—	—	168	163	168	163
Current financial liabilities	77	131	208	—	208	—	17,853	17,958	18,061	18,166
Payable to Group companies and associates	—	—	—	—	—	—	15,578	15,683	15,578	15,683
Loans with financial entities	—	—	—	—	—	—	2,094	2,094	2,094	2,094
Bonds and other marketable debt securities	—	—	—	—	—	—	181	181	181	181
Derivatives (Note 16)	77	131	208	—	208	—	—	—	208	208
Total financial liabilities	898	1,517	2,415	—	2,415	—	61,208	62,459	63,623	64,874

Derivatives are measured using the valuation techniques and models normally used in the market, based on money-market curves and volatility prices available in the market. Additionally, on this valuation, the credit valuation adjustment or CVA net for counterparty (CVA + DVA), which is the methodology used to measure the credit risk of the counterparties and of Telefónica itself is calculated to adjust the fair value determination of the derivatives. This adjustment reflects the possibility of insolvency or deterioration of the credit quality of the counterparty and Telefónica.

The calculation of the fair values of the Company's financial debt instruments required an estimate for each currency of a credit spread curve using the prices of the Company's bonds and credit derivatives.

Note 13. Bonds and other marketable debt securities

This caption, at December 31, 2019 and 2018, only includes a promissory notes programme registered with the CNMV, with the following features:

Millions of euros				
Amount	Placement system	Nominal amount of the Promissory notes	Terms of the Promissory notes	Placement
500 million; can be increased up to 2,000 million	Auctions	100,000 euros	30, 60, 90, 180, 365, 540 and 731 days	Competitive auctions
	Tailored	100,000 euros	Between 3 and 731 days	Specific transactions

The balances and movements of the financial instruments included under this caption at December 31, 2019 and 2018 are as follows:

	2019	2018
Millions of euros	Other marketable debt securities (Promissory notes)	Other marketable debt securities (Promissory notes)
Opening balance	181	204
Additions	213	348
Disposals	(319)	(371)
Closing balance	75	181
Details of maturities:		
Non-current	—	—
Current	75	181

The average interest rate during 2019 was -0.23% (-0.21% in 2018).

Note 14. Interest-bearing debt and derivatives

14.1 The balances at December 31, 2019 and 2018 are as follows:

December 31, 2019

Millions of euros	Current	Non-current	Total
Loans with financial entities (Note 12)	364	1,306	1,670
Derivatives (Note 16)	457	2,339	2,796
Total	821	3,645	4,466

December 31, 2018

Millions of euros	Current	Non-current	Total
Loans with financial entities (Note 12)	2,094	2,033	4,127
Derivatives (Note 16)	208	2,207	2,415
Total	2,302	4,240	6,542

14.2 The nominal values of the main interest-bearing debts at December 31, 2019 and 2018 are as follows:

2019

Description	Value Date	Maturity Date	Currency	Limit 12/31/19 (million of local currency)	Balance (millions of euros)
Structured Financing (*)	05/03/11	07/30/21	USD	59	53
Structured Financing (*)	02/22/13	01/31/23	USD	316	282
Structured Financing (*)	08/01/13	10/31/23	USD	273	243
Structured Financing (*)	12/11/15	03/11/26	USD	503	448
Structured Financing (*)	12/11/15	03/11/26	EUR	341	341
Bilateral loan	07/11/19	08/14/26	EUR	—	200
Credit	05/23/13	03/01/22	GBP	100	117

(*) Facility with amortization schedule, showing in the column "Limit 12/31/19" the outstanding amount.

2018

Description	Value Date	Maturity Date	Currency	Limit 12/31/19 (million of local currency)	Balance (millions of euros)
Structured Financing (*)	05/03/11	07/30/21	USD	106	93
Structured Financing (*)	02/22/13	01/31/23	USD	434	379
Structured Financing (*)	08/01/13	10/31/23	USD	359	314
Bilateral Loan (1)	06/26/14	06/26/19	EUR	1,000	1,000
Structured Financing (*)	12/11/15	03/11/26	USD	591	516
Structured Financing (*)	12/11/15	03/11/26	EUR	401	401
Bilateral loan	02/23/16	02/23/21	EUR	100	100
Bilateral loan	10/24/16	03/19/19	EUR	150	150
Credit	12/27/02	12/27/20	EUR	380	271
Bilateral loan	12/28/17	10/22/20	EUR	100	100
Bilateral loan	11/24/17	01/30/26	EUR	100	100
Bilateral loan	12/20/17	07/22/19	EUR	385	385
Credit	05/23/13	03/01/20	GBP	100	112

(1) On July 17, 2018 the 500 million euros bilateral loan was cancelled prior to its maturity originally agreed in contract on June 26, 2019.

(*) Facilities with amortization schedule, showing in the column "Limit 12/31/18" the outstanding amount.

14.3 Maturities of balances at December 31, 2019 and 2018 are as follows:

December 31, 2019			Maturity				Closing balance
Millions of euros	2020	2021	2022	2023	2024	Subsequent years	
Loans with financial entities	364	52	280	135	162	677	1,670
Derivatives (Note 16)	457	199	222	101	131	1,686	2,796
Total	821	251	502	236	293	2,363	4,466

December 31, 2018			Maturity				Closing balance
Millions of euros	2019	2020	2021	2022	2023	Subsequent years	
Loans with financial entities	2,094	171	517	247	175	923	4,127
Derivatives (Note 16)	208	600	293	221	126	967	2,415
Total	2,302	771	810	468	301	1,890	6,542

14.4 Interest-bearing debt arranged or repaid in 2019 mainly includes the following:

Description	Limit 12/31/19 (millions)	Currency	Outstanding balance 12/31/2019 (million euros)	Arrangement date	Maturity date	Drawdown 2019 (million euros)	Repayment 2019 (million euros)
Telefónica, S.A.							
Bilateral Credit (1)	300	EUR	—	5/14/2019	5/14/2024	—	—
Bilateral Loan (2)	—	EUR	—	6/26/2014	4/1/2019	—	(1,000)
Bilateral Loan	—	EUR	—	10/24/2016	3/19/2019	—	(150)
Bilateral Loan	—	EUR	—	12/20/2017	7/22/2019	—	(385)
Bilateral Loan	—	EUR	200	7/11/2019	8/14/2026	200	—
Bilateral Loan (3)	—	EUR	—	12/28/2017	10/22/2019	—	(100)
Bilateral Loan (4)	—	EUR	—	11/24/2017	10/30/2019	—	(100)
Bilateral Loan	150	EUR	—	11/8/2019	3/31/2030	—	—
Bilateral Loan (5)	—	EUR	—	2/23/2016	12/23/2019	—	(100)
Bilateral Loan	200	EUR	—	12/4/2019	6/4/2027	—	—

(1) Maturity date of the contract in 2024 with two extension options for Telefónica, and a maximum maturity date in 2026.

(2) On February 18, 2019 and on April 1, 2019, Telefónica made early repayments of 500 million euros on each date of the 1,000 million euros bilateral loan signed on June 26, 2014 and originally scheduled to mature on June 26, 2019.

(3) On October 22, 2019, Telefónica, S.A. made an early repayment of the 100 million euros bilateral loan originally scheduled to mature on October 22, 2020.

(4) On October 30, 2019, Telefónica, S.A. made an early repayment of the 100 million euros bilateral loan originally scheduled to mature on January 30, 2026.

(5) On December 23, 2019, Telefónica, S.A. made an early repayment of the 100 million euros bilateral loan originally scheduled to mature on February 23, 2021.

14.5 Average interest on loans and borrowings

The average interest rate in 2019 on loans and borrowings denominated in euros was 0.386% (0.435% in 2018) and 2.058% (2.236% in 2018) for foreign-currency loans and receivables.

14.6 Unused credit facilities

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

At December 31, 2019 and 2018, Telefónica had undrawn credit facilities amounting to 11,157 million euros and 9,908 million euros, respectively.

Financing arranged by Telefónica, S.A. at December 31, 2019 and 2018 is not subject to compliance with financial ratios (covenants).

Note 15. Payable to group companies and associates

15.1 The breakdown of payable to group companies and associates at the 2019 and 2018 year ends is as follows:

December 31, 2019

Millions of euros	Non-current	Current	Total
Loans	40,259	14,374	54,633
Trade payables to Group companies and associates	2	153	155
Derivatives (Note 16)	—	7	7
Tax Group payables to subsidiaries	24	17	41
Total	40,285	14,551	54,836

December 31, 2018

Millions of euros	Non-current	Current	Total
Loans	41,127	15,339	56,466
Trade payables to Group companies and associates	—	166	166
Derivatives (Note 16)	—	23	23
Tax Group payables to subsidiaries	27	50	77
Total	41,154	15,578	56,732

The maturity of these loans at the 2019 and 2018 year ends is as follows (figures in millions of euros):

December 31, 2019

Company	2020	2021	2022	2023	2024	2025 and subsequent years	Final balance, current and non-current
Telefónica Emisiones, S.A.U.	5,245	3,420	3,662	2,214	997	20,276	35,814
Telefónica Europe, B.V.	2,061	292	997	2,241	996	4,572	11,159
Telfisa Global, B.V.	7,068	—	—	—	—	—	7,068
Telefónica Participaciones, S.A.U.	—	592	—	—	—	—	592
Total	14,374	4,304	4,659	4,455	1,993	24,848	54,633

December 31, 2018

Company	2019	2020	2021	2022	2023	2024 and subsequent years	Final balance, current and non-current
Telefónica Emisiones, S.A.U.	4,029	4,673	3,421	3,621	2,181	17,114	35,039
Telefónica Europe, B.V.	2,562	782	291	996	2,239	5,224	12,094
Telfisa Global, B.V.	8,748	—	—	—	—	—	8,748
Telefónica Participaciones, S.A.U.	—	—	585	—	—	—	585
Total	15,339	5,455	4,297	4,617	4,420	22,338	56,466

Financing raised by Telefónica, S.A. through its subsidiary Telefónica Europe, B.V. at December 31, 2019 amounting 11,159 million euros (12,094 million euros in 2018). This financing entails a number of loans paying market interest rates calculated on a Euribor plus spread basis, with average interest rates in both 2019 and 2018 of 0.04%. The main source of this financing was the funds obtained through the issuance of undated deeply subordinated reset rate guaranteed securities amounting to 7,782 million euros (7,484 million euros in 2018), bonds and debentures amounting to 1,617 million euros (1,559 million euros in 2018) and commercial paper amounting to 1,390 million euros (1,666 million euros in 2018).

Financing raised by Telefónica, S.A. through Telefónica Emisiones, S.A.U. at December 31, 2019 was 35,814 million

euros (35,039 million euros in 2018). This financing is arranged as loans between these companies on the similar terms and conditions as those of the notes issued under the debt issuance programmes of Telefónica Emisiones, S.A.U. The average interest rate in 2019 was 3.57% (3.36% in 2018). The financing arranged includes, as a related cost, the fees or premiums taken to the income statement for the period corresponding to the financing based on the corresponding effective interest rates. Telefónica Emisiones, S.A.U. raised financing in 2019 by tapping the European, American and Taiwanese capital markets, issuing bonds totaling 3,598 million euros (3,611 million euros in 2018).

The characteristics of the main bonds issued during 2019 are the following:

Description	Issue date	Maturity date	Amount in millions (nominal)	Currency of issue	Amount in millions of euros (nominal)	Coupon
Telefónica Emisiones, S.A.U.						
EMTN bond	2/5/2019	2/5/2024	1,000	EUR	1,000	1.069%
SHELF bond	3/1/2019	3/1/2049	1,250	USD	1,113	5.520%
EMTN bond	3/12/2019	3/12/2029	1,000	EUR	1,000	1.788%
EMTN bond	7/1/2019	7/1/2039	500	EUR	500	1.957%

Part of the amount owed by Telefónica, S.A. to Telefónica Emisiones, S.A.U. and to Telefónica Europe, B.V. includes adjustments to amortized cost at December 31, 2019 and 2018 as a result of fair value interest rate and exchange rate hedges.

Telfisa Global, B.V. centralizes and handles cash management and flows for the Telefónica Group in Latin America, the United States, Europe and Spain. The balance payable to this subsidiary is formalized through several deposit agreements accruing interest at market rates and amounting to 7,068 million euros in 2019 (8,748 million euros in 2018).

Financing raised by Telefónica, S.A. through Telefónica Participaciones, S.A.U. at December 31, 2019 totals 592 million euros (585 million euros in 2018) and corresponds to a loan with a principal of 600 million euros at an annual interest rate of 0.25%, which funds are a result of the issuance of non-dilutive convertible bonds carried out by Telefónica Participaciones, S.A.U., guaranteed by Telefónica, S.A. on March 9, 2016. These bonds are benchmarked against the value of Telefónica, S.A.'s shares, with an aggregate nominal amount of 600 million euros, an issue price of 101.25% and 5-year maturity.

15.2 The balance of "Payable to subsidiaries due to taxation on a consolidated basis" was 41 and 77 million euros at December 31, 2019 and 2018, respectively. This basically includes payables to Group companies for their contribution of taxable income (tax loss carryforwards) to the tax group headed by Telefónica, S.A. (see Note 17). The current or non-current classification is based on the Company's projection of maturities.

The most significant amounts correspond to Telefónica Latinoamérica Holding, S.L. for 21 million euros (same amount in 2018), Telefónica Digital España, S.L.U. for 11 million euros (31 million in 2018) and Telefónica Innovación Alpha, S.L. for 1.8 million euros (4 million euros in 2018).

Note 16. Derivative financial instruments and risk management policies

a) Derivative financial instruments

During 2019, the Group continued to use derivatives to limit interest and exchange rate risk on otherwise unhedged positions, and to adapt its debt structure to market conditions.

At December 31, 2019, the total outstanding balance of derivatives transactions was 103,395 million euros (115,410 million euros in 2018), of which 76,367 million euros related to interest rate risk and 27,028 million euros to foreign currency risk. In 2018, 89,341 million euros related to interest rate risk and 26,069 million euros to foreign currency risk.

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

It should be noted that at December 31, 2019, Telefónica, S.A. had transactions with financial institutions to hedge exchange rate risk for other Telefónica Group companies amounting to 2.113 million euros (1,684 million euros in 2018). At year-end 2019 and 2018, the Company had no transactions to hedge interest rate risk for other Group companies. These external trades are matched by intra-group hedges with identical terms and maturities between Telefónica, S.A. and Group companies, and therefore involve no risk for the Company. External derivatives not backed by identical intragroup transactions consist of hedges on net investment and future acquisitions that, by their nature, cannot be transferred to Group companies and/or transactions to hedge financing raised by Telefónica, S.A. as parent company of the Telefónica Group, which are transferred to Group subsidiaries in the form of financing rather than via derivative transactions.

The breakdown of Telefónica, S.A.'s interest rate and exchange rate derivatives at December 31, 2019, their notional amounts at year end and the expected maturity schedule is as follows:

2019

Millions of euros		Telefónica receives		Telefónica pays	
Type of risk	Value in Euros	Carrying	Currency	Carrying	Currency
Euro interest rate swaps	53,021				
Fixed to fixed	175	175	EUR	175	EUR
Fixed to floating	26,007	26,007	EUR	26,007	EUR
Floating to fixed	26,839	26,839	EUR	26,839	EUR
Foreign currency interest rate swaps	22,465				
Fixed to floating					
CHFCHF	346	375	CHF	375	CHF
GBPGBP	2,796	2,380	GBP	2,380	GBP
USDUSD	18,458	20,728	USD	20,728	USD
Floating to fixed					
GBPGBP	446	380	GBP	380	GBP
USDUSD	419	470	USD	470	USD
Exchange rate swaps	17,558				
Fixed to fixed					
EURBRL	259	259	EUR	1,171	BRL
EURUSD	865	865	EUR	972	USD
Fixed to floating					
JPYEUR	95	15,000	JPY	95	EUR
Floating to floating					
CHFEUR	308	375	CHF	308	EUR
GBPEUR	1,928	1,600	GBP	1,928	EUR
USDEUR	14,103	16,478	USD	14,103	EUR
Forwards	9,470				
BRLEUR	63	286	BRL	63	EUR
CLPEUR	2	1,300	CLP	2	EUR
CZKEUR	66	1,708	CZK	66	EUR
EURBRL	1,740	1,740	EUR	7,877	BRL
EURCLP	349	349	EUR	293,533	CLP
EURGBP	4,177	4,177	EUR	3,555	GBP
EURMXN	25	25	EUR	528	MXN
EURUSD	2,020	2,020	EUR	2,268	USD
GBPEUR	82	70	GBP	82	EUR
GBPUSD	3	3	GBP	4	USD
USDBRL	21	23	USD	97	BRL
USDCLP	3	4	USD	2,936	CLP
USDCOP	1	2	USD	5,354	COP
USDEUR	898	1,003	USD	898	EUR
USDGBP	17	18	USD	14	GBP
USDPEN	3	3	USD	10	PEN
CLPUSD	—	233	CLP	—	USD
Subtotal	102,514				

Millions of euros			
Notional amounts of structured products with options	Value in euros	Notional	Currency
Interest rate options Caps & Floors	881		
Caps&Floors	881		
GBP	881	750	GBP
Total	103,395		

The breakdown by average maturity is as follows:

Millions of euros					
Hedged underlying item	Notional	Up to 1 year	From 1 to 3 years	From 3 to 5 years	Over 5 years
Promissory notes	1,358	1,358	—	—	—
Pension Plans	2,870	390	810	650	1,020
Loans	13,509	4,794	4,628	2,332	1,755
in national currency	8,335	3,275	1,560	1,950	1,550
in foreign currencies	5,174	1,519	3,068	382	205
Debentures and bonds MtM	65,515	12,842	14,150	4,826	33,697
in national currency	15,917	5,400	2,917	3,600	4,000
in foreign currencies	49,598	7,442	11,233	1,226	29,697
Other underlying*	20,143	11,663	3,440	2,968	2,072
CCS	259	195	64	—	—
Forward	9,470	9,470	—	—	—
IRS	10,414	1,998	3,376	2,968	2,072
Total	103,395	31,047	23,028	10,776	38,544

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

The breakdown of Telefónica, S.A.'s derivatives in 2018, their notional amounts at year end and the expected maturity schedule is as follows:

2018					
Millions of euros		Telefónica receives		Telefónica pays	
Type of risk	Value in Euros	Carrying	Currency	Carrying	Currency
Euro interest rate swaps	65,786				
Fixed to fixed	200	200	EUR	200	EUR
Fixed to floating	32,933	32,933	EUR	32,933	EUR
Floating to fixed	32,653	32,653	EUR	32,653	EUR
Foreign currency interest rate swaps	22,467				
Fixed to floating					
CHFCHF	333	375	CHF	375	CHF
GBPGBP	2,688	2,405	GBP	2,405	GBP
USDUSD	18,340	21,006	USD	21,006	USD
Floating to fixed					
GBPGBP	425	380	GBP	380	GBP
USDUSD	410	470	USD	470	USD
Floating to floating					
USDUSD	271	310	USD	310	USD
Exchange rate swaps	16,464				
Fixed to fixed					
EURBRL	123	123	EUR	546	BRL
Fixed to floating					
JPYEUR	95	15,000	JPY	95	EUR
Floating to fixed					
USDEUR	162	200	USD	162	EUR
Floating to floating					
CHFEUR	308	375	CHF	308	EUR
GBPEUR	2,048	1,600	GBP	2,048	EUR
USDEUR	13,728	16,230	USD	13,728	EUR
Forwards	9,605				
BRLEUR	100	444	BRL	100	EUR
CLPEUR	1	640	CLP	1	EUR
CZKEUR	66	1,708	CZK	66	EUR
EURBRL	2,160	2,160	EUR	9,584	BRL
EURCLP	339	339	EUR	269,670	CLP
EURGBP	4,061	4,061	EUR	3,634	GBP
EURMXN	1	1	EUR	29	MXN
EURUSD	1,575	1,575	EUR	1,804	USD
GBPEUR	280	252	GBP	280	EUR
GBPUSD	2	2	GBP	3	USD
USDBRL	19	22	USD	83	BRL
USDCLP	5	6	USD	4,060	CLP

USDCOP	2	2	USD	7,193	COP
USDEUR	965	1,110	USD	965	EUR
USDGBP	22	26	USD	20	GBP
USDPEN	3	3	USD	10	PEN
CLPUSD	1	1,071	CLP	2	USD
BRLUSD	3	13	BRL	3	USD
PENUSD	—	1	PEN	—	USD
COPUSD	—	1,675	COP	1	USD
Swaption	250				
Fixed to floating					
EUREUR	205	205	EUR	205	EUR
Floating to fixed					
EUREUR	45	45	EUR	45	EUR
Subtotal	114,572				

Millions of euros

Notional amounts of structured products with options	Value in Euros	Notional	Currency
Interest rate options Caps & Floors	838		
Caps&Floors	838		
GBP	838	750	GBP
Total	115,410		

The breakdown by average maturity is as follows:

Millions of euros

Hedged underlying item	Notional	Up to 1 year	From 1 to 3 years	From 3 to 5 years	Over 5 years
Promissory notes and Commercial Paper	1,700	—	1,700	—	—
Pension plans	4,347	630	955	970	1,792
Loans	15,492	2,478	6,135	4,168	2,711
in national currency	10,260	1,425	4,560	1,925	2,350
in foreign currencies	5,232	1,053	1,575	2,243	361
Debentures and bonds MtM	63,550	2,989	25,687	4,921	29,953
in national currency	15,967	550	8,650	2,767	4,000
in foreign currencies	47,583	2,439	17,037	2,154	25,953
Other underlying*	30,321	20,622	3,594	3,753	2,352
CCS	373	123	250	—	—
Forward	9,605	9,605	—	—	—
IRS	20,343	10,894	3,344	3,753	2,352
Total	115,410	26,719	38,071	13,812	36,808

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

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

b) Risk management policy

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

The main market risks affecting Telefónica are as follows:

Exchange rate risk

Foreign currency risk primarily arises in connection with: (i) Telefónica's international presence, through its investments and businesses in countries that use currencies other than euro (primarily in Latin America and in the United Kingdom), and (ii) debt denominated in currencies other than that of the country where the business is conducted or the home country of the company incurring such debt and (iii) due to those accounts payable or receivable referred to the entity that has registered the transaction.

