

Telefónica, S.A.

Auditor's report

Annual accounts at December 31, 2020

Management report



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, 2020, 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, 2020, 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 matters that, in our professional judgment, were of most significance in our audit of the annual accounts of the current period. These matters were addressed in the context of our audit of the annual accounts as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters	How our audit addressed the key audit matter
<p>Measurement of investments in Group companies</p> <p>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 €58,754 million at 31 December 2020.</p> <p>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>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. This judgement is accentuated due to the uncertainty of the evolution of the businesses caused by COVID-19 crisis and the estimation of its effects in Management's cash flow projections.</p> <p>Regarding the investment that the company maintains in Telefonica O2 Holding Ltd., considering the agreement reached to merge their operating businesses of O2 Holdings Ltd. and Virgin Media UK in the United Kingdom, the management has sought support from an independent expert to determine the recoverable amount on this investment.</p> <p>As described in note 8.2, a reversal of impairment provision of €10,956 million has been recognised in the income statement for the year.</p>	<p>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 style="list-style-type: none"> • 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. • 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. • Analysis of the degree of fulfilment at the year end of the latest 2020 forecast. • 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. • In relation with the investment in Telefonica O2 Holding Ltd., obtaining the management's expert report and evaluation of its reasonableness. • Evaluation of the adequacy of the disclosures included in the consolidated annual accounts in accordance with the applicable legislation. <p>Based on the procedures performed, we consider management's assessment to be reasonable and its conclusions on the value of investments in Group companies are consistent with the information contained in the accompanying annual accounts.</p>

Key audit matters

How our audit addressed the key audit matter

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 which in turn led to a high degree of auditor judgement and audit effort in evaluating these assumptions.

Other information: Management report

Other information comprises only the management report for the 2020 financial year, the formulation of which is the responsibility of the Company's directors and does not form an integral part of the annual accounts.

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

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

On the basis of the work performed, as described above, we have verified that the information mentioned in section a) above has been provided in the manner required by applicable legislation and that the rest of the information contained in the management report is consistent with that contained in the annual accounts for the 2020 financial year, and its content and presentation are in accordance with applicable regulations.

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

The 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 Telefónica, S.A., 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 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 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 committee with a statement that we have complied with relevant ethical requirements, including those relating to independence, and we communicate with the audit 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 committee, we determine those matters that were of most significance in the audit of the annual accounts of the current period and are therefore the key audit matters.

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

Report on other legal and regulatory requirements

European single electronic format

We have examined the digital file of the European single electronic format (ESEF) of Telefónica, S.A. for the 2020 financial year that comprises an XHTML file of the annual accounts for the financial year, which will form part of the annual financial report.

The directors of Telefónica, S.A. are responsible for presenting the annual financial report for the 2020 financial year in accordance with the formatting requirements established in the Delegated Regulation (EU) 2019/815 of 17 December 2018 of the European Commission (hereinafter the ESEF Regulation).

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

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

Report to the audit and control committee

The opinion expressed in this report is consistent with the content of our additional report to the company's audit and control committee dated February 23, 2021.

Appointment period

The General Ordinary Shareholders' Meeting at its meeting held on 12 June 2020 appointed PricewaterhouseCoopers Auditores, S.L. as auditors of the Group for a period of one year, for the year ended 31 December 2020.

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

Services provided

Services provided to the 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)



Virginia Arce Peralta (16096)

February 25, 2021

ANNUAL FINANCIAL STATEMENTS AND MANAGEMENT REPORT

for the year ended December 31, 2020

2020

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Telefónica, S.A.

Balance sheet at December 31

Millions of euros			
ASSETS	Notes	2020	2019
NON-CURRENT ASSETS		66,866	76,554
Intangible assets	5	20	24
Software		8	9
Other intangible assets		12	15
Property, plant and equipment	6	145	136
Land and buildings		92	86
Plant and other property, plant and equipment items		50	46
Property, plant and equipment under construction and prepayments		3	4
Investment property	7	318	332
Land		100	100
Buildings		218	232
Non-current investments in Group companies and associates	8	59,368	70,130
Equity instruments		58,754	69,267
Loans to Group companies and associates		590	831
Other financial assets		24	32
Financial investments	9	4,900	3,871
Equity instruments		320	314
Derivatives	16	3,474	3,145
Other financial assets	9	1,106	412
Deferred tax assets	17	2,115	2,061
CURRENT ASSETS		15,369	9,501
Net assets held for sale	8	268	291
Trade and other receivables	10	282	336
Current investments in Group companies and associates	8	9,608	2,853
Loans to Group companies and associates		9,550	2,777
Derivatives	16	19	61
Other financial assets		39	15
Investments	9	2,167	2,373
Loans to companies		1,014	1,149
Derivatives	16	1,149	1,218
Other financial assets		4	6
Current deferred expenses		14	11
Cash and cash equivalents		3,030	3,637
TOTAL ASSETS		82,235	86,055