Interest rate risk

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

Share price risk

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

Other risks

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

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

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

Risk management

Telefónica, S.A. actively manages these risks through the use of derivatives (primarily on exchange rates, interest rates and

share prices) and by incurring debt in local currencies, where appropriate, with a view to optimize the financial cost and to stabilizing cash flows, the income statement and investments. In this way, Telefónica attempts to protect its solvency, facilitate financial planning and take advantage of investment opportunities.

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

Exchange rate risk

The fundamental objective of the exchange rate risk management policy is that, in event of depreciation in foreign currencies relative to the euro, any potential losses in the value of the OIBDA generated by the businesses in such currencies, caused by depreciation in exchange rates of a foreign currency against euro, are offset (to some extent) by savings from the reduction in the value of debt denominated in such currencies converted to euros and/or synthetic debt in such currencies. This objective is also reflected on the decrease of the sensitivity to exchange rate variations of the net debt over operating income before depreciation and amortization (OIBDA) ratio, in order to protect the Group solvency. The degree of exchange rate hedging employed varies depending on the type of investment. For transactions of purchase or sale of a business in currencies other than euro, additional hedges can be made based on the estimate prices of the transactions or on estimated cash flows and OIBDA.

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

At December 31, 2019, net financial debt in pounds sterling was equivalent to 3,938 million euros (3,566 million euros at December 31, 2018), aligned with the objective of meeting the policy of maintaining debt in pounds sterling around 2 times the OIBDA/Net Financial Debt ratio.

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

exchange rate risk is different from that for funding through capital contributions, and (iii) as the result of a deliberate policy decision, to avoid the high cost of hedges that are not warranted by expectations or high depreciation risks.

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

Interest rate risk

Telefónica's financial expenses are exposed to changes in interest rates. In 2019 Euribor, the dollar Libor and the pound sterling Libor were the short term rates that accounted for most of the exposure. Telefónica manages its interest rate risk by entering into derivative financial instruments, primarily swaps and interest rate options.

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

	Impact on Consolidated P/L	Impact on Telefónica, S.A. P/L	Impact on Consolidated Equity	Impact on Telefónica, S.A. Equity
+100bp	(87)	(51)	(642)	(642)
-100bp	85	46	642	642

To calculate the sensitivity of the income statement, a 100 basis point rise in interest rates in all currencies in which there are financial positions at December 31, 2019 has been assumed, as well as a 100 basis point decrease in all currencies in order to avoid negative rates. The constant position equivalent to that prevailing at the end of the year has also been assumed.

To calculate the sensitivity of equity to variability in interest rates, a 100 basis point increase in interest rates in all currencies and terms in which there are financial positions at December 31, 2019 was assumed, as well as a 100 basis point decrease in all currencies and terms. Cash flow hedge positions were also considered as they are the only positions where changes in market value due to interest-rate fluctuations are recognized in equity.

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

Share price risk

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

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

for delivery to the beneficiaries of the plan, there would be a dilutive effect for ordinary shareholders of Telefónica as a result of the higher number of shares delivered under such plan outstanding.

In 2018, the General Shareholder's Meeting approved a new long-term incentive plan consisting of the delivery of shares of Telefónica, S.A. allocated to executives and managers of the Telefónica Group. The characteristics of the plan are described in Note 19. Additionally, the Shareholder's Meeting approved a share plan for the incentivised purchase of shares for employees of the Telefónica Group, which has been implemented in July 2019.

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

In addition, part of the treasury shares of Telefónica, S.A. held at December 31, 2019 might be used to cover the shares deliverable under the new plans. The fair value of the treasury shares at liquidation moment could increase or decrease depending on the variations in Telefónica, S.A.'s share quotation.

Liquidity risk

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

1. The Telefónica Group's average maturity of net financial debt is intended to stay above 6 years, or be restored above that threshold in a reasonable period of time if it eventually falls below it. This principle is considered as a guideline when managing debt and access to credit markets, but not a rigid requirement. When calculating the average maturity for the net financial debt and part of the undrawn credit lines can be considered as offsetting the shorter debt maturities, and

extension options on some financing facilities may be considered as exercised, for calculation purposes.

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

Country risk

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

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

Credit risk

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

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

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

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

Meanwhile, with credit risk arising from cash and cash equivalents, the Telefónica Group places its cash surpluses in high quality money-market assets. These placements are

regulated by a general framework, revised annually. Counterparties are chosen according to criteria of liquidity, solvency and diversification based on the conditions of the market and countries where the Group operates. The general framework sets: the maximum amounts to be invested by counterparty based on its rating (long-term debt rating); and the instruments in which the surpluses may be invested (money-market instruments).

The Telefónica Group considers customer credit risk management as a key element to achieve its business and customer base growth targets in a sustainable way. This management approach relies on the active evaluation of the risk-reward balance within the commercial operations and on the adequate separation between the risk ownership and risk management functions.

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

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

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

Capital management

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

The corporate finance department estimates the cost of capital on a continuous basis through the monitoring of the financial markets and the application of standard industry approaches for calculating weighted average cost of capital, or WACC, so that it can be applied in the valuation of businesses in course and in the evaluation of investment projects. Telefónica also uses as reference a certain level of net financial debt (excluding items of a non-recurring or exceptional nature) that allows a comfortable investment grade credit rating as assigned by credit rating agencies, aiming at protecting credit solvency and making it compatible with alternative uses of cash flow that could arise at any time.

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

Derivatives Policy

Telefónica's derivatives policy emphasizes the following points:

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

Hedge accounting

Hedges can be of three types:

- Fair value hedges.
- Cash flow hedges. Such hedges can be set at any value of the risk to be hedged (interest rates, exchange rates, etc.) or for a defined range (interest rates between 2% and 4%, above 4%, etc.). In this last case, the hedging instruments used are options and only the intrinsic value of the option is recognized as an effective hedge. The changes in the temporal value of the option are registered in the profit and loss account.
- Net investment hedges in consolidated foreign subsidiaries. Generally such hedges are arranged by the parent company and the other Telefónica holding companies. Wherever possible, these hedges are implemented through real debt in foreign currency. However, this is not always possible as many Latin American currencies are non-convertible, making it impossible for non-resident companies to issue local currency debt. It might also occur that the local debt market is not deep enough to accommodate the required hedge, or that an acquisition is made in cash with no need for market financing. In these circumstances, derivatives, either forwards or cross-currency swaps, are mainly used to hedge the net investment.

Hedges can comprise a combination of different derivatives.

There is no reason to suppose management of accounting hedges will be static, with an unchanging hedging relationship lasting right through maturity. Hedging relationships may change to allow appropriate management that serves our stated principles of stabilizing cash flows, stabilizing net financial income/expense and protecting our equity. The designation of hedges may therefore be cancelled, before

maturity, because of a change in the underlying, a change in the perceived risk on the underlying or a change in market view. The hedges must meet the effectiveness test and be well documented. To gauge the efficiency of transactions defined as accounting hedges, Telefónica analyzes the extent to which the changes in the fair value or in the cash flows attributable to the hedging instrument would offset the changes in fair value or cash flows attributable to the hedged risk using a linear regression model for both forward- and backward-looking analysis.

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

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

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

In 2019 the Company recognized a loss of 17.1 million euros for the ineffective part of cash flow hedges (a loss of 28.4 million euros in 2018).

The fair value of Telefónica, S.A.'s derivatives with third parties amounted to a positive MtM (accounts receivable) of 1,567 million euros in 2019 (848 million euros in 2018).

The fair value of Telefónica, S.A.'s intragroup derivatives amounted to a positive MtM (accounts receivable) of 54 million euros in 2019 (negative MtM of 14 million euros in 2018).

The breakdown of the Company's derivatives with third party counterparties at December 31, 2019 and 2018 by type of hedge, their fair value at year end and the expected maturity schedule of the notional amounts is as follows:

2019

Millions of euros		Notional amount maturities (*)				
Derivatives	Fair value (**)	2020	2021	2022	Subsequent years	Total
Interest rate hedges	(590)	659	—	(520)	(501)	(362)
Cash flow hedges	54	481	—	67	877	1,425
Fair value hedges	(644)	178	—	(587)	(1,378)	(1,787)
Exchange rate hedges	(188)	(574)	1,102	125	5,856	6,509
Cash flow hedges	(262)	2,219	1,102	125	5,856	9,302
Fair value hedges	74	(2,793)	—	—	—	(2,793)
Interest and exchange rate hedges	(809)	800	2,002	189	1,554	4,545
Cash flow hedges	(809)	800	2,002	189	1,554	4,545
Other derivatives	20	(7,263)	(1,363)	(213)	(1,635)	(10,474)
Interest rate	(68)	(1,939)	(823)	(774)	(1,812)	(5,348)
Exchange rate	75	(5,511)	(64)	561	177	(4,837)
Other	13	187	(476)	—	—	(289)

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

(**) Positive amounts indicate payables.

2018

Millions of euros		Notional amount maturities (*)				
Derivatives	Fair value (**)	2019	2020	2021	Subsequent years	Total
Interest rate hedges	(174)	(786)	1,698	—	(431)	481
Cash flow hedges	180	(650)	1,523	—	944	1,817
Fair value hedges	(354)	(136)	175	—	(1,375)	(1,336)
Exchange rate hedges	44	262	2,219	1,102	5,980	9,563
Cash flow hedges	44	262	2,219	1,102	5,980	9,563
Interest and exchange rate hedges	(467)	962	800	2,002	1,743	5,507
Cash flow hedges	(467)	962	800	2,002	1,743	5,507
Other derivatives	(251)	(9,904)	(321)	(1,481)	(2,551)	(14,257)
Interest rate	(132)	(3,571)	(321)	(881)	(2,551)	(7,324)
Exchange rate	(123)	(6,333)	—	—	—	(6,333)
Other	4	—	—	(600)	—	(600)

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

(**) Positive amounts indicate payables.

Note 17. Income tax

Pursuant to a Ministerial Order dated December 27, 1989, Telefónica, S.A. has filed consolidated tax returns with certain Group companies. The consolidated tax group in 2019 and 2018 comprised 42 and 44 companies, respectively.

Consolidated tax group is valid during an indefinite period as long as the law requirements are fulfilled, or the Company decides to expressly resign to it.

Tax balances as of December 31, 2019 and 2018 are as follows:

Millions of euros	2019	2018
Tax receivables:	2,164	3,157
Deferred tax assets:	2,061	2,978
Deferred income tax (income)	194	277
Long-term tax credits for loss carryforwards	980	1,831
Unused tax deductions	887	870
Current tax receivables (Note 10):	103	179
Withholdings	20	20
Corporate income tax payable	76	154
VAT and Canary Islands general indirect tax refundable	7	5
Tax payable:	326	470
Deferred tax liabilities:	143	291
Current payables to public administrations (Note 18):	183	179
Personnel income tax withholdings	8	5
Withholding on investment income, VAT and other	173	173
Social security	2	1

Telefónica, S.A. has tax credits for loss carryforwards, unused by Tax Group in Spain at December 31, 2019 amounting to 4,987 million euros (gross):

31/12/2019	Total carry-forwards	Less than 1 year	More than 1 year	Total recognized
Tax Group tax credits for loss carryforwards	4,736	219	4,517	3,922
Prior to Tax Group loss carryforwards (*)	251	—	251	—

(*) Unused tax credits for loss carryforwards

Total tax credits based on the taxable income recognized in the balance sheet at December 31, 2019 therefore amounts to 980 million euros (1,831 million euros in 2018).

During 2019, Telefónica, S.A., as head of the Telefónica tax group, made payments on account of income tax amounting to 59 million euros (20 million euros in 2018).

17.1 Movement in deferred tax assets and liabilities

The balances and movements in deferred tax assets and liabilities for Telefónica, S.A. at December 31, 2019 and 2018 are as follows:

2019

Millions of euros	Tax credits	Temporary differences, assets	Deductions	Total deferred tax assets	Deferred tax liabilities
Opening balance	1,831	277	870	2,978	291
Arising in the year	—	19	9	28	—
Reversal	(16)	(85)	—	(101)	(9)
Transfers to the tax group's net position	(835)	(17)	8	(844)	(139)
Closing balance	980	194	887	2,061	143

2018

Millions of euros	Tax credits	Temporary differences, assets	Deductions	Total deferred tax assets	Deferred tax liabilities
Opening balance	1,060	406	1,391	2,857	427
Arising in the year	780	4	10	794	2
Reversal	—	(93)	(472)	(565)	—
Transfers to the tax group's net position	(9)	(40)	(59)	(108)	(138)
Closing balance	1,831	277	870	2,978	291

In 2019 tax credits from loss carryforwards have been reversed by 16 million euros. However, new deductions have been raised amounting to 9 million euros.

In 2018, the schedule of deferred tax assets and liabilities consumption has been built in accordance with the resolution issued by the Spanish Central Economic-Administrative Tax Court (Tribunal Económico Administrativo Central), notified on January 22, 2019, partially upholding the claims of the Company regarding the usage of tax credits, mainly tax loss carryforwards, during the years 2008, 2009 and 2010. As a consequence of this assumption, tax loss carryforwards amounting to 780 million euros have been activated and tax deductions of 472 million euros have been reversed.

The effect of deferred taxes in equity in 2019 is a net disposal of 20 million euros (66 million euros of disposals in 2018).

A partial resolution upholding the claims of Telefónica, S.A. by the Tribunal Económico-Administrativo Central (TEAC) pertaining the overpayments made in 2008-2011 has resulted in a collection of 702 million euros, which as been shown as "Transfers" in the caption "Tax Credits". Moreover, compensating interests of 201 million euros related to this resolution have been collected (see Notes 17.3 and 21).

On the other hand, and in compliance with the sixteenth transitional provision of this RDL 3/2016, which requires the inclusion of one-fifth of the investment portfolio impairment losses which had been deductible in the tax base before January 1, 2013, 136 million euros of recorded deferred tax liabilities have been transferred, in order to recognize a higher tax payable to the Spanish tax authorities (138 million euros in 2018).

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

The calculation of the income tax expense and income tax payable for 2019 and 2018 is as follows.

Millions of euros	2019	2018
Accounting profit before tax	5,122	2,264
Permanent differences	(7,285)	(4,489)
Temporary differences:	594	464
Arising in the year	74	15
Arising in prior years	520	449
Tax result	(1,569)	(1,761)
Gross tax payable	(392)	(440)
Corporate income tax refundable	(392)	(440)
Activation/Reversion of loss carryforwards and/or deductions	8	(319)
Temporary differences for tax valuation	(149)	(116)
Other effects	(117)	71
Corporate income tax accrued in Spain	(650)	(804)
Foreign taxes	32	54
Income tax	(618)	(750)
Current income tax	(360)	(386)
Deferred income tax	(257)	(364)

The permanent differences mainly correspond to the write-off reversal of the investments in Group companies, to the non-tributable dividends received, to the non-tributable capital gains on the sale of Daytona and Antares (see Note 8) and to the financial goodwill.

The heading "Activation/reversion of loss carryforwards and/or deductions" mainly includes the activation of deductions by 9 million euros (reversion of deductions amounting to 472 million euros in 2018) and the reversal of loss carryforwards by 16 million euros (activation of loss carryforwards by 780 million euros in 2018), as mentioned in caption 17.1.

The caption "Other effects" mainly includes the impact arising from the provision made in relation to the tax deductibility of the financial goodwill taken in the year offset by the 201 million euros of compensating interests (see section 17.3).

17.3 Tax inspections and tax-related lawsuits

In July 2019, new inspection proceedings were initiated with respect to several of the companies belonging to tax group 24/90, of which Telefónica, S.A. is the dominant company. The taxes and period being audited are as follows: corporate income tax for the years 2014 to 2017 and value added tax, withholdings and personal income tax returns on real estate and non-resident income tax returns for the second half of 2015 and from 2016 to 2018. Given that the inspection process is still ongoing and that there are pending tax years to be inspected, it has been determined that there is no need to recognize additional liabilities in the annual accounts of Telefónica, S.A.

In relation to the corporate tax inspection for the years 2008 to 2011, on January, 22, 2019, Telefónica was notified of a resolution issued by the Spanish Central Economic-Administrative Tax Court (Tribunal Económico-Administrativo Central) which partially upheld the claims brought by Telefónica against the assessments relating to the 2008-2011 corporate income tax audit.

On March 15, 2019, Telefónica announced that it had been notified of an Execution Notice issued by the Agencia Estatal de Administración Tributaria in connection with the Spanish Central Economic-Administrative Tax Court resolution. Said Execution Notice ordered a 702 million euros refund to Telefónica pertaining to overpayments made by it in those tax years, which was paid to Telefónica in a that date. Telefónica filed an appeal with the Central Economic-Administrative Tax Court against the Execution Notice. Such appeal was resolved favorably to Telefónica's interests on June 13, 2019, resulting in a new refund, 201 million euros of which related to compensating interests which have been registered as income tax in 2019 profit and loss account. Telefónica received this payment in July.

In relation to the corporate tax inspection for the years 2005 to 2007 and 2008 to 2011, which ended in 2012 and 2015 respectively, Telefónica continues to dispute the criteria used for the accounting of Net Operating Losses and deductions. The case is pending before the National Audience.

At the end of 2019, it was determined that there was no need to record additional liabilities as a result of any of the foregoing.

Tax deductibility of financial goodwill

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

Following the entry into force of the Laws 9/2011 of August 19, 2011 and 16/2013 of October 29, 2013, the amount of goodwill amortization deductible for tax purposes under article 12.5 for the years 2011 to 2015 was reduced from 5% to 1%. The effect is temporary because the 0.04 not amortized for five years (20% in total) will be recovered extending the deduction period from the initial 20 years to 25.

The Telefónica Group, under this regulation, has been amortizing for tax purposes the financial goodwill from its investments, both direct and indirect, in O2, BellSouth and Colombia Telecom (prior to December 21, 2007) and Vivo (acquired in 2010). The positive accumulated effect in the corresponding settlements of corporate income tax from 2004 to the closing of December 31, 2019, was 1,552 million euros.

In relation to this tax incentive, the European Commission (EC) has in recent years commenced three proceedings against the Spanish State as it deems that this tax benefit could constitute an example of state aid. Although the EC itself acknowledged in the first decision the validity of the tax incentive for those investors that invested in European companies for operations carried out before December 21, 2007, and before May 21, 2011 for investments in other countries in the second decision, in its third decision dated October 15, 2014 it calls into question the applicability of the principle of legitimate expectations in the application of the incentive for indirect acquisitions, whatever the date of acquisition may have been.

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

As of the date of these financial statements, the three decisions continue to be subject to a final ruling. The first two were initially annulled by two judgments of the General Court of the European Union, which were appealed by the EC to the Court of Justice of the European Union and sent again to the General Court in December, 2016, which ruled on November 15, 2018, confirming the applicability of legitimate expectations principle, but considered the "goodwill amortization" as state aid not compatible with the common market. The third decision remains pending in judgment at first instance.

Notwithstanding the above, the Tax and Customs Control Unit of the Spanish Tax Authority (Dependencia de Control Tributario y Aduanero de la Agencia Tributaria), in compliance with the obligation set out in the EC Decision (EU) 2015/314, has recovered in March 2019 the amortization of goodwill for the indirect acquisition of non-resident companies from 2005 to 2015, and in November of the same year it has initiated the recovery procedure for the years 2016 to 2018. The effective recovery of the aid is provisional, pending the final results of the appeals brought against the three decisions. The result of the settlement, once offset by outstanding tax credits (tax losses carryforward and deductions) has resulted in a payment of 1.4 million euros.

Without prejudice to the view that the company understands that the legitimate expectations principle in relation to this tax incentive applies, in relation to tax-amortized goodwill by the purchase of some companies for which the applicability of the legitimate expectations principle is questioned, mainly Vivo, the Group has decided to continue accruing the amount of the goodwill amortized for tax purposes, totaling 352 million euros as of 31 December 2019 (283 million euros as of 31 December 2018).

Note 18. Trade, other payables and provisions

A) Trade and other payables

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

Millions of euros	2019	2018
Suppliers	68	83
Accounts payable to personnel	40	37
Other payables	16	63
Other payables to public administrations (Note 17)	183	179
Total	307	362

Other payables

In accordance with Telefónica's irrevocable commitment, undertaken in 2015, to pay a 325 million euros donation to Fundación Telefónica, in 2019 cash payments have been made in an amount of 47.5 million euros and in-kind contributions amounting to 0.2 million euros. The outstanding amount of this item as of December 31, 2019 totals 1 million euros.

Information on deferred payments to third parties. (Third additional provision, "Information requirement" of Law 15/2010 of July, 5)

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

	2019	2018
	Number of days	Number of days
Weighted average maturity period	38	39
Ratio of payments	38	39
Ratio of outstanding invoices	32	39
	Millions of euros	Millions of euros
Total Payments	253	303
Outstanding invoices	23	29

Telefónica, S.A. has adapted its internal processes and payment schedules to the provisions of Law 15/2010 (amended by Law 31/2014) and Royal Decree 4/2013, amending Law 3/2004, establishing measures against late payment in commercial transactions. Engagement conditions with commercial suppliers, as contractually agreed with them, in 2019 included payment periods with a maximum of 60 days.

For reasons of efficiency and in line with general practice in the business, the Company has set payment schedules, whereby payments are made on set days. Invoices falling due between two payment days are settled on the following payment date in the schedule.

Payments to Spanish suppliers in 2019 surpassing the legal limit were due to circumstances or incidents beyond the payment policies, mainly the delay in the billing process (a legal obligation for the supplier), the closing of agreements with suppliers over the delivery of goods or the rendering of services, or occasional processing issues.

B) Provisions

In 2019 and 2018 the concepts and amounts under the provisions caption are the following:

2019

Millions of euros	Non-current	Current	Total
Tax Provisions	366	—	366
Termination plans (Note 19)	112	12	124
Other provisions	175	3	178
Total	653	15	668

2018

Millions of euros	Non-current	Current	Total
Tax Provisions	298	—	298
Termination plans (Note 19)	82	18	100
Other provisions	114	75	189
Total	494	93	587

Movements in the provisions during 2019 and 2018 are disclosed below:

Millions of euros	2019	2018
Opening balance:	587	582
Additions	127	68
Amortization and reversals	(45)	(59)
Fair value adjustments and others	(1)	(4)
Closing balance:	668	587
Maturity:		
Non-current	653	494
Current	15	93

In 2019 and 2018 the caption "Additions" includes 68 million euros of tax provisions for the article 12.5 of the Spanish Corporate Tax Law related to the acquisition of Vivo (see Note 17).

With respect to the simplification and transformation process of the Telefónica Group, Telefónica, S.A. launched in 2015 a voluntary termination plan ending in December 2017 for the employees who met the requirements defined by the Plan

regarding age and seniority in the Company, among others. Following this transformation and simplification framework, the Company, on the one hand, extended the plan termination till 2018 and on the other hand, set up in December 2016 a new voluntary programme aimed at some employees who met certain requirements related to seniority in the Company.

In 2019, Telefónica, S.A. has launched a new voluntary termination plan for the employees who meet certain requirement regarding the age of the employee and the seniority in the Company. The programme is expected to be implemented during the first months of 2020. On the other hand, as a result of the change in the Group Structure announced on November 2019, several employees have left the Company by year end. Moreover, the new voluntary programmes launched in 2019 by Telefónica de España, S.A.U. and Telefónica Móviles España, S.A.U. have resulted in liabilities related to employees of these subsidiaries who have also been working in Telefónica, S.A., and part of their indemnities has to be assumed by Telefónica, S.A. The total impact is an expense of 55 million euros.

In 2019 amortization of 28 million euros related to the 2015 programme have been registered.

In 2018, the caption "Amortization and reversals" included a provision reversal of the termination plan amounting to 18 million euros and amortizations of the same provision amounting to 41 million euros.

Note 19. Revenue and expenses

19.1 Revenue

a) Rendering of services

Telefónica, S.A. has contracts for the right to use the Telefónica brand with Group companies which use the license. The amount each subsidiary must recognize as a cost for use of the license is stipulated in the contract as a percentage of income obtained by the licensor. In 2019 and 2018, "Rendering of services to Group companies and associates" included 393 and 440 million euros, respectively, for this item.

Telefónica, S.A. has signed contracts to provide management support services to Telefónica de España, S.A.U., Telefónica Móviles España, S.A.U., Telefónica UK, Ltd., Telefónica Latinoamérica Holding, S.L., Telxius Telecom, S.A.U. and since 2018, Telefónica Germany, GmbH. Revenues received for this concept in 2019 and 2018 amounted to 34 and 30 million euros, respectively, recognized under "Rendering of services to Group companies and associates".

Revenues also include property rental income amounting to 43 million euros in both years, mainly generated from the lease of office space in Distrito Telefónica to several Telefónica Group companies (see Note 7).

b) Dividends from Group companies and associates

The detail of the main amounts recognized in 2019 and 2018 is as follows:

Millions of euros	2019	2018
Telfisa Global, B.V.	178	700
Telefónica de España, S.A.U.	1,214	1,574
Telefónica O2 Holdings Limited	647	609
Telefónica Móviles España, S.A.U.	774	552
Telefônica Brasil, S.A.	410	447
Sao Paulo Telecomunicações, Ltda	156	77
Telefónica Móviles Argentina, S.A.	93	31
Telefónica Centroamérica Inversiones, S.L.	153	42
Telefónica Luxembourg Holding S.à.r.l.	—	165
Telxius Telecom, S.A.	—	32
Telfin Ireland, Ltd.	555	—
Other companies	62	30
Total	4,242	4,259

c) Interest income on loans to Group companies and associates

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

Millions of euros	2019	2018
Telefónica Móviles México, S.A. de C.V.	57	49
Telefónica Móviles España, S.A.U.	—	6
Telefónica Latinoamérica Holding, S.L.	—	32
Telxius Telecom, S.A.U.	8	8
Other companies	8	29
Total	73	124

19.2 Non-core and other current operating revenues

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

19.3 Personnel expenses and employee benefits

The breakdown of "Personnel expenses" is as follows:

Millions of euros	2019	2018
Wages, salaries and other personnel expenses	209	118
Pension plans	11	3
Social security costs	25	22
Total	245	143

In 2019, "Wages, salaries and other personnel expenses" includes compensation accruals amounting to 55 million euros. In 2018 a reversal of compensation accruals amounting to 18 million euros was registered (See Note 18).

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

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

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

At December 31, 2019, 2,205 participants have signed up for the plan (2,152 participants in 2018). This figure includes both active employees, employees under termination plans and former employees who voluntarily decided to maintain the plan, as provided for in Royal Decree 304/2004 approving the regulations for Pension Plans and Funds. The cost for the Company amounted to 5 million euros in 2019 (4 million euros in 2018).

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

Telefónica, S.A. has recorded costs related to the contributions to this executive plan of 7 and 8 million euros in both 2019 and 2018, respectively. In 2018 some executives under this Pension Plan for Senior Executives left the Company, and accordingly their accumulated contributions were retrieved by Telefónica, S.A. and registered as a decrease in the expense totaling 9 million euros. There are no cash collections registered in 2019 for this concept.

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

The main share-based payment plans in place in the 2018-2019 period are as follows:

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

At the General Shareholders' Meeting held on June 8, 2018, a long-term incentive plan was approved, consisting of the delivery of shares of Telefónica, S.A. aimed at senior executive officers of the Telefónica Group, including the Executive Directors of Telefónica, S.A. The plan consists of the delivery to the participants of a certain number of shares of Telefónica, S.A. based on compliance with the objectives established for each of the cycles into which the plan is divided.

For the first and second cycles of the plan, the number of shares to deliver will depend (i) 50% on achievement of the total shareholder return ("TSR") objective for shares of Telefónica, S.A. with regard to the TSRs of a comparison group made up of companies of the telecommunication sector, weighted by its relevance for Telefónica, and (ii) 50% on the generation of free cash flow of the Telefónica Group ("FCF").

For the remaining cycle, the Board of Directors of Telefónica, S.A. may introduce new objectives linked to sustainability, the environment or corporate governance, as well as vary the relative weight accorded to each of them.

The plan will be in force for five years and is divided into three cycles of three years each. The first cycle commenced in 2018 and will be finalized on December 31, 2020, with delivery of the respective shares in 2021. The maximum number of shares assigned to this cycle of the plan was 8,466,996 shares and the outstanding shares at December 31, 2019 7,756,796, with the following breakdown:

First cycle	No. of shares assigned	Outstanding shares at 12/31/2019	Unit fair value (euros)
TSR Objective	4,233,498	3,878,398	4.52
FCF Objective	4,233,498	3,878,398	6.46

From this total, the shares assigned to Telefónica, S.A.'s employees are 2,942,891. The outstanding shares as of December 31, 2019 are 2,942,796.

The second cycle commenced in 2019 and will be finalized on December 31, 2021, with delivery of the respective shares in 2022. The maximum number of shares assigned to this cycle of the plan was 9,471,489 shares and the outstanding shares at December 31, 2019 9,034,668, with the following breakdown:

Second cycle	No. of shares assigned	Outstanding shares at 12/31/2019	Unit fair value (euros)
TSR Objective	4,735,744.5	4,517,334	4.44
FCF Objective	4,735,744.5	4,517,334	6.14

Out of this total, the shares assigned to Telefónica, S.A.'s employees are 3,448,724. The outstanding shares as of December 31, 2019 are 3,336,633.

Long-term incentive plan based on Telefónica, S.A. shares: "Performance and Investment Plan 2014-2019"

The Telefónica, S.A. General Shareholders' Meeting on May 30, 2014 approved a new installment of the long-term share-based incentive "Performance and Investment Plan" for certain senior executives and members of the Group's management team, operational on completion of the first "Performance and Investment Plan".

The term of the plan was a total of P5Y years divided into 3 cycles. The initial and the second share allocations took place on October 1, 2014, and October 1, 2015, respectively. Regarding the third cycle of this 2016-2019 Plan, the Company's Board of Directors, following a favorable report from the Nomination, Compensation and Corporate Governance Committee, resolved not to execute or implement it, after having decided that it was not sufficiently in line with the Telefónica Group's strategic plan, taking into account the circumstances and macroeconomic environment.

The first cycle expired on September 30, 2017. The maximum number of shares assigned to this cycle of the plan was 6,927,953 shares assigned on October 1, 2014, with a fair value of 6.82 euros per share. The second cycle expired on September 30, 2018. The maximum number of shares assigned to this cycle was 6,775,445 shares assigned on October 1, 2015, with a fair value of 6.46 euros per share. Delivery of shares was not required at the end of each of these cycles according to the general conditions of the plan; therefore, managers did not receive any shares.

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

At its meeting on June 8, 2018, the Telefónica, S.A.'s Board of Directors agreed to launch a new installment of the long-term incentive plan "Talent for the Future Share Plan".

The term of this plan is also five years and it is divided into three cycles. As in the case of the Performance Share Plan described above, for the first and second cycles of the plan the number of shares to deliver will depend (i) 50% on achievement of the total shareholder return ("TSR") objective for shares of Telefónica, S.A. and (ii) 50% on the generation of free cash flow of the Telefónica Group ("FCF").

The first cycle commenced in 2018 and will be finalized on December 31, 2020, with delivery of the respective shares in 2021. The maximum number of shares assigned to this cycle of the plan was 787,500 shares and there were 759,500, outstanding shares at December 31, 2019, with the following breakdown:

First cycle	No. of shares assigned	Outstanding shares at 12/31/2019	Unit fair value (euros)
TSR Objective	393,750	379,750	4.52
FCF Objective	393,750	379,750	6.46

From this total, the shares assigned to Telefónica, S.A.'s employees are 92,500. This same number of shares are outstanding at year end.

The second cycle commenced in 2019 and will be finalized on December 31, 2021, with delivery of the respective shares in 2022. The maximum number of shares assigned to this cycle of the plan was 812,000 shares and there were 803,250 outstanding shares at December 31, 2019, with the following breakdown:

Second cycle	No. of shares assigned	Outstanding shares at 12/31/2019	Unit fair value (euros)
TSR Objective	406,000	401,625	4.44
FCF Objective	406,000	401,625	6.14

From this total, the shares assigned to Telefónica, S.A.'s employees are 110,250. The outstanding shares as of December 31, 2019 are 107,000.

Long-term incentive plan based on Telefónica, S.A. shares: "Talent for the Future Share Plan 2014-2019" (TFSP)

At the General Shareholders' Meeting held on May 30, 2014, a long-term share-based incentive plan called "Talent for the Future Share Plan" was approved for certain Telefónica Group employees.

The plan consisted of the delivery of a certain number of shares of Telefónica, S.A. to participants selected by the Company who had opted to take part in the scheme and had met the requirements and conditions stipulated to this end.

The term of the plan was five years and it was divided into three cycles. The initial and the second share allocations took place on October 1, 2014, and October 1, 2015, respectively. Regarding the third cycle of this 2016-2019 Plan, following a favorable report from the Nomination, Compensation and Corporate Governance Committee, the Company's Board of Directors agreed not to execute or implement it, after having decided that it was not sufficiently in line with the Telefónica Group's strategic plan, taking into account the circumstances and macroeconomic environment.

The first cycle expired on September 30, 2017. The maximum number of shares assigned to this phase of the plan was 556,795 shares assigned on October 1, 2014, with a fair value of 6.82 euros per share. The second cycle expired on September 30, 2018. The maximum number of shares assigned to this phase of the plan was 618,000 shares assigned on October 1, 2015, with a fair value of 6.46 euros per share. Delivery of shares was not required at the end of each of these cycles according to the general conditions of the plan.

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

The Telefónica, S.A. Ordinary General Shareholders' meeting on June 8, 2018 approved a new voluntary plan for incentivized purchases of shares of Telefónica, S.A. for the employees of the Group. Under this Plan, employees were offered the option to acquire Telefónica, S.A. shares during a twelve-month period, with the company undertaking to deliver a certain number of free shares to participants, subject to certain requirements. The maximum amount that each employee can invest is limited to 1,800 euros. The employees that remain part of the Telefónica Group and hold on to the shares for one year following the acquisition period (the vesting period), will be entitled to receive two free shares for each share they purchased and retained throughout the vesting period. In any event, the maximum number of additional shares to be delivered under this plan may not exceed: i) the result of

dividing the amount assigned to the Plan, which is a maximum of 30, by the price at which the acquired shares were purchased pursuant to each of the investment agreements; ii) nor 0.1% of the Company's capital stock on the date of approval of the plan by the General Shareholders' Meeting.

The purchase period commenced in August 2019. As of December 31, 2019, 17,265 employees had registered for the plan.

19.4 Average number of employees in 2019 and 2018 and number of employees at year-end

2019

Professional category	Employees at 12/31/19			Average no. of employees in 2019		
	Females	Males	Total	Females	Males	Total
Chairman and General Managers	—	1	1	—	1	1
Directors	60	131	191	59	132	191
Managers	157	169	326	155	171	326
Project Managers	169	136	305	168	135	303
University graduates and experts	179	139	318	174	135	309
Administration, clerks, advisors	98	7	105	104	6	110
Total	663	583	1,246	660	580	1,240

2018

Professional category	Employees at 12/31/18			Average no. of employees in 2018		
	Females	Males	Total	Females	Males	Total
Chairman and General Managers	—	1	1	—	1	1
Directors	58	130	188	56	132	188
Managers	152	174	326	145	158	303
Project Managers	168	126	294	167	117	284
University graduates and experts	161	114	275	155	104	259
Administration, clerks, advisors	105	8	113	104	5	109
Total	644	553	1,197	627	517	1,144

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

Professional category	Average number of employees
Project Managers	1
University graduates and experts	2
Administration, clerks, advisors	1
Total	4

19.5 External services

The items composing "External services" are as follows:

Millions of euros	2019	2018
Rent	11	12
Independent professional services	123	136
Donations (Note 18)	3	1
Marketing and advertising	101	110
Other expenses	59	41
Total	297	300

On December 19, 2007, Telefónica, S.A. signed a rental contract with a view to establishing the headquarters of the "Telefónica Corporate University". The lease period is 15 years (until 2023), renewable for another five.

On May 30, 2019, Telefónica, S.A. has signed a 10-year contract to rent Diagonal 00 building, owned by the Company until that moment, due in 2029 (Note 7), renewable for another 6 years.

Future minimum rentals payable under non-cancellable operating leases without penalization at December 31, 2019 and 2018 are as follows:

Millions of euros	Total	Up to 1 year	From 1 to 3 years	From 3 to 5 years	Over 5 years
Future minimum rentals 2019	56	10	18	12	16
Future minimum rentals 2018	28	6	6	11	5

19.6 Finance revenue

The items composing "Finance revenue" are as follows:

Millions of euros	2019	2018
Dividends from other companies	11	12
Other third parties financial revenues and gains on derivative instruments	467	347
Total	478	359

"Other third parties finance revenues and gains on derivative instruments" include the effect of the financial hedges arranged to unwind positions for 2019 and 2018, which have the same amount under "Finance costs payable to third parties by financial hedges" and therefore do not have a net impact in the income statement.

19.7 Finance costs

The breakdown of "Finance costs" is as follows:

Millions of euros	2019	2018
Interest on borrowings from Group companies and associates	1,785	1,910
Finance costs payable to third parties and losses on interest rates of financial hedges	424	320
Total	2,209	2,230

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

Millions of euros	2019	2018
Telefónica Europe, B.V.	492	648
Telefónica Emisiones, S.A.U.	1,278	1,223
Other companies	15	39
Total	1,785	1,910

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

The amount included as "Finance costs payable to third parties and losses on interest rate of financial hedges" refers to fair value effects in the valuation of derivative instruments described in Note 16. As it has been explained in the Note 19.6, some of these derivative instruments do not have a net impact in the income statement because they are part of the hedges to unwind positions, so they have a similar impact under "Other financial revenues".

19.8 Exchange differences

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

Millions of euros	2019	2018
On current operations	39	20
On loans and borrowings	108	92
On derivatives	950	710
On other items	10	50
Total	1,107	872

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

Millions of euros	2019	2018
On current operations	59	21
On loans and borrowings	117	116
On derivatives	872	604
On other items	16	82
Total	1,064	823

The variation in exchange gains and losses is due to the fluctuations in the main currencies the Company works with. In 2019 Euro exchange rate has depreciated against US dollar (1.99%) and Pound Sterling (5.12%) and has appreciated against Brazilian real (1.95%).

In 2018 Euro exchange rate was depreciated against US dollar (4.72%) and was appreciated against Pound Sterling (0.81%) and Brazilian real (10.6%).

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

Note 20. Other information

a) Financial guarantees

At December 31, 2019, Telefónica, S.A. had provided financial guarantees for its subsidiaries and investees to secure their transactions with third parties amounting to 45,668 million euros (46,218 million euros at December 31, 2018). These guarantees are measured as indicated in Note 4.g).

Millions of euros		
Nominal Amount	2019	2018
Debentures and bonds and equity instruments	43,555	43,833
Loans and other payables	723	719
Other marketable debt securities	1,390	1,666
Total	45,668	46,218

The debentures, bonds and equity instruments in circulation at December 31, 2019 issued by Telefónica Emisiones, S.A.U., Telefónica Europe, B.V., Telefónica Finanzas México, S.A. de C.V. and Telefónica Participaciones, S.A.U., were guaranteed by Telefónica, S.A. The nominal amount guaranteed was equivalent to 43,555 million euros at December 31, 2019 (43,833 million euros at December 31, 2018). During 2019, Telefónica Emisiones, S.A.U. issued debt instruments on capital markets for an equivalent of 3,598 million euros (3,611 million euros in 2018) and 3,613 million euros matured during 2019 (3,713 million euros during 2018).

The main loans and other debts guaranteed by Telefónica, S.A. at December 31, 2019 are: the cash-settled equity link bonds non-dilutive issued by Telefónica Participaciones, S.A.U., whose outstanding amount at December 31, 2019 and 2018 was 600 million euros in both years.

"Other marketable debt securities" includes the guarantee of Telefónica, S.A. relating to the commercial paper issue program of Telefónica Europe, B.V. The outstanding balance of commercial paper in circulation issued through this programme at December 31, 2019 was 1,390 million euros (1,666 million euros at December 31, 2018).

Telefónica, S.A. provides operating guarantees granted by external counterparties, which are offered during its normal commercial activity. At December 31, 2019 and 2018, these guarantees amounted to approximately 41 million euros in both years.

b) Litigation

Telefónica and its group companies are party to several legal proceedings which are currently in progress in the courts of law and the arbitration bodies of the various countries in which Telefónica is present. Based on the advice of our legal counsel it is reasonable to assume that these legal proceedings will not

materially affect the financial condition or solvency of the Telefónica Group.

It is worth highlighting the following aspects relating to the unresolved legal proceedings or those underway during 2019 (see Note 17 for details of tax-related cases):

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

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

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

On April 9, 2013, Telefónica filed an appeal for annulment of this ruling with the European Union General Court. On August 6, 2013, the European Union General Court notified Telefónica of the response issued by the European Commission, in which the European Commission reaffirmed the main arguments of its ruling and, specially, that Clause Nine includes a competition restriction. On September 30, 2013, Telefónica filed its reply. On December 18, 2013, the European Commission filed its appeal.

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

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

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

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

2017, Telefónica filed its response. On March 9, 2017, the European Commission filed its rejoinder.

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

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

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

On August 5, 2016, the hearing before the High Court in Prague took place in order to decide the appeal against the second decision of the Municipal Court, which had been favorable to Telefónica's position (as was also the case with the first decision of the Municipal Court). At the end of the hearing, the High Court announced the Second Appellate Decision by which it reversed the second decision of the Municipal Court and ordered Telefónica to pay 644 million Czech koruna (approximately 23 million euros) to Venten and 227 million Czech koruna (approximately 8 million euros) to Lexburg, in each case plus interest.

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

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

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

On February 14, 2019, notification was given to Telefónica of the resolution of the Supreme Court which, based on the extraordinary appeal filed by Telefónica, abolished the decision of the High Court in Prague dated August 5, 2016 and remanded the case back to the High Court.

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

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

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

On February 1, 2018, Telefónica, S.A. filed a Request for Arbitration against Colombia at the International Centre for Settlement of Investment Disputes ("ICSID"), which was formally registered on February 20, 2018.

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

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

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

On January 24, 2020, the Court dismissed the request for Bifurcation presented by Colombia, ordering the continuation of the proceeding. A decision on the merits of Telefónica, S.A.'s claim is pending.

c) Other contingencies

Telefónica is currently cooperating with governmental authorities (and, where appropriate, conducting the relevant internal investigations) regarding requests for information potentially related, directly or indirectly to possible violations of applicable anti-corruption laws. Telefónica believes that, considering the size of the Group, any potential penalty as a result of matters relating to those specific information requests would not materially affect the Group's financial condition.

d) Commitments

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

As a result of the sale agreement of Atento by Telefónica, announced on October 12, 2012, and ratified on December 12, 2012, both companies signed a Master Service Agreement which regulates Atento's relationship with the Telefónica Group as a service provider for a period of nine years and which has been amended on May 16, 2014, on November 8, 2016, on May 11, 2018 and on November 28, 2019. This period was extended only for Spain and Brazil in November 2016, for two additional years until 2023.

By virtue of this agreement, Atento became Telefónica's preferred Contact Center and Customer Relationship Management ("CRM") service provider, stipulating annual

commitments in terms of turnover which is updated based on inflation and deflation that vary from country to country, pursuant to the volume of services Atento has been providing to the entire Group. Effective January 1, 2017, the minimum volume commitments that Telefónica must comply with have significantly decreased for Brazil and Spain. Additionally, from January 1, 2019 a new reduction of the minimum commitment has been agreed, in this case only for Spain.