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	2020	2019
EQUITY		22,948	24,821
CAPITAL AND RESERVES		23,563	25,145
Share capital	11	5,526	5,192
Share premium	11	4,538	4,538
Reserves	11	15,660	10,441
Legal & Statutory		1,101	1,106
Other reserves		14,559	9,335
Treasury shares and own equity instruments	11	(476)	(766)
Profit (Loss) for the year	3	(1,685)	5,740
UNREALIZED GAINS (LOSSES) RESERVE	11	(615)	(324)
Available-for-sale financial assets		(124)	(48)
Hedging instruments		(491)	(276)
NON-CURRENT LIABILITIES		45,563	45,438
Non-current provisions	18	705	653
Non-current borrowings	12	5,765	4,341
Bank borrowings	14	1,392	1,306
Derivatives	16	4,025	2,339
Other debts		348	696
Non-current borrowings from Group companies and associates	15	38,900	40,285
Deferred tax liabilities	17	151	143
Long term deferred revenues		42	16
CURRENT LIABILITIES		13,724	15,796
Current provisions	18	26	15
Current borrowings	12	1,206	903
Bonds and other marketable debt securities	13	269	75
Bank borrowings	14	318	364
Derivatives	16	578	457
Other financial liabilities	14	41	7
Current borrowings from Group companies and associates	15	12,263	14,551
Trade and other payables	18	217	307
Current deferred revenues		12	20
TOTAL EQUITY AND LIABILITIES		82,235	86,055

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	2020	2019
Revenue	19	10,750	4,810
Rendering of services to Group companies and associates		455	475
Rendering of services to non-group companies		17	20
Dividends from Group companies and associates		10,257	4,242
Interest income on loans to Group companies and associates		21	73
Impairment and gains (losses) on disposal of financial instruments	8	(11,133)	2,444
Impairment losses and other losses		(10,956)	2,226
Gains (losses) on disposal and other gains and losses		(177)	218
Other operating income	19	57	45
Non-core and other current operating revenue - Group companies and associates		29	22
Non-core and other current operating revenue - non-group companies		28	23
Employees benefits expense	19	(204)	(245)
Wages, salaries and others		(197)	(209)
Social security costs		(7)	(36)
Other operational expense		(414)	(307)
External services - Group companies and associates	19	(83)	(107)
External services - non-group companies	19	(314)	(190)
Taxes other than income tax		(17)	(10)
Depreciation and amortization	5, 6 and 7	(27)	(29)
Gains (losses) on disposal of fixed assets		—	92
OPERATING PROFIT (LOSS)		(971)	6,810
Finance revenue	19	375	478
Finance costs	19	(1,971)	(2,209)
Exchange rate gains (losses)	19	601	43
NET FINANCIAL EXPENSE		(995)	(1,688)
PROFIT (LOSS) BEFORE TAX	21	(1,966)	5,122
Income tax	17	281	618
PROFIT (LOSS) FOR THE YEAR		(1,685)	5,740

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	2020	2019
Profit (Loss) for the period		(1,685)	5,740
Total income and expense recognized directly in equity	11	(818)	615
From valuation of available-for-sale financial assets		(76)	1
From cash flow hedges		(990)	818
Income tax impact		248	(204)
Total amounts transferred to income statement	11	527	(391)
From cash flow hedges		702	(521)
Income tax impact		(175)	130
TOTAL RECOGNIZED INCOME AND EXPENSE		(1,976)	5,964

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

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

Millions of euros	Share capital	Share premium and Reserves	Treasury shares	Profit (Loss) for the year	Net unrealized gains (losses) reserve	Total
Balance at December 31, 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
Total recognized income and expense	—	—	—	(1,685)	(291)	(1,976)
Transactions with shareholders and owners	334	(1,248)	290	—	—	(624)
Dividends paid (Note 11)	334	(1,048)	—	—	—	(714)
Other transactions with shareholders and owners	—	(200)	290	—	—	90
Other movements (Note 11)	—	727	—	—	—	727
Appropriation of prior year profit (loss)	—	5,740	—	(5,740)	—	—
Balance at December 31, 2020	5,526	20,198	(476)	(1,685)	(615)	22,948