Failure to meet the annual turnover commitments in principle results in the obligation to the counterparty, to pay additional amounts, which would be calculated based on the difference between the actual amount of turnover and the predetermined commitment, applying a percentage based on the Contact Center's business margin to the final calculation.

Notwithstanding the above, as a consequence of the amendment signed with the Atento Group on May 11, 2018, from January 1, 2018 the payment obligation for failure to meet the annual turnover commitment continues to be calculated every year but will only be liquidated upon termination of the agreement. Such payment will only be due if the balance is in favor of Atento after adding certain amounts agreed between the parties and deducting an annual percentage of the Atento Group's sales to the Telefónica Group.

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

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

On March 1, 2016, a share purchase agreement between, on one hand, Telefónica, S.A., Telefónica Servicios Globales, S.L.U. and Telefónica Gestión de Servicios Compartidos Perú, S.A.C. (as sellers), and, on the other hand, IBM Global Services España, S.A., IBM del Perú, S.A.C., IBM Canada Limited and IBM Americas Holding, LLC (as purchasers) for the sale of the companies Telefónica Gestión de Servicios Compartidos España, S.A.U., Telefónica Gestión de Servicios Compartidos Argentina, S.A. and T-Gestiona Servicios Contables y Capital Humano, S.A.C., for a total price of approximately 22 million euros, was ratified before Notary Public. This share purchase agreement was subscribed on December 31, 2015.

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

Agreement for the sale of Telefónica de Costa Rica

On February 20, 2019, Telefónica, S.A. reached an agreement with Millicom International Cellular, S.A. for the sale of 100%

of Telefónica de Costa Rica TC, S.A., a company that provides fixed and mobile communication services in Costa Rica, for an amount (enterprise value) of 570 million dollars, approximately 503 million euros at the exchange rate as of the date of the agreement.

The closing of the transaction is subject to the pertinent regulatory approvals. As of the date of these financial statements, such conditions have not been met.

Agreement for the acquisition of a 50% stake in Prosegur's alarm business in Spain

On September 17, 2019 Telefónica, S.A. reached an agreement with Prosegur Compañía de Seguridad, S.A. ("Prosegur") for the acquisition of a 50% stake in Prosegur's alarm business in Spain, with the objective of developing said business through the combination of the complementary capabilities of both companies.

The transaction represents a valuation of 50% of Prosegur's alarm business in Spain of 300 million euros, subject to certain adjustments based on debt, working capital and existing customers at the time of the closing of the transaction. The transaction is subject to the approval by the appropriate authorities. Telefónica has the option to pay the price, in whole or in part, in treasury shares.

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

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

In accordance with the foregoing, the shareholders acting at the Ordinary General Shareholders' Meeting held on April 11, 2003 set at 6 million euros the maximum amount of annual gross compensation to be received by the Board of Directors as a fixed allotment and as attendance fees for attending the meetings of the Advisory or Control Committees of the Board of Directors. Thus, as regards fiscal year 2019, the total amount of compensation accrued by the Directors of Telefónica, in their capacity as such, was 2,874,401 euros for the fixed allocation and for attendance fees.

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

Set forth below are the amounts established in fiscal year 2019 as fixed amounts for belonging to the Board of Directors, the Executive Commission and the Advisory or Control Committees of Telefónica and the attendance fees for attending meetings of the Advisory or Control Committees of the Board of Directors:

Compensation of the Board of Directors and of the Committees thereof

Amounts in euros

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

(*) In addition, the amount of the attendance fee for each of the meetings of the Advisory or Control Committees is 1,000 euros.

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

Likewise, the fixed remuneration of 1,923,100 euros established for the 2020 financial year related to executive roles carried out by Executive Chairman, Mr. José María Álvarez-Pallete López is equal to that received in the previous four years (i.e. 2019, 2018, 2017 and 2016), which was set in his capacity as Chief Operating Officer, remaining invariably after his appointment as Chairman in 2016. This compensation is a 13.8% lower to the compensation established for the position of Executive Chairman prior to his appointment as such.

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

Individualized description

Appendix II provides an individual breakdown by item of the compensation and benefits that the members of the Board of Directors and of the Senior Management of the Company have accrued and/or received from Telefónica, S.A. and from other companies of the Telefónica Group during fiscal year 2019.

Likewise, the compensation and benefits accrued and/or received, during such year, by the members of the Company's Senior Management are broken down.

f) Related-party transactions

Significant shareholders

The significant shareholders of the Company are Banco Bilbao Vizcaya Argentaria, S.A. (BBVA), Blackrock, Inc. and Caja de Ahorros y Pensiones de Barcelona ("la Caixa") with stakes in Telefónica, S.A. of 5.18%, 5.70% and 5.01%, respectively.

During 2019 and 2018 the Group did not carry out any significant transactions with Blackrock, Inc., other than the dividends paid corresponding to its stake.

A summary of significant transactions between Telefónica, S.A. and the companies of BBVA and those of la Caixa, carried out at market prices, is as follows:

Millions of euros

2019	BBVA	la Caixa
Financial expenses	8	3
Receipt of services	1	2
Total expenses	9	5
Financial revenues	1	—
Dividends received (1)	11	—
Total revenues	12	—
Financing transactions	608	675
Guarantees granted	—	8
Time deposits	221	—
Dividends distributed	121	108

(1) As of December 31, 2019 Telefónica holds 0.66% investment in BBVA (See Note 9.3.).

Millions of euros

2018	BBVA	la Caixa
Financial expenses	11	7
Receipt of services	2	1
Total expenses	13	8
Financial revenues	—	—
Dividends received (1)	11	—
Total revenues	11	—
Financing transactions	595	891
Guarantees granted	—	8
Time deposits	262	271
Dividends distributed	124	105

(1) As of December 31, 2018 Telefónica held 0.66% investment in BBVA.

In addition, the nominal outstanding value of derivatives held with BBVA and la Caixa in 2019 amounted to 14,029 and 557 million euros, respectively (17,041 million euros held with BBVA and 543 million euros with la Caixa in 2018). The fair value

of these derivatives in the balance sheet is 454 and -2 million euros, respectively, in 2019 (353 and -10 million euros, respectively, in 2018). As explained in Derivatives policy in Note 16, this figure is inflated by the use in some cases of several levels of derivatives applied to the nominal value of a single underlying. Moreover, in 2019 there are collateral guarantees (liabilities) of certain derivatives held with BBVA and La Caixa amounting to 276 and 19 million euros, respectively (a liability of 8 and 6 million euros, respectively, in 2018).

On the other hand, in 2019 CaixaBank Payments & Consumer, E.F.C., E.P., S.A.U. and Telefónica, S.A., as shareholders of Telefónica Consumer Finance, E.F.C., S.A. ("TCF"), have agreed to authorize that TCF may carry out activities ancillary to its current core businesses, as well as the implementation of a new activity consisting of the financing of the acquisition of security services by clients of companies in which the Telefónica Group in Spain holds at least 50% of its share capital entailing voting rights that provide such services.

Likewise, in September 2019, a financial collaboration agreement was signed between Telefónica, S.A. and CaixaBank, S.A., with special conditions for employees, pensioners and early retirees of the Telefónica Group.

Group companies and Associates

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

The balances and transactions between the Company and these subsidiaries (Group and Associated Companies) at December 31, 2019 and 2018 are detailed in the notes to these individual financial statements.

Directors and senior executives

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

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

Telefónica contracted a civil liability insurance scheme (D&O) for Directors, managers and staff with similar functions in the Telefónica Group, with standard conditions for these types of insurance and a premium attributable to 2019 of 1,969,090 euros (1,916,210 euros in 2018). This scheme provides coverage for Telefónica, S.A. and its subsidiaries in certain cases. Out of this amount, Telefónica, S.A. pays 1.059.268 euros.

Certain Telefónica Group subsidiaries performed transactions in 2019 with Global Dominion Access Group, related to the Group's ordinary course of business, mainly in Telefónica de

España amounting to 27 million euros (25 million euros in 2018).

g) Auditors' fees

The services commissioned to PricewaterhouseCoopers Auditores, S.L., the Principal Auditor of Telefónica, S.A. for the years 2019 and 2018, meet the independence requirements stipulated by the Spanish Audit Law 22/2015, July 20, the US SEC rules and the Public Company Accounting Oversight Board (PCAOB).

The expenses accrued refer to the fees for services rendered by the various member firms of the PwC network, of which PricewaterhouseCoopers Auditores, S.L. forms part, amount to 3.27 million euros and 3.19 million euros respectively.

The detail of these amounts is as follows:

Millions of euros	2019	2018
Audit services	2.87	2.88
Audit-related services	0.40	0.31
Other services	—	—
Total	3.27	3.19

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

Audit-related services: mainly services related to the issuance of comfort letters, the report on the information relating to the system of the internal control over financial reporting (ICFR) and the Telefónica, S.A.'s limited verification report of Non Financial Information Statement- Efficiency and trust (Corporate Social Responsibility Report).

During the years 2019 and 2018, the principal Auditor has not performed Tax Services or any All other services, other than the Audit services or the Audit-related services in Telefónica, S.A.

h) Environmental matters

Telefónica has an Environmental Policy which is applicable to all of its companies, which sets out the road map for the company to advance towards a green economy, reducing the environmental impact of its facilities at the same time as developing the potential for digital services to reduce the environmental footprint of other sectors.

Currently over half of the companies in the Group have Environmental Management Systems (EMS) in accordance with Regulation ISO 14001, certified by an external body, which contribute to the proper management of the

environmental aspects of the company and to extending a culture of environmental responsibility across the whole supply chain.

Telefónica's environmental risks and climate change are controlled and managed under the company's global risk model. The environmental aspects of the telecommunications operations are mainly focused on the risk of high geographical dispersion and energy consumption, which is controlled by means of environmental management based on uniform processes and a global energy efficiency programme.

Telefónica has a global environmental team made up of experts in environmental management.

i) Trade and other guarantees

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

Note 21. Cash flow analysis

Cash flows from/(used in) operating activities

The net result before tax in 2019 amounted to positive 5,122 million euros (see income statement), adjusted by items recognized in the income statement that did not require an inflow or outflow of cash in the year, or are included within the investing and financing activities.

These adjustments relate mainly to:

- The write-off reversal in Group companies, associates and other investments of 2,226 million euros (in 2018 an impairment of 587 million euros).
- The gains on disposal of subsidiaries amounting to 218 million euros, mainly attributable to the sale of Antares and Daytona, S.L. (gains on disposal of subsidiaries amounting to 175 million euros in 2018, mainly corresponding to the sale of 16.65% of the share capital of Pontel Participaciones, S.L.).
- Gain in the sale of fixed and intangible assets of 92 million euros mainly due to the sale of trademarks in non-strategic markets and the sale of the Diagonal 00 building.
- Declared dividends as income in 2019 for 4,242 million euros (4,259 million euros in 2018), interest accrued on loans granted to subsidiaries of 73 million euros (124 million euros in 2018) and a net financial expense of 1,688 million euros (1,822 million euros in 2018), adjusted initially to include only movements related to cash inflows or outflows during the year under "Other cash flows from operating activities."

"Other cash flows from operating activities" amounted to 5,298 million euros (2,489 million euros in 2018). The main items included are:

a) Net interest paid:

Payments of net interest and other financial expenses amounted to 1,547 million euros (1,618 million euros in 2018), including:

- Net proceeds from external credit entities, net of hedges, for 205 million euros, (net payments of 291 million euros in 2018 offset by their hedges), and
- Interest and hedges paid to Group companies of 1,752 million euros (1,909 million euros in 2018).

b) Dividends and other distributions from reserves and paid-in capital received: the main receipts relate to:

Millions of euros	2019	2018
Telefónica Móviles Argentina, S.A.	92	30
Telefónica Móviles España, S.A.U.	552	306
Telefónica O2 Holdings Limited	647	609
Telefónica de España, S.A.U.	1,574	664
Telefónica Latinoamérica Holding, S.L.	—	391
Telfisa Global, B.V.	700	733
Telxius Telecom, S.A.	—	250
Telfin Ireland, Ltd.	555	—
Telefônica Brasil, S.A.	417	279
Sao Paulo Telecomunicações, Ltda	103	77
Telefónica Centroamérica Inversiones, S.L.	161	44
Telefónica Luxembourg Holding S.à.r.l.	165	—
Other dividend collections	52	135
Total	5,018	3,518

In addition to the dividends declared in 2019 (see Note 19.1) and collected in the same period, this caption also includes dividends from 2018 collected in 2019.

- c) Income tax collected: Telefónica, S.A. is the parent of its consolidated Tax Group (see Note 17) and therefore it is liable for filing income tax with the Spanish Treasury. It subsequently informs companies included in the Tax Group of the amounts payable by them. Payments of totaling 59 million euros were made in 2019 (20 million euros in 2018), as disclosed in Note 17 and income taxes repayments of 2017 have been received amounting to 132 million euros. In this regard, the main amounts passed on to subsidiaries of the tax group were as follows:

- Telefónica Móviles España, S.A.U.: collection of 394 million euros, corresponding to: 202 million euros for the 2018 income tax settlement and 192 million euros in payments of account of 2019 income tax.

In 2018, there was an income collected of 185 million euros, mainly due to the settlement of income tax of 150 million euros in 2017 and 35 million euros in payments of account of 2018 income tax.

- Telefónica de España, S.A.U.: collection of 430 million euros, corresponding to: 216 million euros for the 2018 income tax settlement and 214 million euros in payments of account of 2019 income tax.

In 2018 there was an income collected of 405 million euros, mainly corresponding to: 317 million euros for the

2017 income tax settlement and 88 million euros in payments of account of 2018 income tax.

- A partial resolution upholding the claims of Telefónica, S.A. by the Tribunal Económico-Administrativo Central (TEAC) pertaining the overpayments made in 2008-2011 has resulted in a collection of 702 million euros. Moreover, an indemnity of 201 million euros related to this resolution has been collected (see Note 17).

Cash flows from/(used in) investing activities

"Payments on investments" under "Cash flows from/ (used in) investing activities" included a total payment of 2,647 million euros (2,139 million euros in 2018). The main transactions to which these payments refer are as follows:

- Capital increases: the main disbursements correspond to Telefónica Móviles México, S.A. de C.V. amounting to 250 million euros, and Telefónica Digital España, S.L. amounting to 137 million euros. These capital increases, as well as other minor disbursements of this same concept are disclosed fully in Note 8.1.a. The capital increase of Prisa (see Note 9) is also included in this caption.
- Payments of financial investments related to the reinvestment of treasury overage amounting to 1,256 million euros.
- Payments of collaterals related to financial derivative instruments amounting to 947 million euros.

Proceeds from disposals totaling 4,392 million euros in 2019 (2,075 million euros in 2018) includes:

- Proceeds from the distribution of reserves of Telefónica Centroamérica Inversiones, S.L. amounting to 460 million euros and Pontel Participaciones, S.L. amounting to 60 million euros (see Note 8).
- Proceeds from the sales of Antares and Daytona, S.L. amounting to 161 million euros and 134 million euros, respectively (see Note 8).
- Proceed from the repayment at maturity of the loan granted to Telefónica Móviles España, S.A.U. amounting to 550 million euros and the early cancellation amounting to 36 million euros of Media Networks Latinoamérica (see Note 8).
- Proceeds from financial investments related to the reinvestment of treasury overage amounting 1,097 million euros.
- Proceeds from collaterals related to financial derivative instruments amounting to 1,793 million euros.

Cash flows from/(used in) financing activities

This caption mainly includes the following items:

i. Proceeds from financial liabilities:

- a) Debt issues: The main collections comprising this heading are as follows:

Millions of euros	2019	2018
Bilateral loans with several entities (Note 14.4)	—	585
Telefónica Emisiones, S.A.U. (Note 15)	3,598	3,756
Credit lines with several entities	—	710
Telfisa Global, B.V. financing (Note 15)	—	1,479
Structured Financing	—	34
Telefónica Europe B.V. (Note 15)	1,800	3,217
Loan (Note 14)	200	—
Other collections	53	202
Total	5,651	9,983

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

Millions of euros	2019	2018
Bilateral loans with several entities (Note 14.4)	1,835	800
Telfisa Global, B.V. financing (Note 15)	1,669	—
Telefónica Europe, B.V. (Note 15)	2,553	2,438
Telefónica Europe, B.V. promissory notes (Note 15)	276	216
Promissory notes redemption	107	23
Telefónica Emisiones, S.A.U. (Note 15)	3,613	3,713
Structured Financing	378	389
Credit lines with several entities	274	1,288
Other payments	203	198
Total	10,908	9,065

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

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

- ii. Acquisition of treasury shares, as indicated in Note 11 a.
- iii. Payments of dividends amount to 2,056 million euros (2,048 million euros in 2018). The figure differs from the one shown in Note 11.1.d) because of the withholding taxes deducted in the payment to certain major shareholders, which will be paid to Tax Authorities in 2020. In addition, the withholding taxes referred to the dividend distribution made in December 2018 which have been paid to the Tax Authorities in January 2019.

Note 22. Events after the reporting period

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

Financing

- On 20 January 2020, Telefónica Emisiones, S.A.U. redeemed 1,200 million euros of its notes issued on 19 October 2012. These notes were guaranteed by Telefónica, S.A. On the same date Telefónica, S.A. made the full repayment of the principal of the loan granted by Telefónica Emisiones, S.A.U. of similar amount, terms and conditions.
- On February 3, 2020, Telefónica Emisiones, S.A.U., under its Guarantee Euro Programme for the Issuance of Debt Instruments (EMTN Programme), issued notes in the Euro market, guaranteed by Telefónica, S.A. amounting to 1,000 million euros. These issuance are due on February 3, 2030, with an annual coupon of 0.664% and are issued at par (100%). On the same date Telefónica, S.A. received a loan from Telefónica Emisiones, S.A.U. of similar amount, terms and conditions.
- In February 2020, Telefónica Europe, B.V. announced several transactions on its hybrid capital:
 - (a) a new issue amounting to 500 million euros, guaranteed by Telefónica, S.A. The net proceeds of the new issue will be allocated towards eligible green investments, mainly energy efficiency in the network transformation from copper to fiber optic in Spain and also self-generation of renewable energy. The settlement took place on February 5, 2020. On the same date Telefónica, S.A. received a loan from Telefónica Europe, B.V. of similar amount, terms and conditions;
 - (b) a tender offer on two hybrid instruments, one denominated in pounds sterling and one in euros, with first call dates in November 2020 and September 2021, respectively. Telefónica Europe, B.V. accepted the purchase in cash of any and all of

the tendered securities in an aggregate principal amount of 128 million pounds sterling and 232 million euros, respectively. The tender offer settled on February 6, 2020. On the same date Telefónica, S.A. made the full repayment of the principal of the loans granted by Telefónica Europe, B.V. of similar amount, terms and conditions;

- (c) following the settlement of the offer and subsequent cancellation of the repurchased securities, Telefónica Europe, B.V. announced on February, 11, 2020 the exercise of the early redemption option with respect to both instruments, according to their respective terms and conditions, for the remaining outstanding securities (112 million euros equivalent). On the same date, Telefónica Europe, B.V. announced to Telefónica, S.A. the early redemption of the loans of similar amount, terms and conditions; and
- (d) on February 13, 2020 announced the exercise of the redemption option with respect to the 244 million euros outstanding securities issued in March 2014. On the same date, Telefónica Europe, B.V. announced to Telefónica, S.A. the redemption of the loan of similar amount, terms and conditions.

Investments

- On January 9, 2020, Telefónica Digital España, S.L.U. completed a capital increase amounting to 157 million euros fully subscribed and paid by Telefónica, S.A.
- On February 7, 2020, Telefónica Móviles México S.A. de C.V. carried out a capital increase of 2,500 million Mexican pesos (equivalent to 121 million euros) fully subscribed and paid by the Company.

Note 23. Additional note for English translation

These annual financial statements were originally prepared in Spanish and were authorized for issue by the Company's Directors in the meeting held on February 19, 2020. In the event of a discrepancy, the Spanish-language version prevails.

Appendix I: Details of subsidiaries and associates at December 31, 2019

Name and corporate purpose	% Ownership					Income (loss)		
	Direct	Indirect	Capital	Reserves	Dividends	From operations	For the year	Net carrying amount
Telefónica Latinoamérica Holding, S.L. (SPAIN) Holding company Distrito Telefónica, Ronda de la comunicación s/n 28050 Madrid	100%	—	237	13,126	—	(1,019)	(341)	14,325
Telefónica Móviles España, S.A.U. (SPAIN) Wireless communications services provider Distrito Telefónica, Ronda de la Comunicación s/n 28050 Madrid	100%	—	209	637	774	1,060	796	5,561
Telfin Ireland Limited (IRELAND) Intragroup financing 28/29 Sir John Rogerson's Quay, Dublin 2	100%	—	—	8,089	555	—	125	8,191
Telefónica O2 Holdings Limited (UNITED KINGDOM) Wireless communications Wellington Street, Slough, SL11YP	100%	—	13	14,702	647	—	627	17,873
Telefónica Móviles México, S.A. de C.V. (MEXICO) Holding company Prolongación Paseo de la Reforma 1200 Col. Cruz Manca, México D.F. CP.05349	100%	—	6,409	(6,450)	—	(4)	(90)	1,139
Telefónica de España, S.A.U. (SPAIN) Telecommunications service provider in Spain Gran Vía, 28 - 28013 Madrid	100%	—	1,024	1,695	1,214	146	58	2,455
O2 (Europe) Ltd. (UNITED KINGDOM) Holding company Wellington Street, Slough, SL11YP	100%	—	1,239	3,778	—	—	131	2,764
Telefónica de Contenidos, S.A.U. (SPAIN) Organization and operation of multimedia service-related activities and businesses Distrito Telefónica, Ronda de la Comunicación s/n, Madrid 28050	100%	—	226	932	—	3	2	1,160
Telfisa Global, B.V. (NETHERLANDS) Integrated cash management, consulting and financial support for Group companies Strawinskylaan 1259; tower D; 12th floor 1077 XX - Amsterdam	100%	—	—	712	178	(3)	24	712
Telefónica Chile Holdings, S.L (SPAIN) Holding company Distrito Telefónica, Ronda de la Comunicación s/n, Madrid 28050	100%	—	—	1,209	—	—	—	473
Telefónica Innovación Alpha, S.L. (SPAIN) Telecommunications activities Distrito Telefónica, Ronda de la Comunicación s/n, Madrid 28050	100%	—	1	21	—	(22)	(11)	11
Telco TE, S.p.A. (ITALY) Holding company Via dell'Annunciata n.21 - 20121 Milano	100%	—	—	—	—	—	—	—
Telefónica Soluciones de Criptografía, S.L. (SPAIN) Engineering, development, production, sale and maintenance of telecommunication and electronic equipment. Gran Vía 28, 28050 Madrid	100%	—	—	2	—	—	—	2
Telefónica Global Technology, S.A.U. (SPAIN) Global management and operation of IT systems Gran Vía, 28 - 28013 Madrid	100%	—	16	145	—	19	12	172
Telefónica Capital, S.A.U. (SPAIN) Finance company Gran Vía, 28 - 28013 Madrid	100%	—	7	182	—	—	2	110

Name and corporate purpose	% Ownership					Income (loss)		
	Direct	Indirect	Capital	Reserves	Dividends	From operations	For the year	Net carrying amount
Telefónica Digital España, S.L.U. (SPAIN) Holding company Ronda de la Comunicación, s/n Distrito Telefónica Edificio Central - 28050 Madrid	100%	—	26	324	—	(186)	(146)	204
Taetel, S.L. (SPAIN) Holding company Gran Vía, 28 - 28013 Madrid	100%	—	28	39	—	—	—	67
Telefónica Internacional USA, Inc. (U.S.A.) Financial Advisory services 1221 Brickell Avenue suite 600 - 33131 Miami - Florida	100%	—	—	1	1	—	—	—
Lotca Servicios Integrales, S.L. (SPAIN) Holding, operation and aircraft leases Gran Vía, 28 - 28013 Madrid	100%	—	17	53	—	(6)	(5)	66
Telefónica Ingeniería de Seguridad, S.A.U. (SPAIN) Security services and systems Ramón Gómez de la Serna, 109-113 Posterior 28035 Madrid	100%	—	13	10	—	4	3	28
Compañía Española de Tecnología, S.A.U. (SPAIN) Promotion of business initiatives and holding of real estate assets Gran Vía, 28 - 28013 Madrid	100%	—	5	24	—	(1)	(1)	14
Telefónica Finanzas, S.A.U. (TELFISA) (SPAIN) Integrated cash management, consulting and financial support for Group companies Ronda de la Comunicación, s/n - 28050 Madrid	100%	—	3	145	—	(7)	34	13
Centro de Investigación y Experimentación de la Realidad Virtual, S.L. (SPAIN) Design of communications products Vía de Dos Castillas, 33 - Comp. Ática Ed. 1, 1ª Plta. Pozuelo de Alarcón - 28224 Madrid	100%	—	N/A	N/A	N/A	N/A	N/A	—
Telefónica International Wholesale Services II, S.L. (SPAIN) International services provider Ronda de la Comunicación, s/n - 28050 Madrid	100%	—	1	173	—	(78)	(58)	4
Telefónica Investigación y Desarrollo, S.A.U. (TIDSA) (SPAIN) Telecommunications research activities and projects Ronda de la Comunicación, s/n - 28050 Madrid	100%	—	7	14	—	(14)	(12)	9
Telefónica Luxembourg Holding S.à.r.l. (LUXEMBOURG) Holding company 26, rue Louvingny, L-1946- Luxembourg	100%	—	3	179	—	—	—	4
Telefónica Servicios Globales, S.L.U. (SPAIN) Management and administrative services rendered Ronda de la Comunicación, s/n - 28050 Madrid	100%	—	1	13	—	(2)	1	14
Fisatel Mexico, S.A. de C.V. (MEXICO) Integrated cash management, consulting and financial support for Group Companies Boulevard Manuel Avila Camacho, 24 - 16ª Plta. - Lomas de Chapultepec - 11000 México D.F.	100%	—	195	(3)	24	—	15	196
Telefónica Participaciones, S.A.U. (SPAIN) Issues of preferred shares and/or other debt financial instruments Gran Vía, 28 - 28013 Madrid	100%	—	—	1	—	—	—	—
Telefónica Emisiones, S.A.U. (SPAIN) Issues of preferred shares and/or other debt financial instruments Gran Vía, 28 - 28013 Madrid	100%	—	—	13	—	(3)	(2)	—
Telefónica Europe, B.V. (NETHERLANDS) Fund raising in capital markets Strawinskylaan 1259; tower D; 12th floor 1077 XX - Amsterdam	100%	—	—	5	3	(1)	2	—
O2 Oak Limited (UNITED KINGDOM) Private Limited Company 260 Bath Road, Slough Berkshire SL1 4BX	100%	—	—	—	—	—	—	—

Millions of euros	% Ownership					Income (loss)		
	Direct	Indirect	Capital	Reserves	Dividends	From operations	For the year	Net carrying amount
O2 Worldwide Limited (UNITED KINGDOM) Private Limited Company 20 Air Street, London, England W1B 5AAN	100%	—	—	—	—	—	—	—
Pontel Participaciones, S.L. (SPAIN) Private Limited Company Distrito Telefónica, Ronda de Comunicación, s/n	83.35%	—	—	1,047	21	—	25	894
Corporation Real Time Team, S.L. (SPAIN) Internet design, advertising and consulting Plaza Canalejas, 3 – 28014 Madrid	87.96%	12.04%	—	—	—	—	—	—
Telefónica Móviles Argentina, S.A. (1) (ARGENTINA) Mobile communications and services operator Ing Enrique Butty 240, piso 20 - Buenos Aires	73.2%	26.8%	328	2,040	93	9	(102)	1,359
Telefónica Centroamérica Inversiones, S.L (SPAIN) Holding company Distrito Telefónica. Avda. Ronda Comunicación, s/n. - 28050 Madrid	60.00%	—	1	(92)	153	375	338	166
Comtel Comunicaciones Telefónicas, S.A. (VENEZUELA) Holding company Torre Edicampo, Avda. Francisco de Miranda, Caracas 1010	65.14%	34.86%	—	—	—	—	—	—
Telefónica Consumer Finance E.F.C., S.A. (SPAIN) Lending and consumer loans c/Caleruega, 102 -28033 Madrid	50.00%	—	5	31	2	6	4	15
Aliança Atlântica Holding B.V. (NETHERLANDS) Portfolio company Strawinskylaan 1725 – 1077 XX – Amsterdam	50.00%	50.00%	150	(107)	—	—	—	21
Sao Paulo Telecomunicações Participações, Ltda (BRAZIL) Holding company Rua Martiniano de Carvalho, 851 20º andar, parte, Sao Paulo	39.40%	60.60%	5,346	(1,675)	156	1	206	2,055
Telefônica Brasil, S.A. (BRAZIL) (1) (*) Wireline telephony operator in Sao Paulo Sao Paulo	29.77%	44.19%	23,164	(7,536)	410	1,654	1,152	8,864
Colombia Telecomunicaciones, S.A. ESP (COLOMBIA) Wireless operator Calle 100, N° 7-33, Piso 15, Bogotá, Colombia	7.90%	59.60%	1	1,628	—	167	40	272
Pléyade Peninsular, Correduría de Seguros y Reaseguros del grupo Telefónica, S.A. (SPAIN) Insurance contracts, operating as a broker Distrito Telefónica, Ronda de la Comunicación, s/n Edificio Oeste 1 – 28050 Madrid	16.67%	83.33%	—	—	1	2	3	—
Telefónica Móviles Chile, S.A. (CHILE) Mobile communications operator Miraflores, 130 - 12º - Santiago de Chile	1.10%	98.87%	1,797	(296)	1	123	107	36
Telefónica de Argentina, S.A. (1) (ARGENTINA) Telecommunications services provider Av. Ingeniero Huergo, 723, PB – Buenos Aires	1.27%	98.39%	943	7	—	(78)	(68)	6
Telefónica Venezolana, C.A. (VENEZUELA) (1) Mobile communications operator Av. Francisco de Miranda, Edif. Parque Cristal, Caracas 1060	0.09%	99.91%	—	—	—	—	—	—
Telefónica Canal 21, S.C. (SPAIN) TV Channel Ronda de la comunicación s/n Edif. Norte 1. Planta 5 28050 Madrid	50.00%	—	19	(16)	—	—	—	1
Telefónica Factoring España, S.A. (SPAIN) Factoring Zurbano, 76, 8 Plta. - 28010 Madrid	50.00%	—	5	2	4	7	8	3
Telefónica Factoring México, S.A. de C.V. SOFOM ENR (MEXICO) Factoring México D.F.	40.50%	9.50%	2	—	1	(1)	—	1
Telefónica Factoring Perú, S.A.C. (PERÚ) Factoring Lima	40.50%	9.50%	1	2	—	—	2	1

Millions of euros	% Ownership					Income (loss)		
	Direct	Indirect	Capital	Reserves	Dividends	From operations	For the year	Net carrying amount
Name and corporate purpose								
Telefónica Factoring Colombia, S.A. (COLOMBIA) Factoring Bogotá	40.50%	9.50%	1	—	—	2	1	1
Telefónica Factoring Do Brasil, Ltd. (BRAZIL) Factoring Avda. Paulista, 1 106 – Sao Paulo	40.00%	10.00%	2	(2)	4	(2)	7	1
Jubii Europe N.V. (NETHERLANDS) (*) Internet portal Richard Holkade 36, 2033 PZ Haarlem	32.10%	—	N/A	N/A	—	N/A	N/A	3
Torre de Collçerola, S.A. (SPAIN) Operation of telecommunications mast and technical assistance and consulting services. Ctra. Vallvidrera-Tibidabo, s/n - 08017 Barcelona	30.40%	—	5	—	—	—	—	1
Total group companies and associates						4,242		69,267

(1) Consolidated data.

(*) Companies listed on international stock exchanges at December 31, 2019.

(N/A) Not available.

Appendix II: Board and Senior Management Compensation

TELEFÓNICA, S.A.

(Amounts in euros)

Directors	Salary ¹	Fixed remuneration ²	Allowances ³	Short-term variable remuneration ⁴	Remuneration for belonging to the Board Committees ⁵	Other items ⁶	Total
Mr. José María Álvarez-Pallete López	1,923,100	—	—	3,447,734	—	5,836	5,376,670
Mr. Isidro Fainé Casas	—	200,000	—	—	80,000	—	280,000
Mr. José María Abril Pérez	—	200,000	9,000	—	91,200	—	300,200
Mr. José Javier Echenique Landiribar	—	120,000	25,000	—	113,600	—	258,600
Mr. Ángel Vilá Boix	1,600,000	—	—	2,390,400	—	18,367	4,008,767
Mr. Juan Ignacio Cirac Sasurain	—	120,000	9,000	—	11,200	—	140,200
Mr. Peter Erskine	—	120,000	17,000	—	113,600	—	250,600
Ms. Sabina Fluxà Thienemann	—	120,000	8,000	—	11,200	—	139,200
Ms. Carmen García de Andrés	—	120,000	19,000	—	22,400	—	161,400
Ms. María Luisa García Blanco	—	120,000	16,000	—	22,400	—	158,400
Mr. Jordi Gual Solé	—	120,000	19,000	—	22,400	—	161,400
Mr. Peter Löscher	—	120,000	14,000	—	33,600	—	167,600
Mr. Ignacio Moreno Martínez	—	120,000	30,000	—	44,800	—	194,800
Ms. Verónica Pascual Boé ⁷	—	—	—	—	—	—	—
Mr. Francisco Javier de Paz Mancho	—	120,000	35,000	—	124,800	—	279,800
Mr. Francisco José Riberas Mera	—	120,000	—	—	—	—	120,000
Ms. Claudia Sender Ramírez ⁷	—	—	—	—	—	—	—

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

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

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

4 Variable short-term remuneration (bonuses): Variable amount linked to the performance or achievement of a series of individual or group objectives (quantitative or qualitative) within a period of time equal to or less than a year, corresponding to the year 2019 and paid in the year 2020. In reference to the bonus corresponding to 2018, which was paid in 2019, Executive Board Member Mr José María Álvarez-Pallete López perceived 3,478,888 euros and Executive Board Member Mr Ángel Vilá Boix perceived 2,412,000 euros.

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

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

7 Ms. Verónica Pascual Boé and Ms. Claudia Sender Ramírez were appointed Directors of the Company on December 18, 2019.

Likewise, Mr. Luiz Fernando Furlán and Mr. Wang Xiaochu stood down as Board Members on December 18, 2019, reflecting below the payment received (and accrued) by them, in 2019 until the dates mentioned.

Directors	Salary ¹	Fixed remuneration ²	Allowances ³	Short-term variable remuneration ⁴	Remuneration for belonging to the Board Committees ⁵	Other items ⁶	Total
Mr. Luiz Fernando Furlán	—	120,000	11,000	—	11,200	—	142,200
Mr. Wang Xiaochu	—	120,000	—	—	—	—	120,000

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

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

OTHER COMPANIES OF THE TELEFÓNICA GROUP

(Amounts in euros)

Directors	Salary ¹	Fixed remuneration ²	Allowances ³	Short-term variable remuneration ⁴	Remuneration for belonging to the Board Committees ⁵	Other items ⁶	Total
Mr. José María Álvarez-Pallete López	—	—	—	—	—	—	—
Mr. Isidro Fainé Casas	—	—	—	—	—	—	—
Mr. José María Abril Pérez	—	—	—	—	—	—	—
Mr. José Javier Echenique Landiribar	—	155,602	—	—	—	—	155,602
Mr. Ángel Vilá Boix	—	—	—	—	—	—	—
Mr. Juan Ignacio Cirac Sasturain	—	—	—	—	—	—	—
Mr. Peter Erskine	—	20,000	—	—	—	—	20,000
Ms. Sabina Fluxà Thienemann	—	—	—	—	—	—	—
Ms. Carmen García de Andrés	—	—	—	—	—	—	—
Ms. María Luisa García Blanco	—	—	—	—	—	—	—
Mr. Jordi Gual Solé	—	—	—	—	—	—	—
Mr. Peter Löscher	—	—	—	—	—	—	—
Mr. Ignacio Moreno Martínez	—	—	—	—	—	—	—
Ms. Verónica Pascual Boé	—	—	—	—	—	—	—
Mr. Francisco Javier de Paz Mancho	—	305,344	—	—	—	—	305,344
Mr. Francisco José Riberas Mera	—	—	—	—	—	—	—
Ms. Claudia Sender Ramírez	—	—	—	—	—	—	—

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

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

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

4. Variable short-term remuneration (bonuses): Variable amount linked to the performance or achievement of a series of individual or group objectives (quantitative or qualitative) within a period of time equal to or less than a year, corresponding to the year 2019 and paid in the year 2020 by other companies of the Telefónica Group.

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

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

Likewise, Mr. Luiz Fernando Furlán and Mr. Wang Xiaochu stood down as Board Members on December 18, 2019, reflecting below the payment received (and accrued) by them, in 2019 until the dates mentioned.

Directors	Salary ¹	Fixed remuneration ²	Allowances ³	Short-term variable remuneration ⁴	Remuneration for belonging to the Board Committees ⁵	Other items ⁶	Total
Mr. Luiz Fernando Furlán	—	85,767	—	—	—	—	85,767
Mr. Wang Xiaochu	—	—	—	—	—	—	—

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

Additionally, as mentioned in the Remuneration Policy section, the Executive Board Members have a series of Assistance Services. Below, the contributions made during 2019 are detailed for the Company to long-term savings systems (Pension Plans and Social Welfare Plan):

LONG-TERM SAVINGS SYSTEMS

(Amounts in euros)

Directors	Contributions for fiscal year 2019
Mr. José María Álvarez-Pallete López	673,085
Mr. Ángel Vilá Boix	560,000

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

(Amounts in euros)

Directors	Contribution to Pension Plans	Contribution to Benefit Plan ¹	Contributions to Unit link-type Insurance/Pension Plan Surplus ²
Mr. José María Álvarez-Pallete López	6,060	540,968	126,057
Mr. Ángel Vilá Boix	5,377	487,840	66,783

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

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

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

The 2019 amounts for life insurance premiums were as follows:

LIFE INSURANCE PREMIUMS

(Amounts in euros)

Directors	Life insurance premiums
Mr. José María Álvarez-Pallete López	27,509
Mr. Ángel Vilá Boix	13,799

As regards to remuneration plans based on shares (exclusively involving Executive Directors), the following two long-term variable remuneration plans were in existence during the year 2019:

1.- The so-called "Performance & Investment Plan" ("PIP"), made up of three cycles (2014-2017; 2015-2018; 2016-2019), approved by the General Shareholders' Meeting held on May 30, 2014, which has already ended.

The first cycle of this Plan began in 2014 and concluded in October 2017. The second cycle of this Plan began in 2015 and concluded in October 2018. In accordance with the provisions of its terms and conditions, the delivery of shares did not proceed for the first and second cycle of the Plan (2014-2017; 2015-2018), so no shares were delivered to the Executive Directors participating in these cycles.

As for the third cycle of this Plan (2016-2019), the Company's Board of Directors, following a favorable report from the Nominating, Compensation and Corporate Governance Committee, agreed not to execute nor implement the plan as it was not sufficiently aligned with the Telefónica Group's strategic plan, taking into account the circumstances and the macroeconomic situation.

2.- The so-called "Performance Share Plan" ("PSP"), made up of three cycles (2018-2021; 2019-2022; 2020-2023), approved by the General Shareholders' Meeting held on June 8, 2018. The objective measurement period of the first cycle began on January 1, 2018 and will end on December 31, 2020. In case of fulfillment of the objectives, the delivery of the shares will be carried out in the year 2021. The objective measurement period of the second cycle began on January 1,

2019 and will end on December 31, 2021. In case of fulfillment of the objectives, the delivery of the shares will take place in the year 2022. The period of measurement of objectives of the third and last cycle it began on January 1, 2020 and will end on December 31, 2022. In case of fulfillment of the objectives, the delivery of the shares will take place in the year 2023. In relation to this third and final cycle, it is stated that, as of the date of formulation of these financial statements 2019, the granting of shares has not yet been made.

It is hereby stated in following the maximum number of shares assigned to be delivered if maximum compliance with the TSR ("Total Shareholder Return") and FCF ("Free Cash Flow") targets set for the first and second cycle of the Plan. As already indicated, at the date of formulation of these financial statements 2019 the allocation of shares corresponding to the third cycle of the Plan has not yet been made.

PSP - First Cycle / 2018-2021

Directors	Maximum number of shares (*)
Mr. José María Álvarez-Pallete López	421,000
Mr. Ángel Vilá Boix	312,000

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

PSP - Second Cycle / 2019-2022 (shares allocate in February 2019)

Directors	Maximum number of shares (*)
Mr. José María Álvarez-Pallete López	468,000
Mr. Ángel Vilá Boix	347,000

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

In any case, herewith it is stated that no shares have been delivered to the Executive Directors under the first and second cycle of the PSP and that the above tables only reflect the potentially deliverable number of shares, without this in any way implying all or part thereof will be effectively delivered.

Indeed, the number of Telefónica, S.A. shares that, always within the established maximum, could be delivered, where appropriate, to the participants is conditioned and determined by the established goals: 50% of the compliance with the targets set out for Total Shareholder Return ("TSR") on Telefónica, S.A. shares and 50% of the Free Cash Flow (the "FCF") of the Telefónica Group.

To determine compliance with the TSR target and calculate the specific number of shares to be delivered for this concept, the evolution of the TSR of Telefónica, S.A. shares will be measured during the period of the duration of each three-year cycle in relation to the TSR experienced by certain companies belonging to the telecommunications sector, weighted according to their relevance for Telefónica, S.A., which for the purposes of the Plan will constitute the comparison group

(hereinafter the "Comparison Group"). The companies included in the comparison group are listed below: América Móvil, BT Group, Deutsche Telekom, Orange, Telecom Italy, Vodafone Group, Proximus, Royal KPN, Millicom, Swisscom, Telenor, TeliaSonera, and Tim Participações.

With regard to compliance with the TSR target, the Plan foresees that the number of shares to be delivered in relation to the fulfillment of this objective will range between 15% of the number of theoretical shares assigned, in the event that the evolution of the TSR of the Telefónica, S.A. share is found within, at least, the mean of the Comparison Group, and 50% in the case that the evolution is placed in the third quartile or higher of the comparison group, by calculating the percentage by linear interpolation for cases which are situated between the mean and the third quartile.

To determine completion of the FCF target and calculate the specific number of shares to be delivered under this concept, the level of FCF generated by the Telefónica Group during each year will be measured against the value set in the budgets approved by the Board of Directors for each financial year.

In relation to the FCF, for each cycle, the company's Board of Directors, following a favorable report from the Nominating, Compensation and Corporate Governance Committee, determines a scale of achievement that includes a minimum threshold of 90% compliance, below which an incentive is not paid and whose compliance will require the delivery of 25% of the assigned theoretical shares, and a maximum level of 100% compliance, which will involve the delivery of 50% of the assigned theoretical shares.

At least 25% of the shares are delivered under the Plan to the Executive Directors and other participants determined by the Board of Directors shall be subject to a one-year retention.

In addition, it should be noted that the external directors of the company do not perceive nor have perceived remuneration during the year 2019 in concept of pensions or life insurance, nor do they participate in compensation plans referenced to the value of the share price.

Furthermore, the company does not grant nor has granted during the year 2019, an advance, loan or credit in favor of its Board Members or its Senior Management, complying with the requirements of the Sarbanes-Oxley Act published in the United States, which is applicable to Telefónica as a listed company in this market.

Remuneration of the Company's Senior Management

As for the Directors who made up the Senior Management¹ of the company in the year 2019, excluding those who form an integral part of the Board of Directors, have accrued a total amount of 10,397,648 euros during the 2019 fiscal year.

In addition, and in terms of long-term savings systems, the contributions made by the Telefónica Group during the year 2019 to the Social Security Plan described in the "Income and expenditure" note with regard to these directors increased to 1,148,944 euros; the contributions corresponding to the

Pension Plan increased to 26,885 euros; the contributions to the Seguro Unit link-Excess Pension Fund increased to 143,063 euros.

Furthermore, the amount related to the remuneration in kind (which includes the fees for life insurance and other insurance, such as the general medical and dental coverage, and vehicle insurance) was 125,987 euros.

On the other hand, regarding share-based remuneration plans, during the year 2019, there were the following two long-term variable remuneration plans:

1.- The so-called "Performance & Investment Plan" ("PIP"), made up of three cycles (2014-2017; 2015-2018; 2016-2019), approved by the General Shareholders' Meeting held on May 30, 2014, which has already ended.

The first cycle of this Plan began in 2014 and concluded in October 2017. The second cycle of this Plan began in 2015 and concluded in October 2018. In accordance with the provisions of its terms and conditions, the delivery of shares did not proceed for the first and second cycle of the Plan (2014-2017; 2015-2018), so no shares were delivered to the Directors participating in these cycles.

As for the third cycle of this Plan (2016-2019), the company's Board of Directors, following a favorable report from the Nominating, Compensation, and Corporate Governance Committee, agreed not to execute nor implement the plan as it was not sufficiently aligned with the Telefónica Group's strategic plan, taking into account the circumstances and the macroeconomic situation.

2.- The so-called "Performance Share Plan" ("PSP"), made up of three cycles (2018-2021; 2019-2022; 2020-2023), approved by the General Shareholders' Meeting held on June 8, 2018. The period of measurement of objectives of the first cycle began on January 1, 2018 and will conclude on December 31, 2020. The maximum number of shares assigned to be delivered in 2021 in the event of maximum compliance with the TSR ("Total Shareholder Return") and FCF ("Free Cash Flow") target, set for the first cycle (2018-2021) to the group of directors forming part of the company's senior management was of 612,570.

The measurement period of the second cycle objectives began on January 1, 2019 and will conclude on December 31, 2021. The maximum number of shares assigned to be delivered in 2022 in the event of maximum compliance with the TSR ("Total Shareholder Return") and FCF ("Free Cash Flow") target, set for the second cycle (2019-2022) to the group of Directors part of the company's Senior Management was 679,691.

¹ Senior Management being understood, for these purposes, those persons that implement, de facto or de jure, senior management duties reporting directly to the Board of Directors or Executive Committees or Managing Directors of the Company, including in any case the supervisor of Internal Auditing. The amounts received above include the remuneration received by Mr. Mariano de Beer, who served as Chief Commercial Digital Officer (CCDO) of Telefónica, S.A. until November 27, 2019.

Management report 2019

This Management Report has been prepared taking into consideration the 'Guidelines on the preparation of annual corporate governance reports for listed companies', published by CNMV in July 2013.

In accordance with Law 11/2018 of December 28, and following the amendment of the article 262 of Commerce Law, the Company is not complied to include non-financial information in the Management Report. The disclosure of this information can be found in the Consolidated Management Report of the Telefónica Group which will be filed as well as the consolidated financial statements in the Companies' Register of Madrid.

Business Model

Telefónica's strategy as regards accomplishing its mission comprises three main pillars; these will meet the needs of our stakeholders in a way that is sustainable in the long term.

Growth. Our growth takes into account people from all social groups and respects the environment. In view of the importance of new technologies to ensure fair economic development, we are concerned about reducing the digital divide. At the same time, we are developing specific services with a positive impact on the environment that enable us to increase revenues while we help to make progress towards a low-carbon economy. But not only that, the sustainable component is already part of our networks (powered 100% in our four main markets with renewable electricity) and part of the digital solutions based on Big Data and artificial intelligence, with the design guaranteeing aspects such as ethics and privacy.

Efficiency. When we talk about efficiency at Telefónica, our customers are our priority: we want to offer them a simpler, entirely digital experience. The digitalisation of our processes enables us, at the same time, to make savings. All of this is backed up by the best networks in the market in terms of quality and energy efficiency (fibre is 85% more efficient than copper), free of legacy systems and ready for 5G.

Trust. Trust is the key point of any future business. In our sector, it is built by prioritising customer satisfaction and it is extended to other stakeholders. We have to demonstrate that we are relevant for them all, taking into account aspects such as ethical behaviour, cybersecurity (a distinctive part of our relationship with customers), responsible use of technology and corporate governance.

With growth, efficiency and trust, we will successfully meet the needs of our stakeholders:

- Offering our **customers** the services they need for the digital and energy transition and building long-term relationships with them.
- Sharing our purpose with our **employees**, while enabling them to develop their digital skills and help customers from a perspective of shared values.
- Being key enablers of progress by **societies**, fostering a fair and inclusive digital transition.
- Creating value in a shared and responsible way with regard to our **partners**.
- Giving our **shareholders** long-term growth and efficiency.

Organisation of Telefónica

Telefónica's new organisation, presented on November 27, 2019, aims to respond to the need to become more agile in implementing the changes needed to provide better service to customers and take advantage of the scales and synergies of the Group.

The corporate centre now focuses on those activities that provide a differential value to the rest of the units and allow us to capture the value that comes from scale, eliminating some of the duplications that exist within country-level structures. In addition, we are enhancing our ambition in the plans for simplifying and digitalising operations.

Telefónica Spain, Germany, United Kingdom and Brazil:

Focusing resources on the most highly-prized markets, prioritising investment for modernisation and network deployment, and for the digitalisation of the Company, which makes it possible to improve the service and customer care and gain efficiencies.

Telefónica Tech:

This unit brings together the digital businesses with high growth potential and aims to be the partner which supports other companies in their digital transformation. Initially, this unit is developing three businesses: Cybersecurity, Cloud, IoT/Big Data.

Telefónica Tech integrates the units currently dedicated to providing the aforementioned services, with the goal of focusing its management to an even greater extent and achieving a scale that enables it to attract the appropriate technological talent. With more agile and efficient processes and the leverage achieved by incorporating new partners, the intention is to accelerate the growth of these businesses exponentially.

This unit will be the one delivering the value offering that the commercial teams in each country will be proposing to customers. Furthermore, it aims to export the proposal, through agreements with other companies, to countries in which Telefónica is not present.

This unit may also expand in the future if new business opportunities with this potential appear. In the same way, it is open to acquisitions that complement the portfolio.

Telefónica Infra:

With 50.01% of Telxius as its first asset, Telefónica Infra brings together Telefónica's ownership interests in communications infrastructure vehicles, providing service for third-party operators and incorporating partners.

Through Telefónica Infra, Telefónica intends to leverage the value of a unique portfolio of assets, focusing on the development and monetisation of towers, distributed antenna systems, data centres (including EDGE), and greenfield fibre and underwater cable projects, among others.

With a broad philosophy about agreements, Telefónica Infra is open to different shareholding patterns (majority or minority) and to the best partners for each of the asset types.

Telefónica Hispam:

This unit brings together the businesses in the rest of the Latin American countries (except Brazil) with a specific management team that is distinct from the rest of the Group; its main objective will be attracting investors and obtaining potential synergies with other players in the markets, following a philosophy of ensuring and maximising the service offered to customers.

Corporate Centre:

The corporate centre will make it possible to maximise synergies between all the units and crystallise the value of Telefónica's scale.

To access the full information about Telefónica's governance and executive bodies, see Chapter 4 Annual Corporate Governance Report, subchapters 4.1. Main aspects of corporate governance in 2019 and outlook for 2020; 4.4. Organisational structure of the administrative bodies; 4.4.1. Board of Directors and 4.4.2. Executive Team.

Inclusive connectivity + digital services

Our growth model stems from our vision and strategy; it is based on three pillars (growth, efficiency and trust), within our Company's areas of activity, both in the value proposition aimed at individuals (B2C) and in that centring on enterprises (B2B).

Our starting point consists of the strengths we have been building, which can be summarised in the idea of Telefónica as a company of platforms:

- The first platform brings together our key assets and communications networks to offer the best connectivity
- The second platform includes the systems for provision, operation and maintenance, etc., to implement the new,

simpler and more efficient paradigms: virtualisation, 'softwarisation' and 'cloudification'.

- The third platform pulls together all our services to our customers, to enable the best experiences to be created.
- The fourth platform centralises the vision of all the data we handle on behalf of our customers.

However, our growth model enables us to face the challenges that will come from the changes we are seeing (and which we have summed up as the Fourth Industrial Revolution).

In the world of services to individuals (B2C), we are facing a business that is saturated in most of our operations and therefore we must transform ourselves if we want to grow. Our vision consists of developing a unified user experience, based on our cross-cutting capacities in the fourth platform.

Our goal is to transform our relationship with our customers through two core components: the use of Aura, with the help of cognitive systems based on artificial intelligence, and the use of Novum, as a point of access to managing our experiences and services. In this way, we want to establish long-lasting relationships involving trust with our customers. Our pioneering position with regard to privacy and security, helping our customers to monitor and manage their data better, merits highlighting.

To achieve this unified structure, we took into account four strategic areas based on our digital platforms for private individuals: My Entertainment, My Home, My Things and My Financial Services.

We have already begun work in this direction and, for example, Smart Wi-Fi (My Home) already has 29 million users in nine countries, and over one million customers in six countries self-manage their Telefónica services through Novum.

By gaining importance for our customers, we will achieve two goals: (i) helping our customers to manage their digital services better and more efficiently and (ii) generating additional value by generating new revenue while we increase retention in our core services. A good example of combining the two goals are our new flexible propositions for the residential segment with the launch of O₂ Extras in the United Kingdom and Family Plans in Colombia.

The world of businesses (B2B) within our industry is a market which was demonstrating sustained growth (Source: Gartner, IT market forecasts) of around 4% annually globally for 2019, which is expected to continue in subsequent years. Within this market, the main driver of this growth is the IT (Information Technology) segment.

This situation leads us, in a similar way to other companies in the telecommunications sector, to position ourselves within the IT segment for companies in order to seize this growth opportunity. In fact, this positioning is already enabling us to achieve sustained growth: 4.4% year-on-year to reach 9,455 million in 2019.

Our digital services for B2B, as the most dynamic elements with greater growth potential, merit special attention: Cybersecurity, Cloud, IoT and Big Data.

- In 2019, we had sustained annual growth of over 30% and additional revenue of around 2 billion is expected from now to 2022. In 2019, they had already demonstrated they were very dynamic growth drivers: Cloud with 697 million euros and +18% in 2019 (with IaaS and SaaS growing at a rate that exceeded 50% in the year), IoT with 530 million euros and +45.4% in 2019 (achieving 24 million accesses and repeating its leadership, for the sixth year in a row, in worldwide Gartner's Magic Quadrant for IoT managed services) and Security with 497 million euros and +26.5% in 2019.
- Gaining market share and importance in a growing market which is already highly significant. In just our footprint, these markets would already represent some 69 billion in 2019 (Sources: Gartner, Pivotal IQ, IOT Machina Research). Telefónica footprint markets, with sustainable double-digit growth.

Our ultimate goal is far more ambitious: we want to become the trusted, preferred partner of our business customers to help them in their digital transformation and in achieving a new level of efficiency. We have to create a complete value proposition, from communications and connectivity (our core business and greatest strength thanks to which our customers have chosen us to date) to IT and digital services. To this end, we are working on completing our capabilities in order to:

- Create personalised, end-to-end solutions: this means having a value proposition that can be tailored to our customers and that delivers an end-to-end service. In order to build them, one critical task consists of developing integration capabilities and professional services, a task we are already tackling.
- Become the single point of contact in IT and one-stop-shop communications: having the most comprehensive range which includes the best products and services, whether our own or of third parties. To achieve this, we are already developing our capabilities in IT and digital services and we are working with leading enterprises to enrich our proposition (e.g., in the cloud and in office technology).

Due to all this, we believe that the B2B market will be a key ingredient for us in our growth model for the coming years.

Looking ahead to the long-term future, this growth model will become strengthened through the appearance of new scenarios and business models (e.g., new platform models and B2B2X of the Fourth Revolution, and more so when applied to 5G or edge computing).

Economic results of Telefónica, S.A.

Telefónica, S.A. obtained net profit of 5,740 million euros in 2019. Highlights of the 2019 income statement include:

- Revenue from operations, amounting to 4,810 million euros, a similar amount to previous year's figure. The most significant dividends registered as revenues are disclosed in Note 19.
- The figure of "Impairment losses and other losses" amounting to a write-off reversal of 2,226 million euros in 2019 (a write-off of 587 million euros in 2018).
- The caption "Gain on disposal of investments" refers to the sale of Antares (88 million euros) and the sale of Daytona, S.L. (130 million euros).
- Net financial expense totaled 1,688 million euros in 2019 (1,822 million euros of financial expense in 2018). This was mainly due to finance costs with Group companies and associates, principally from Telefónica Europe, B.V. amounting to 492 million euros (648 million euros in 2018) and Telefónica Emisiones, S.A.U. totaling 1,278 million euros (1,223 million euros in 2018).

Investment activity

The investment activity of the Company regarding additions, sales, valuation criteria and impact of this valuation is described in Note 8 of these financial statements.

Share price performance

The main European and US indexes closed the 2019 year with gains above 20%: EStoxx-50 (+24.8%), S&P-500 (+28.9%). In Europe, the Spanish benchmark index Ibex-35 continued showing a worse relative performance for the third consecutive year: +11.8% compared to DAX (+25.5%), CAC-40 (+26.4%), and FTSE-100 (+12.1%). Political uncertainty and poor performance of the banking sector in a zero-rate environment were the main drag.

The year has been marked by the escalation of trade tensions between the United States and China, the instability caused by the uncertainty of Brexit and fears of a recession due to the slowdown in economic growth. However, throughout the year these uncertainties have been diluted, mainly in the second half, with the expectations of commercial agreements between the United States and China and between the European Union and the United Kingdom. Likewise, the expansionary monetary policy of the main central banks has favoured the return to optimism in the markets after the declines registered in 2018. Thus, the Federal Reserve, after

the 2018 rate increase to 2.5%, reduced by three times the official interest rate in 2019 down to 1.75%. On the other hand, the European Central Bank lowered the deposit rate to -0.5%, restarted the debt purchase program and reaffirmed the commitment to keep interest rates unchanged at 0%. By sectors and in Europe (DJ Stoxx-600: +23.2%) all have closed the year with positive returns, with the Financial Services sector (+39.2%) and the Construction and Materials (+37.3%) leading the climbs.

In this context, the telecommunications sector returned to show a worse relative performance than the market (+0.1%) impacted by expectations of increased investment, the impact of spectrum auctions mainly in Germany, the lack of growth, the high level of leverage, the competitive environment in some markets such as Italy or Spain and by the regulation. Despite the above, the European operators continued to deepen in digitalization measures, in the sharing of networks and in the monetization of infrastructure assets, thus improving the capital employed efficiency and increasing the shareholder value creation.

Telefónica's share closed 2019 at 6.23 euros per share, -15.2% in the year, a total return for the shareholder of -10.2%, discounting the dividend distribution of 0.40 euros per share in cash. The evolution of Telefónica's share is explained by a worse relative performance of the sector and the Spanish market, by the depreciation of Latin American currencies (mainly the Argentine peso), and the pound against the euro, the worsening of the competitive environment in some markets and the level of leverage. However, the company has continued to present year-on-year organic growth in revenue and OIBDA, with a solid free cash flow that mainly explains the continued reduction in net financial debt.

Telefónica closed the year 2019 with a market capitalization of 32,331 million euros, positioning itself as the seventeenth company in the telecommunications sector worldwide.

Research, Development and Innovation

Innovation has been part of Telefónica's DNA since the very beginning. We understand that being able to anticipate the future, comprehend the Company's needs and work to continue to be pioneers in the digital world is key. To achieve this, we leverage in-house innovation and innovation developed externally by third parties we invest in and with whom we work closely.

In our innovation areas, 80% of our work focuses on identifying future opportunities in our business and the other 20% on looking for new areas where the Company can reinvent itself through disruptive models. By doing this we guarantee our ability to anticipate needs as regards developing our own platforms and services and finding heretofore unknown new opportunities.

Main innovation indicators

	2017	2018	2019
Investment in R&D and innovation (million euros)	5,970	6,114	5,602
Investment in R&D and innovation / revenue (%)	11.5%	12.6%	11.6%
Investment in R&D (million euros)	862	947	866
Investment in R&D / revenue (%)	1.7%	1.9%	1.8%
Industrial property rights portfolio (%)	(4.8%)	9.9%	(8.6%)
Industrial property rights portfolio (million euros)	643	601	477
Registered patents	32	22	27

New assets generated in 2019

	Territory of the asset
27 Patents	21 European patents
	2 Spanish patents
	4 international patents PCT
3 Industrial designs	EUIPO - European Union Intellectual Property Office

Furthermore, across the board in in-house innovation and innovation developed through our ecosystem of partners, we promote sustainable solutions. Thanks to this, our main aim is to generate a positive impact on the social and economic development of the regions where we operate or protect our natural environment, as well as generating in turn a profitable business model for the Company.

Internal Innovation (Core Innovation)

At Telefónica we strive to innovate so as to offer our customers constantly enhanced solutions, while also exploring new technologies, projects and businesses that afford us the ability to reinvent ourselves.

A large part of these innovation activities is performed by research and development teams from the Core Innovation area. Its mission centres on increasing our competitiveness through innovation as regards Telefónica's own assets, platforms and services, such as connectivity, data and video platforms. The Core Innovation unit also works on developing new products and experimental and applied research. With the goal of driving new technologies, to carry out its functions this unit collaborates with other external organisations and universities at a national and international level.

The working model for Core Innovation is based mainly on Lean Startup methodology. This makes it possible to shorten the innovation and design process, increasing its efficiency and maintaining a clear customer-oriented approach throughout the process.

Environment

Telefónica aims to create a world where digital technology contributes to protecting the planet. To achieve this, we have reduced our footprint on the environment whilst promoting digitalisation as a key tool for addressing the main environmental challenges. Some of our products and services already provide solutions for climate change, waste, water, air pollution, fires and biodiversity.

This is just the beginning, because there are more and more opportunities for growth in the green economy. In a digital world there are more opportunities for eco-efficiency and a decarbonised and circular economy.

We have a global environmental strategy and act at different levels, always aligned with our business strategy. The environment is a central issue throughout the Company, involving the areas of operations and management, as well as business and innovation.

Environmental strategy is the responsibility of the Board of Directors, which approves the global environmental policy and targets, within the framework of our Responsible Business Plan. The carbon emissions reduction targets are part of the variable remuneration of all the Company's employees, including the Board of Directors. Environment has become an strategic issue for the Company.

In late 2018 we announced the Telefónica's Sustainable Financing Framework (Telefónica SDG Framework. November 2018) whereby the company already issued the first Green Bond of the telco sector worldwide in early 2019 and also the first telco hybrid green bond in early 2020

The 2019 Green Bond, for an amount of 1,000 million euros and a five-year term, was invested in by more than 310 investors. The funds obtained will be used to finance projects aimed at increasing the Company's energy efficiency through the process of transforming copper network into fibre optic in Spain and can be used, in any case, for existing initiatives (no older than three years) and for future projects.

The hybrid 2020 Green Bond was issued on January, for an amount of 500 million euros and without expiry date. The bond had four times more subscriptions and includes the lowest hybrid coupon in Telefónica's history. The funds obtained will be used to finance projects aimed at increasing the Company's energy efficiency through the process of transforming copper network into fibre optic and to promote self-generation of renewable energy. Therefore, it contributes to Telefónica's decarbonisation strategy and its new targets, which are aligned with the greater ambition of limiting the global temperature rise to 1.5°C.

FTTH (fibre to the home) is 85% more energy efficient in customer access than the copper network. It has saved 346 GWh over last four years, which means avoiding the emission into the atmosphere of 93,297 tonnes of CO₂ equivalent to the carbon captured by 1,543,000 trees. In addition, the deployment of fibre has allowed Telefónica to close one copper

facility a day, reusing much of the equipment and recycling all the material, as part of its commitment to the circular economy. The target is to have 100% of retail customers in fibre before 2025.

Materiality

We conduct analysis to determine our major environmental aspects based on our business strategy, the regulatory environment, the impact and the demands of our stakeholders. In this way, we prioritise our efforts towards the most significant aspects: energy consumption and renewable energies, ecosmart services, the responsible deployment of the network and greenhouse gas emissions.

However, we do not neglect other environmental aspects and manage all of them to progressively reduce our impact whilst increasing our resilience, through adapting to climate change.

Environmental risks

Telefónica's activities, like those of any other company, have an impact on the environment and can be affected by climate change. The Company's environmental and climate change risks are controlled and managed under the Telefónica Group's global risk management model, in accordance with the precautionary principle.

Our environmental aspects have their greatest source of risk in the high geographical dispersion of infrastructure, which is controlled through environmental management, based on uniform processes and certified according to the ISO 14001 standard.

Regarding the guarantees and provisions arising from environmental risks, during 2019, the Group maintained and maintains, both locally and globally, several insurance programs in order to mitigate the possible occurrence of an incident derived from the risks of environmental liability and/or natural disasters, to guarantee the continuity of its activity. We currently have fully comprehensive insurance and coverage for all risks, material damages and loss of profit, in order to cover any material losses, damage to assets and loss of income and/or customers, among other problems, as a consequence of natural events, and environmental liability insurance to cover the environmental liabilities required by the laws and rules applicable. Both coverages are based on limits, sub-limits and appropriate coverages according to the risks and exposition of Telefónica and its Group of companies.

Environmental management

Environmental Management System (EMS) ISO 14001 is the model we chose to ensure the protection of the environment. During 2019 we continued to improve our EMS and we currently have 100% of our operators certified under the requirements of this standard. (Venezuela is out of the scope).

We have a full range of standards that incorporate the life cycle perspective, so we also incorporate the aspects of our value chain and especially involve our partners in the environmental management.

Having a certified EMS allows us to ensure the correct control and compliance with the environmental legislation applicable to each operation. EMS is the preventive model of environmental compliance included within the Company's overall compliance process. During 2019, we were not subject to any significant environmental penalties.

Furthermore, we maintained the certification of the Energy Management Systems (ISO 50001) for the operations in Spain and Germany and we are working to extend it to other operations, ensuring that the efficiency of our network continues to improve continuously.

A responsible network

We ensure an adequate control of risks and environmental impacts in the management of our network throughout its life cycle, which allows us to provide a high-quality service whilst caring for the environment. In 2019, we invested over 24 million euros with this objective (in 2018 this value was just over 10 million euros).

The main environmental aspects of the network are the consumption of energy and waste generation, although we manage all of our possible impacts such as noise and water consumption.

An example of the responsible management of the network is the fact that 98.4% of our waste was recycled in 2019.

In order to minimise the impact of network deployment we implement best practices, such as noise insulation measures, when necessary. Sharing infrastructure significantly reduces the impact of our sector on the environment. Therefore, whenever possible, we are co-located with other operators. This makes it possible to keep the visual impact, energy consumption and waste generation to a minimum.

Regarding biodiversity, the impact of our facilities is limited, although we carry out environmental impact studies and implement corrective actions when necessary, such as in protected areas. In 2019, a project was developed to assess the impact of our infrastructures on biodiversity, taking into account both an ecosystem approach and a financial appraisal of the natural capital affected.

The main impacts on biodiversity are associated with the construction and operation of base stations and, to a lesser extent, with buildings and linear infrastructures. A Geographic Information System (GIS) was used to put together Telefónica's infrastructures and different layers of information about protected areas and species, obtained from prestigious international bodies, such as the International Union for Conservation of Nature (IUCN). The results of this study will be used to determine the infrastructures that have an impact on biodiversity, analyse possible causes and, where necessary, put in place corrective actions.

The project was developed considering the Natural Capital Protocol.

LIFE CYCLE OF THE RESPONSIBLE NETWORK

PLANNING AND CONSTRUCTION

Environmental licences and permits	8,208
Visual impact reduction measures	1,130

Base stations with renewable energy	6,621
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OPERATION AND MAINTENANCE

Measurement of electromagnetic fields	42,540
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Expenditure on environmental control (€M)	24.4
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Energy efficiency projects	189
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Renewable energy (%)	81.6
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Emissions (scope 1+2) (tCO ₂ eq)	962,946
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Energy consumption by traffic (MWh/PB)	115.2
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DISMANTLING

Network equipment reused	14,246
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Sale of waste from operations (€M)	88
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Total Hazardous Waste managed (t)	2,829
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Total waste recycled (%)	98.4
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Milestones 2019 and Challenges 2020

Our main achievements in 2019:

- We launched our first Green Bond, amounting to 1 billion euros.
- During the COP25, we announced new climate change targets that are aligned with the 1.5 °C scenario.
- 100% certified company under ISO standard 14001:2015.
- We consume 100% renewable electricity in Europe and Brazil.
- We reduced our carbon emissions by 49.6% compared to 2015 (scope 1+2) and those of our supply chain (scope 3) by 18.5% compared to 2016.
- We reduced our supply chain carbon emissions per euro of product purchased by 24.6% compared to 2016.
- With our services, we prevented over 3.2 million tCO₂, 3.3 times our carbon footprint.
- We reduced our energy consumption per traffic unit by 71.8%.
- We received the maximum 'A' classification by CDP with regard to Climate Change.
- We recycled 98.4% of our waste.

The most significant challenges we face:

- Avoid 10 tonnes of CO₂ for each tonne we generate in 2025
- Reduce CO₂ emissions in our supply chain by 30% per euro purchased by 2025 compared to 2016 (Scope 3).

- Consuming 100% renewable energy in 2030.
- Reduce our CO₂ emissions (Scope 1+2) by 70% in 2030.

Human Resources

Introduction

It is not easy for large companies with a long track record, as is the case of Telefónica, to adapt to this environment. Rigid process, hierarchical organisations and managing people based on static roles were a hurdle when attempting to explore an idea or create new products at the speed demanded by our customers.

In order to be successful in this new competitive environment, we have to do things both faster and differently: we need more agile organisations and project-based teams. In addition, we need to develop new skills in our people to make the most of the technological challenges and thus drive the growth of the business.

Telefónica is in the midst of a digital transformation process, one which has intensified over the last three years. As part of this effort, we have reformulated our mission and redefined our long-term strategy.

Against this backdrop of transformation, it is people who enable the change. To maximise the potential of our people and increase the motivation of our teams, we have the new "Telefónica Way", based on two pillars: team strength and the growth mindset.

- Through the strength of our teams, we are focusing on transforming the organisation, creating more flexible, less hierarchical structures, and fostering new ways of working to provide the teams with greater autonomy and management ability.
- Through the growth mindset, we focus on developing the skills we will need in the future through continuous learning, self-development and functional mobility.

Diversity

In Telefónica, we know that the challenge of digital transformation requires the best team. And to have it, in addition to ensuring we have diverse profiles, we must implement an inclusive working culture that enables us to draw out the value of difference and the talent of each individual.

To this end, we have designed initiatives aimed at fostering the inclusion of diverse talent, to attract and retain high potential professionals, get the best out of our employees, boost innovation and become more productive. Only like this will we be able to empathise with our customers, understand their specific needs and innovate to meet them.

Managing diversity is, in this respect, a key and cross-cutting element of our global strategy. We firmly believe that effective management of diversity offers considerable advantages for the business and is consistent with principles of social justice.

Basis for a successful strategy

Our Global Diversity and Inclusion Policy was approved in 2017 by the Board of Directors and seeks to ensure management that is free of any prejudice associated with differences.

- **The Global Diversity Council:** composed of top-level managers, its objective is to promote and monitor the diversity strategy inside the Company. In addition, the role of Chief Diversity Officer was created to support the council, as well as the roles of Diversity Champions, who act as internal agents of change in all areas of the company.
- **The Appointments and removals of Executives Policy:** it guarantees transparency and meritocracy in recruiting and promoting executive talent.
- **The Diversity Policy with regard to the Board of Directors:** it ensures that proposals to appoint and re-elect members of the Board of Directors are based on prior analysis of needs, expressly favouring diversity.
- **The Supply Chain Sustainability Policy:** it lays down the supplier's obligation not to discriminate against any sort of group in its hiring, training and promoting policies.

Beyond these four corporate pillars, in each operation we have different programmes and diversity plans which represent an indisputable driver for making progress in taking the best business decisions.

As regards people with disabilities, through this policy we undertake to continue progressing in effective labour integration by implementing the technical help and support to reduce and eliminate barriers for employees with disabilities to ensure they can participate in a work environment on equal terms.

In all our operations we ensure the presence of both genders in final shortlists of candidates for internal and external recruitment processes for executive positions. A Transparency Committee, consisting of the Chairman and four top-level executives, monitors compliance with this rule.

Talent management

The key to boosting and multiplying sustainable growth at Telefónica are the team of professionals who are part of our Company.

To achieve the diverse, committed team to consolidate the future of our Company, at Telefónica we want to ensure that our employees develop their full potential. To this end, we promote different local and global initiatives and programmes to develop talent favouring mobility and rotation between areas, while opting for internal promotions and diversity as elements for professional growth.

Abilities for the future

The evolution of our business, the explosion of data and the technological evolution of our networks requires us to develop new skills among the people and teams at Telefónica. In

addition, the digitalisation and automation of our processes is rendering numerous manual tasks unnecessary.

To ensure we have the strategic skills necessary for the future of the Company and to ensure we leave no-one behind in the digital transition, at Telefónica we are designing mass retraining programmes (reskilling/upskilling) to adapt and improve the skills of our people, ensuring their employability and improving their future prospects in the workplace.

We are also changing the current focus on managing and developing talent to a new approach based on managing skills, which encourages continuous learning and the development of new abilities including leadership skills, which the Company is going to need in the coming years.

In this respect, we make available to our people a broad range of training courses and programmes. Through the global SuccessFactors tool and the platforms we have at the Telefónica Group (Data Academy, Learn4Sales and Espacio Telefónica in MiriadaX) we place a wide range of courses in technical and business skills at the disposal of all the Company's employees, particularly in areas such as Cloud, IoT, Big Data and digital Security as well as compulsory courses (Responsible Business Principles, GDPR, Anti-Corruption).

Universitas Telefónica is the corporate university where our employees develop transformative and leadership skills, enabling them to take on the challenges of the digital revolution through which we are living. Universitas has a unique space where participants disconnect entirely from their day-to-day routine and focus 100% on their mission during their stay on campus. Universitas has top-level external lecturers from institutions such as the IESE business school, the Oxford Leadership Academy and Singularity University, among others. We also have internal teaching staff who give us a comprehensive view of the sector and of the Company.

Universitas has "On Campus" programmes given at the Universitas headquarters in Barcelona, and "On The Road" programmes specially adapted to be given anywhere in the world. In 2019, almost 4,700 people took part in the On Campus and On The Road editions. In 2019, these programmes were joined by the launch of Universitas Exponential, a programme in which more than 120 internal trainers have been selected and trained. These internal trainers have then taught one-day courses on alignment with the Company programme, adopting new ways of working and cultural change. More than 14,000 people benefited from these courses throughout the Group.

New ways of working

To adapt to the changing context, we are undertaking a deep-rooted cultural change at the Company. One of the drivers which is aiding us in this cultural shift is that of implementing a new, more cross-cutting and flexible ways of working which enables us to focus on our customers' needs, prioritise the delivery of value being more efficient and innovative, and enable the teams to become more autonomous and faster in decision making.

The new agile ways of working are much more than methodology for Telefónica: they are a means of boosting the cultural transformation.

The new ways of working are a reality at Telefónica. We have more than 7,000 people and 60 initiatives following the agile approach through different models.

Social dialogue as a bridge between workers and businesses

At Telefónica we are committed to the fundamental standards of the International Labour Organization (ILO) with regard to work, mainly with reference to freedom of association and the right to collective bargaining in all the countries and jurisdictions where we operate. We ensure that worker representatives receive fair treatment that is free of discrimination and that they have all the facilities to be able to perform their representative duties. 100% of Telefónica workforce are protected by a labor framework that regulates their working conditions.

As a company, we reaffirm the important role played by trade unions in defending the interests of workers and we recognised the UNI Global Union and the European Works Council as key partners in worldwide labour management.

In the same way, at local level, we understand that management of Works Councils is guided through policies and rules established by their legal entity and therefore the procedures to report, consult and negotiate have different meanings, but are always in line with Telefónica's guiding principles.

Maintaining a neutral position with regard to trade union activity is essential to ensure a free, open environment which allows rights to association to be exercised. If workers wish to become members of a trade union, Telefónica will recognise trade unions which meet the conditions regarding organisation under ILO Convention 87, and always in accordance with local legislation. In addition, we ensure that worker representatives receive fair treatment that is free of discrimination and will have, in turn, all the facilities to be able to perform their representative duties.

Work-life balance

Telefónica's commitment to its professionals disconnecting at a digital level materialised in 2018 in an agreement entered into by the Chairman of Telefónica and the major trade union organisations in Spain (UGT and CCOO).

In 2019, this commitment was included as an annex to the International Framework Agreement we signed with the UNI and the EWC, a declaration of principles in favour of disconnecting digitally which aims to reinforce the importance of this issue at global level. In addition, the commitment to disconnecting digitally was extended to all the countries in which Telefónica operates through local agreements signed with local trade unions.

By virtue of this agreement, Telefónica undertakes to encourage measures to foster respect for workers' rest times

once the working day has ended, recognising the right to disconnect at a digital level as a fundamental aspect of successfully organising working time better in order to respect employees' private and family lives and, in short, their quality of life and health.

Employee health and safety

At Telefónica we understand the concept of occupational health and safety to cover a state of complete physical, mental and social well-being in harmony with the environment. The measures that promote health in the Company not only help employees and ensure long-term business success but also have overall positive effects which go beyond the Company.

The Regulation and Institutional Affairs Committee of the Board of Directors of Telefónica, S.A. in 2019 and the Quality and Sustainability Committee are responsible for promoting

the development of the Global Responsible Business Plan, which was approved by the Board of Directors and places emphasis on safeguarding and promoting the health, safety and well-being of our employees in the workplace.

We lay down procedures to identify the dangers and assess the risks in order to prevent work-related incidents and occupational diseases. We ensure compliance with the legal requirements in force in each country, as well as adopting, in a complementary manner and in accordance with the principle of prevention, other requirements based on local regulations or international standards.

In the event of emergencies and natural disasters, we have early warnings and specially trained teams who undertake drills for different types of emergencies and are prepared to act in these cases.

Liquidity and capital resources

Financing

The main financing transactions carried out in the bond market in 2019 are as follows:

Description	Issue date	Maturity date	Amount in millions (nominal)	Currency of issue	Amount in millions of euros (nominal)	Coupon
Telefónica Emisiones, S.A.U.						
EMTN bond	2/5/2019	2/5/2024	1,000	EUR	1,000	1.069%
SHELF bond	3/1/2019	3/1/2049	1,250	USD	1,113	5.520%
EMTN bond	3/12/2019	3/12/2029	1,000	EUR	1,000	1.788%
EMTN bond	7/1/2019	7/1/2039	500	EUR	500	1.957%

The main transaction under the main financing transactions arranged in 2019 in the bank market was a withdraw made on August 14, 2019 amounting to 200 million euros regarding the bilateral loan signed on July 11, 2019 and maturity in 2026.

Available funds

At December 31, 2019, Telefónica, S.A.'s available funds from undrawn lines of credit in different financial institutions totaled 11,157 million euros (of which 10,731 million euros maturing in more than 12 months). Additionally, cash and cash equivalents as of December 31, 2019 amount to 3,637 million euros.

Additional information on sources of liquidity and undrawn lines of credit available to the Company, on liquidity risk management, on the Company's debt levels, and on capital management is provided in Notes 13, 14, 15 and 16 of the financial statements.

Contractual commitments

Note 19 to the financial statements provides information on firm commitments giving rise to future cash outflows and associated with operating leases, primarily.

Credit risk management

The credit risk in Telefónica, S.A. mainly refers to the one associated with financial derivative instruments arranged with different entities. The detailed description of how those risks are managed and hedged is included in Note 16.

Credit rating

At December 31, 2019, Telefónica, S.A.'s long-term issuer default rating is "BBB stable outlook" from Fitch, "Baa3 stable outlook" from Moody's and "BBB stable outlook" from Standard & Poor's. During 2019, there have not been changes in the long-term credit ratings by any of the three agencies. Last changes in the credit ratings took place in 2016 when Moody's downgraded the rating to "Baa3 stable" from "Baa2 negative" on November 7, 2016, Fitch downgraded the rating to "BBB stable" from "BBB+ stable" on September 5, 2016 and Standard and Poor's revised the outlook to "stable" from "positive" on May 17, 2016.

In 2019, among the measures taken to protect the credit rating, it is noteworthy an intensive financing activity, taking advantage of historical low refinancing rates to extend average

debt life, together with the maintenance of an appropriate level of liquidity and an active portfolio management through the agreements reached for the sale of its Centroamerican assets (Telefónica Móviles Guatemala, Telefónica Móviles El Salvador, Telefónica de Costa Rica, Telefónica Móviles Panamá and Telefónica Cellular de Nicaragua), the agreement reached for the sale of a portfolio of 11 Data Centers and the agreements for sale of mobile telecommunications towers of Telefónica Brazil, Telefónica Ecuador and Telefónica Colombia. Finally, the company approved in November the implementation of an action plan, which will serve as a catalyst for the company's transformation. This plan consists of five strategic decisions: A focus on key markets of Spain, Brazil, the UK and Germany; the creation of Telefónica Tech; the creation of Telefónica Infra; operational spin-off of Hispanoamérica; and the redefinition of the corporate centre.

Dividend policy

Telefónica, S.A.'s dividend policy is revised yearly based on the Group's earnings, cash generation, solvency, liquidity, flexibility to make strategic investments.

On March 29, 2017 the Board of Directors of Telefónica, S.A. decided to define the corresponding payment periods of the dividends. Therefore, from there on, the dividend payment in the second quarter will take place in June, and the dividend payment in the fourth quarter will take place in December, in both cases on or before the third Friday of the corresponding month.

In February 2018, Telefónica announced the dividend policy for the year 2018: 0.40 euros per share in cash, in December 2018 (0.20 euros per share) and in June 2019 (0.20 euros per share). According to this, the Annual General Meeting held in 2018, approved a dividend distribution in cash charged to Unrestricted Reserves, by means of a payment of a fixed gross amount of 0.40 euros during 2018 payable in two tranches, 0.20 euros per share on June 15, 2018 and 0.20 euros per share on December 20, 2018.

In February 2019, Telefónica announced the dividend policy for the year 2019: 0.40 euros per share in cash, in December 2019 (0.20 euros per share) and in June 2020 (0.20 euros per share). According to this, the Annual General Meeting held in 2019, approved a dividend distribution in cash charged to Unrestricted Reserves, by means of a payment of a fixed gross amount of 0.40 euros during 2019 payable in two tranches, 0.20 euros per share on June 20, 2019 and 0.20 euros per share on December 19, 2019.

Treasury shares

Telefónica has performed, and may consider performing, transactions with treasury shares and financial instruments or contracts that confer the right to acquire treasury shares or assets whose underlying is Company shares.

Treasury share transactions will always be for legitimate purposes, including:

- Undertaking treasury share acquisitions approved by the Board of Directors or pursuant to General Shareholders' Meeting resolutions.
- Honoring previous legitimate commitments assumed.
- Covering requirements for shares to allocate to employees and management under stock option plans.
- Other purposes in accordance with prevailing legislation. In the past, treasury shares purchased on the stock market were exchanged for other shares-securities (as in the case of preferred capital securities), swapped for stakes in other companies (e.g. China Unicom or Telco S.p.A.), or acquired to reduce the number of shares in circulation (by redeeming the shares acquired), thereby boosting earnings per share.

Treasury share transactions will not be performed in any event based on privileged information or in order to intervene in free price formation. In particular, any of the conduct referred to in Articles 83.ter.1 of the Spanish Securities Market Law and 2 of Royal Decree 1333/2005 of November 11 implementing the Spanish Securities Market Law, with regards to market abuse will be avoided.

The disclosure of number of treasury shares at the end of 2019 and 2018 as well as the explanation about the evolution of the figure and the transactions involving treasury shares in 2019 are described in Note 11 of these financial statements.

Risk factors associated with the issuer

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

These risks are currently considered by the Telefónica Group to be specific to the Group and the most important to consider in making an informed investment decision in respect of the Company. However, the Telefónica Group is subject to other risks that have not been included in this section based on the Telefónica Group's assessment of their probability of occurrence and the potential magnitude of their impact.

Risks related to the business activities

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

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

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

The reinforcement of competitors, the entry of new competitors, or the merger of operators in certain markets, may affect Telefónica's competitive position, negatively affecting the evolution of revenues and the market share. These changes in market dynamics could lead to aggressive commercial offers, accelerated broadband deployments by competitors or the proliferation of unlimited data rates. These situations are of greater relevance in certain countries such as Chile and Peru.

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

The Telefónica Group is subject to relevant regulation on data privacy.

The use of personal data and data privacy are strategic matters for Telefónica. Besides any media and social implications, fines arising from breaching the Regulation (EU) No. 2016/679 (the General Data Protection Regulation, "GDPR") can be up to 4%

of the Group's total worldwide annual turnover for the preceding financial year. In addition, in Latin America, new regulations on privacy are being adopted in Brazil, Argentina and Chile. Moreover, in Europe, the Proposal of the European Commission for a Regulation concerning privacy and electronic communications (the "e-Privacy Regulation") is still under discussion. The e-Privacy Regulation would entail complying with additional and stricter rules than those established under the GDPR in respect of personal data from electronic communications. The e-Privacy Regulation would also establish fines similar to those included in the GDPR. These regulations may affect the development of innovative services in a Big Data environment.

Moreover, Telefónica's reputation depends, to a large extent, on the digital trust it is able to build with its clients and other stakeholders. The Telefónica Group's networks carry and store large volumes of confidential, personal and business data, through both voice and data traffic. The Telefónica Group stores increasing quantities and types of customer data from both business and consumer segments. Despite its best efforts to prevent it, the Telefónica Group may be found liable for any loss, transfer, or inappropriate modification of customer data or general public data stored on its servers or transmitted through its networks, any of which could involve many people and have an impact on the Group's reputation.

Any of the foregoing, including the Group's inability to comply with the relevant regulation, could have an adverse effect on the business, financial condition, results of operations and/or cash flows of the Group.

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

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

Many of the Group's activities require licenses, concessions or authorizations from governmental authorities, which typically require that the Group satisfies certain obligations, including minimum specified quality levels, service and coverage conditions. If the Telefónica Group breaches any of such obligations it may suffer consequences such as economic fines or, in a worst-case scenario, measures that would affect the continuity of its business. Exceptionally, in certain jurisdictions, the terms of granted licenses may be modified before the expiration date of such licenses or, at the time of the renewal of a license, new enforceable obligations could be imposed or the renewal of a license could be refused.

Additionally, the Telefónica Group could be affected by the regulatory actions of antitrust authorities. These authorities could prohibit certain actions, such as new acquisitions or specific practices, create obligations or impose heavy fines.

Any such measures implemented by the antitrust authorities could result in economic and/or reputational loss for the Group, in addition to a loss of market share and/or harm to the future growth of certain of its businesses. For example, on February 22, 2019, the European Commission started an investigation of Telefónica Deutschland in respect of the Group's compliance with its commitments undertaken in the merger with E-Plus in 2014. The European Commission is investigating whether there has been a breach of the Group's commitment to offer wholesale 4G services to all interested players at best prices under benchmark conditions.

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

Access to new concessions/ licenses of spectrum.

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

It is expected that spectrum auctions will take place in the next few years, which will possibly require cash outflows to obtain additional spectrum or to comply with the coverage requirements associated with some of these licenses.

In Europe, two auction processes are expected in the near term: (i) in Spain the auction for the 700 MHz band related to the "second digital dividend" is expected to occur during 2020, and it is probable that the spectrum in the 3.4-3.6 GHz band, currently in use by the Ministerio de Defensa, will also be auctioned during 2020 (up to a maximum of 40 MHz), and (ii) in the United Kingdom, an auction for the 700 MHz and the 3.6-3.8 GHz bands is expected to take place in the second quarter of 2020.

In Latin America several auction processes are expected in the near term: (i) in Brazil, on February 6, 2020, Agência Nacional de Telecomunicações ("ANATEL") has published a proposal regarding the 5G auction, that will be incorporated into a public consultation. It is expected that the auction will take place at the end of 2020 or 2021. The frequencies to be auctioned are 20 MHz of 700 MHz band for national blocks, 90 MHz of 2.3 GHz band for regional blocks, 400 MHz of 3.5 GHz band for national and regional blocks and 3,200 MHz of 26 GHz band for national and regional blocks, (ii) in Peru and Argentina, various spectrum auctions have also been announced, with conditions to be defined, and (iii) in Chile, on January 14, 2020, the Chilean Under-Secretary of Telecommunications (SUBTEL) launched a public consultation on the upcoming auction, which was available for comments until February 14, 2020. SUBTEL intends to auction 30-year concessions in four bands - a total of 20 MHz will be made available in the 700 MHz band, 30 MHz in the AWS band, 150 MHz in the 3.5 GHz band and 800 MHz in the 28 GHz band.

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

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

In Spain, Telefónica is in the process of extending its administrative concessions in the 3.4-3.6 GHz band (2x20 MHz) and the 2.1 GHz band (2x5 MHz + 5 MHz). In both cases, the initial term of the concession expires in April 2020 with the possibility of an extension of 10 additional years (until 2030). As of December 31, 2019, Telefónica had completed the deployment of LTE nodes mandated by Ministerial Order of October 29, 2018 approving the plan to enable access to broadband services at 30 Mbps speed or higher. This obligation applies to operators such as Telefónica holding licenses in the 800 MHz band, and compliance with the relevant loading conditions will be monitored by relevant administrative authorities over the next five years.

In Latin America, in Brazil, (i) on October 4, 2019, Law 13.879/2019 (resulting from PLC 79/2016) was published. This Law introduces changes to the telecommunications regulatory framework and is expected to have a significant impact on this industry, by allowing fixed-line concessions operators to migrate from a grant regime (in which the underlying assets reverts to the government at the end of the concession) to an authorization regime. According to the Law, ANATEL will be responsible for estimating the gains obtained by operators as a result of migrating from one regime to the other. The amount of such gains will translate into broadband related projects, which will need to be defined by ANATEL. Alternatively, if an operator chooses not to migrate to the authorization regime, existing contracts could be renewed beyond 2025. Additionally, in December 2019, a public consultation was launched to hire a consultant agency that will assist ANATEL in formulating the rules to be followed by operators who wish to migrate from the grant regime to the authorization regime. At December 31, 2019, the estimated residual value of the reversible assets was 8,260 million Brazilian reais (approximately 1,825 million euros under the exchange rate applicable on such date) (8,622 million Brazilian reais, approximately 1,943 million euros at December 31, 2018); (ii) on the other hand, regarding the 2.5 GHz and 450 MHz spectrum bands, licensed in certain cities, the regulator issued a decision in June 2019 which has been challenged by Telefónica allowing the use of a satellite solution to meet existing commitments and obligations to increase the connection speed and ordering the termination of licenses relating to the 451 MHz to 458 MHz and 461 MHz to 468 MHz frequencies in cases where relevant operators have not used such frequencies within the deadline set in the relevant auction notice. Telefónica had not provided any services through the 450 MHz band by the relevant deadline, as relevant equipment was not available at such time. If challenges brought against this decision are not successful, Telefónica could lose its right to exploit the 450 MHz band; and (iii) the renewal of the Group's

spectrum in the 850 MHz band, in Rio de Janeiro (2020) and Brasilia (2021) is still pending.

In Peru, the renewal of concessions for the provision of fixed-line services, valid until 2027, was denied by the Ministry of Transportation and Communications after a request submitted in December 2013. In addition, the renewal of the 1900 MHz band in all of Peru (except for Lima and Callao), which expired in 2018, and of other telecommunication services was requested. Regarding these renewal requests the Ministry of Transportation and Communication has not made a decision yet but the concessions are still valid until a final decision is made.

In Chile, the enforcement of the ruling issued by the Supreme Court in 2018 ordering Telefónica Móviles Chile ("TMCH") to relinquish part of the spectrum acquired in 2014 in the 700 MHz band is partially pending. The court decision requires TMCH to dispose of 20 MHz but allows TMCH to choose the band from which spectrum is relinquished. The spectrum must be relinquished by October 17, 2021. In November 2019, TMCH presented to SUBTEL and the TDLC the proposed bidding rules for TMCH's direct sale of 10 MHz in the 1900 MHz band. The remaining 10 MHz were returned to SUBTEL through the resignation over two concessions in the 3500 MHz band (in the southern part of the country) that were not in use.

In Ecuador, the Contraloría General Del Estado has recommended that the Agencia de Regulación y Control de las Telecomunicaciones (ARCOTEL) renegotiates the Concession Agreement of 2008. Telefónica Ecuador does not agree with such recommendation and has rejected the renegotiation of said Concession Agreement.

In Colombia, in December 2019, the ICT Ministry launched an auction process in the 700 MHz, 1900 MHz and 2500 MHz bands. Although Telefónica participated in this process, it decided not to acquire permits for the use of spectrum in these bands due to the high cost of the spectrum and the obligations associated with the licenses.

During 2019, the Group's consolidated investment in spectrum acquisitions and license renewals amounted to 1,501 million euros, 1,425 million of which corresponded to spectrum acquisition in Germany (868 million euros in 2018, 588 million of which corresponded to spectrum acquisition in the United Kingdom). In the event that the licenses described are renewed or new spectrum is acquired, it would involve additional investments by Telefónica.

Further information on certain key regulatory matters affecting the Telefónica Group and the concessions and licenses of the Telefónica Group can be found in the Appendix VI of the 2019 Consolidated Financial Statements: "Key regulatory issues and concessions and licenses held by the Telefónica Group".

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

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

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

All of this forces Telefónica to continuously invest in the development of new products, technology and services to continue to compete effectively with current or future competitors, and, for this reason, the Group's profit and margins associated with the income of the business could be reduced or such investment could not lead to the development or commercialization of successful new products or services. To contextualize the size of the Group's investments, total research and development expenditure in 2019 was 866 million euros (947 million euros and 862 million euros in 2018 and 2017, respectively). These expenditures represented 1.8%, 1.9% and 1.7% of the Group's consolidated revenues in 2019, 2018 and 2017, respectively. These figures have been calculated using the guidelines established in the Organization for Economic Co-operation and Development ("OECD") manual.

One of the technologies currently being developed by telecommunications operators, including Telefónica (in Spain and Latin America), is the new FTTx type networks which allow the offering of broadband accesses over fiber optics with high performance. However, the deployment of such networks, in which the copper of the access loop is totally or partially replaced by optical fiber, necessitates high levels of investment. As of December 31, 2019, in Spain, fiber coverage reached 23.1 million premises. There is a growing demand for the services that these new networks can offer to the end customer. However, the high levels of investment required by these networks result in the need to continuously consider the expected return on investment, and no assurance can be given that these investments will be profitable.

In addition, the ability of the Telefónica Group's IT systems (operational and backup) to adequately support and evolve to respond to Telefónica's operating requirements is a key factor

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

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

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

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

In order to respond to the evolution in the needs of customers, Telefónica needs to adapt both its communication networks and its offer of digital services. The networks, which had historically focused on voice transmission, are evolving into increasingly flexible, dynamic and secure data networks, replacing, for example, old copper telecommunications networks with new technologies such as fiber optics, which facilitate the absorption of the exponential growth in the volume of data demanded by the Group's customers. In relation to digital services, customers require an increasingly digital and personalized experience, as well as a continuous evolution of the Group's product and service offering. In this sense, new services such as "Smart WiFi" or "Connected Car", which facilitate certain aspects of the Group's customers' digital lives, are being developed. Furthermore, new solutions for greater automation in commercial services and in the provision of the Group's services are being developed, through new apps and online platforms that facilitate access to services and content, such as new video platforms that offer both traditional Pay TV, video on demand or multi-device access. However, there can be no assurance that these and other efforts will be successful.

The development of all these initiatives is also necessary considering that there is a growing social and regulatory demand for companies to behave in a socially responsible manner. As a result, the risks associated with potential damage to a brand's reputation have become more relevant, especially due to the impact that the publication of news through social networks can have.

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

Telefónica depends on its suppliers.

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

As of December 31, 2019, the Telefónica Group depended on three handset suppliers and ten network infrastructure suppliers, which, together, accounted for 85% and 80%, respectively, of the aggregate amount of the purchase orders made during 2019 to handset suppliers and network infrastructure suppliers, respectively. One of the handset suppliers represented 41% of the aggregate amount of the purchase orders made during 2019 to handset suppliers.

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

Operating Risks

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

The risks derived from cybersecurity are among the Group's most relevant risks. Despite advances in the modernization of the network and the replacement of legacy systems, the Group operates in an environment increasingly prone to cyber-threats. Therefore, it is necessary to continue to identify and remedy any technical vulnerabilities and weaknesses in the Group's operating processes, as well as to strengthen its capabilities to detect and react to incidents. This includes the need to strengthen security controls in the supply chain (for example, by focusing on the security measures adopted by the Group's partners and other third parties), as well as to ensure the security of the services in the cloud.

Telecommunications companies worldwide face continuously increasing cybersecurity threats as businesses have become increasingly more digital and dependent on telecommunications and computer networks and cloud computing technologies. Cybersecurity threats may include gaining unauthorized access to the Group's systems or propagating computer viruses or malicious software to misappropriate sensitive information like customer data, corrupt Telefónica's data or disrupt its operations. Unauthorized access may also be gained through traditional means such as the theft of laptop computers, data devices and mobile phones. Further, the Group's employees or other

persons may have unauthorized or authorized access to the Group's systems and leak data and/or take actions that affect the Group's networks or otherwise adversely affect the Group or its ability to adequately process internal information.

Telefónica manages these risks through a number of technical and organizational measures, which are part of its digital security strategy, including access control measures, log review of critical systems, vulnerabilities checks, network segregation measures and protective systems such as firewalls, intrusion prevention systems, virus scanners and other physical and logical security measures. In the event of an incident that has not been avoided by such preventive and control measures, there are backup systems to recover data. However, the application of these measures cannot guarantee the mitigation of all risks. Therefore, the Telefónica Group has insurance policies in place, which could cover, subject to the policies terms, conditions, exclusions, limits and sublimits of indemnity, and applicable deductibles, certain losses arising out of these types of incident. To date, the insurance policies in place have covered some incidents of this nature, yet due to the potential severity and uncertainty of the aforementioned events, these policies may not be sufficient to cover all possible losses arising out of an individual event.

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

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

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

Financial Risks

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

Telefónica's international presence enables the diversification of its activities across countries and regions, but it exposes Telefónica to diverse legislation, as well as to the political and economic environments of the countries in which it operates. Any adverse developments in this regard, including exchange rate or sovereign-risk fluctuations, may adversely affect Telefónica's business, financial position, cash flows and results of operations and/or the performance of some or all of the Group's financial indicators.

The main risks are detailed below, by geography:

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

Spain: there are three main sources of uncertainty. First, the outcome of the political situation in Catalonia and its impact on the financing conditions of the Spanish economy given the demanding maturity schedule the country is facing and its significant dependence on the international macroeconomic scenario and investors. A second source of uncertainty stems from the economic policies to be implemented from 2020 onwards, given the high level of parliamentary fragmentation and the lack of agreement on key issues. Finally, being one of the most open countries in the world, from a commercial point of view, and being amongst the top ten countries in respect of capital outflows and inflows in the world, any situation of protectionist backlash can have significant implications.

United Kingdom: the exit process from the European Union following the favorable vote in the June 2016 referendum will entail an economic adjustment regardless of the new economic and commercial relationship between the United Kingdom and the rest of Europe in the future. Investment, economic activity and employment would be the main variables affected, as well as volatility in financial markets, which could limit or condition access to capital markets. The situation could worsen depending on the eventual outcome of Brexit, which could lead to an increase in regulatory and legal conflicts in fiscal, commercial, security and employment issues. These changes can be costly and disruptive to business relationships in the affected markets, including those of Telefónica with its suppliers and customers.

Latin America: exchange risk is particularly important. In addition to internal factors, certain external factors fuel this risk, such as the uncertainty derived from the path of monetary normalization in the United States, the growing commercial tensions at the global level, the low prices of certain raw materials and concerns about growth and financial imbalances in China.

Brazil: fiscal sustainability remains the main risk, and the government is currently tackling this through its structural reforms including pension and tax system reforms (which could, in turn, raise Brazil's growth potential). The fact that the country's rating is below investment grade and that its internal financing needs are high, could create a greater financial risk in the event of global financial stress.

Argentina: in the short term, macroeconomic and exchange rate risks remain high. The challenges the economy is facing, both internally (ongoing process of public deficit reduction in a context of economic recession and high inflation) and externally (with significant refinancing needs in the medium term), make the economy vulnerable to bouts of volatility in the financial markets. In addition, it remains to be seen how the change in government affects economic policies, especially in a context of narrower room for maneuver.

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

During 2019, Telefónica Spain represented 26.4% of the revenues (sales and services) of the Telefónica Group (26.1% in 2018). During 2019, Telefónica UK represented 14.7% of the Telefónica Group's revenues (13.9% in 2018). During 2019, Telefónica Brazil represented 20.7% of the Telefónica Group's revenues (sales and services) (20.8% in 2018). During 2019, Telefónica Hispam Norte and Telefónica Hispam Sur represented 7.8% and 13.2% of the Telefónica Group's revenues, respectively (8.4% and 13.7%, respectively, in 2018). During 2019, 4.5% of Telefónica Group's revenues came from Argentina, 4.3% from Peru and 4.0% from Chile (4.8%, 4.3% and 4.3% respectively, in 2018). Approximately 27.3% of the Group's revenues were generated in countries that do not have investment grade credit rating status (those being, in order of their contribution to the Group's revenues: Brazil, Argentina, Ecuador, Costa Rica, El Salvador and Venezuela) and other countries are only one notch away from losing this status.

The Group could experience impairment of goodwill, deferred tax or other assets.

In accordance with current accounting standards, the Telefónica Group reviews on an annual basis, or more frequently when the circumstances require it, the need to introduce changes to the book value of its goodwill, deferred tax or other assets such as intangible assets, property, plant and equipment. In the case of goodwill, the potential loss of value is determined by the analysis of the recoverable value of the cash-generating unit (or group of units) to which the goodwill is associated at the time it is originated. By way of example, in 2019, impairment losses in the goodwill allocated to Telefónica Argentina were recognized for a total of 206 million euros. In 2018 impairment losses in the goodwill allocated to Telefónica Móviles Mexico were recognized for a total of 350 million euros.

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

Further impairments of goodwill, deferred tax or other assets may occur in the future which may materially adversely affect

the Group's business, financial condition, results of operations and/or cash flows.

The Group faces risks relating to its levels of financial indebtedness, the Group's ability to finance itself, and its ability to carry out its business plan.

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

The Telefónica Group is a relevant and frequent issuer of debt in the capital markets. As of December 31, 2019, the Group's gross financial debt amounted to 52,364 million euros (54,702 million euros as of December 31, 2018), and the Group's net financial debt amounted to 37,744 million euros (41,074 million euros as of December 31, 2018). As of December 31, 2019, the average maturity of the debt was 10.50 years (8.98 years as of December 31, 2018) including undrawn committed credit facilities.

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

Funding could be more difficult and costly in the event of a deterioration of conditions in the international or local financial markets due, for example, to monetary policies set by central banks, including increases in interest rates and/or decreases in the supply of credit, increasing global political and commercial uncertainty and oil price instability, or if there is an eventual deterioration in the solvency or operating performance of Telefónica.

As of December 31, 2019, the Group's gross financial debt scheduled to mature in 2020 amounted to 9,076 million euros, and gross financial debt scheduled to mature in 2021 amounted to 5,522 million euros.

In accordance with its liquidity policy, Telefónica has covered its gross debt maturities for the next 12 months with cash and credit lines available as of December 31, 2019. As of December 31, 2019, the Telefónica Group had undrawn committed credit facilities arranged with banks for an amount of 13,679 million euros (12,789 million euros of which were due to expire in more than 12 months).

Telefónica's liquidity could be affected if market conditions make it difficult to renew existing undrawn credit lines. As of December 31, 2019, 6.5% of the aggregate undrawn amount under credit lines was scheduled to expire prior to December 31, 2020.

In addition, given the interrelation between economic growth and financial stability, the materialization of any of the economic, political and exchange rate risks referred to above

could adversely impact the availability and cost of Telefónica's financing and its liquidity strategy. This in turn could have a negative effect on the Group's business, financial condition, results of operations and/or cash flows.

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

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

To illustrate the sensitivity of financial expenses to variations in short-term interest rates as of December 31, 2019: (i) a 100 basis points increase in interest rates in all currencies in which Telefónica had a financial position at that date would have led to an increase in financial expenses of 87 million euros, whereas (ii) a 100 basis points decrease in interest rates in all currencies (even if negative rates are reached), would have led to a reduction in financial expenses of 85 million euros. For the preparation of these calculations, a constant position equivalent to the position at that date is assumed, which takes into account the financial derivatives contracted by the Group. In nominal terms, as of December 31, 2019, 74.6% of the Group's net financial debt plus commitments had its interest rate set at fixed interest rates for periods of more than one year. At the same time, 20.4% of the Group's net financial debt plus commitments was denominated in currencies other than the euro.

Exchange rate risk arises primarily from: (i) Telefónica's international presence, through its investments and businesses in countries that use currencies other than the euro (primarily in Latin America and the United Kingdom); (ii) debt denominated in currencies other than that of the country where the business is conducted or the home country of the company incurring such debt; and (iii) trade receivables or payables in a foreign currency to the currency of the company with which the transaction was registered. According to the Group's calculations, the impact on results, and specifically on net exchange differences, due to a 10% depreciation of Latin American currencies against the U.S. dollar and a 10% depreciation of the rest of the currencies against the euro would result in exchange losses of 3 million euros for the year ended December 31, 2019, primarily due to the exposure to the Venezuelan bolivar. These calculations have been made assuming a constant currency position with an impact on profit or loss for the year ended December 31, 2019, taking into account derivative instruments in place.

During 2019, Telefónica Brazil represented 28.2% (27.7% in 2018), Telefónica United Kingdom represented 14.0% (12.0% in 2018), Telefónica Hispam Norte represented 5.5% (5.1% in 2018) and Telefónica Hispam Sur represented 9.2% (11.0% in 2018) of the OIBDA of the Telefónica Group.

In 2019, the evolution of exchange rates negatively impacted the Group's results, decreasing the year-on-year growth of the Group's consolidated revenues and OIBDA by an estimated 3.1

percentage points and 2.2 percentage points, respectively, mainly due to the depreciation of the Argentine peso and the Brazilian real (8.8 percentage points and 10.3 percentage points, respectively in the same period of 2018). Furthermore, translation differences in 2019 had a negative impact on the Group's equity of 163 million euros, whereas they had a negative impact on the Group's equity of 2,044 million euros in 2018.

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

Legal and Compliance Risks

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

Telefónica and Telefónica Group companies are party to lawsuits, tax claims, antitrust and other legal proceedings in the ordinary course of their businesses, the outcome of which is unpredictable. In particular, the Telefónica Group is party to certain judicial tax proceedings in Peru concerning the clearance of certain previous years' income taxes, in respect of which a contentious-administrative appeal is currently pending, and to certain tax and regulatory proceedings in Brazil, primarily relating to the ICMS (a Brazilian tax on telecommunication services) and the corporate tax. Further details on these matters are provided in Note 25 to the 2019 Consolidated Financial Statements. Additional details on provisions for litigation, tax sanctions and claims can be found in Note 24 to the 2019 Consolidated Financial Statements.

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

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

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

to risks in the field of compliance with anti-corruption legislation, which increases the likelihood of occurrence of this risk. In particular, it is worth noting the continuous interaction with officials and public administrations in several areas, including the institutional and regulatory fronts (as the Telefónica Group carries out a regulated activity in different jurisdictions), the operational front (in the deployment of its network, the Telefónica Group is subject to obtaining multiple activity permits) and the commercial front (the Telefónica Group provides services directly and indirectly to public administrations). Moreover, Telefónica is a multinational group subject to the authority of different regulators and compliance with various regulations, which may be domestic or extraterritorial in scope, civil or criminal, and which may lead to overlapping authority in certain cases. Therefore, it is very difficult to quantify the possible impact of any breach, bearing in mind that such quantification must consider not only the economic amount of sanctions, but also the potential negative impact on the business, reputation and/or brand, or the ability to contract with public administrations.

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

Although the Group has internal policies and procedures designed to ensure compliance with the abovementioned

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

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

Events after the reporting period

The events regarding the Company that took place between the reporting date and the date of preparation of the accompanying financial statements have been disclosed in Note 22.

Annual Corporate Governance Report

See Chapter 4 (Annual Corporate Governance Report) of the 2019 Consolidated Management Report of Telefónica, S.A.