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	2020	2019
A) CASH FLOWS FROM OPERATING ACTIVITIES		3,603	5,260
Profit (Loss) before tax		(1,966)	5,122
Adjustments to net results:		1,880	(5,090)
Depreciation and amortization	5, 6 and 7	27	29
Impairment of investments in Group companies and associates	8	10,956	(2,226)
Change in long term provisions		3	44
Gains on the sale of financial assets	8	177	(218)
Losses on disposal of fixed and intangible assets		—	(92)
Dividends from Group companies and associates	19	(10,257)	(4,242)
Interest income on loans to Group companies and associates	19	(21)	(73)
Net financial expense		995	1,688
Change in working capital		20	(70)
Trade and other receivables		23	(11)
Other current assets		17	(71)
Trade and other payables		(20)	12
Other cash flows from operating activities	21	3,669	5,298
Net interest paid		(614)	(1,547)
Dividends received and other		3,741	5,018
Income tax receipts		542	1,827
B) CASH FLOWS (USED IN)/FROM INVESTING ACTIVITIES	21	(880)	1,745
Payments on investments		(6,369)	(2,647)
Proceeds from disposals		5,489	4,392
C) CASH FLOWS USED IN FINANCING ACTIVITIES		(3,324)	(7,399)
Proceeds from equity instruments		283	13
(Payments)/Proceeds from financial liabilities	21	(2,549)	(5,257)
Debt issues		5,135	5,651
Repayment and redemption of debt		(7,684)	(10,908)
Acquisition of treasury shares		(234)	(99)
Dividends paid	21	(824)	(2,056)
D) NET FOREIGN EXCHANGE DIFFERENCE		(6)	20
E) NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(607)	(374)
Cash and cash equivalents at January 1		3,637	4,011
Cash and cash equivalents at December 31		3,030	3,637

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, 2020

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 2020.

The accompanying financial statements for the year ended December 31, 2020 were prepared by the Company's Board of Directors at its meeting on February 24, 2021 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 2020 and 2019 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.

The crisis triggered by the COVID-19 pandemic has changed the macroeconomic scenario and has increased the uncertainties over the future economic prospects. It is a challenging situation in terms of forecasts elaboration. Despite the areas where significant assumptions are made have not changed, the impact of the pandemic has forced the need to increase the range of estimations in these areas. In addition, the economic effects produced by COVID-19 mainly depend on variables difficult to predict. As the pandemic process evolves in time, due to the scarce previous experience related to its economic and social consequences, an adjustment in the assumptions might be necessary.

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.

e) COVID-19: Impact and response in Telefónica

The crisis triggered by the COVID-19 pandemic caused the greatest GDP fall of the last decades and, inevitably, it impacted the financial and operative performance of the subsidiaries of Telefónica, S.A in 2020 (see Note 8).

Revenues were affected by the reduction of the commercial activity, mainly in the second semester of the year, as lockdowns imposed across the Group's markets put unprecedented pressure to commercial activity. The decrease in revenues was partially mitigated by the measures taken to reduce costs and by lower churn rates. Furthermore, CapEx was reduced significantly.

The crisis contributed to the significant depreciation against the euro of the major currencies of the countries where the subsidiaries of the Company operate and it has impacted negatively in the estimated cash flows proceeds converted to euros used to evaluate the recoverability of the investments at year end. The figures used for the recoverability test are the latest strategic plans approved by the Board of Directors of Telefónica, S.A. which include the effect of the COVID-19 crisis in their businesses.

Throughout the crisis, in order to support the communities in which the Group operates, Telefónica implemented measures aimed at:

- Protecting the health and safety of its employees and customers.
- Providing critical infrastructure and technology services to governments and health authorities.
- Donating goods and services to hospitals and vulnerable customers.
- Making the Group's high-tech buildings available for public use (O2 Arena in London and O2 Tower in Munich).
- Providing customers with free mobile data and additional entertainment services at no extra cost.
- Accelerating payments to suppliers with liquidity problems and offering flexible payments terms.
- Maintaining the 2020 dividend for shareholders; with enhancing financial flexibility with a voluntary scrip dividend (see Note 11).

On the other hand, the governments of the different countries where the subsidiaries of Telefónica, S.A. operate established temporary regulatory measures that affected the telecommunications sector such as ban on suspending service due to debt and suspension of number portability operations.

In addition, in most countries Telefónica operators agreed with the governments to offer packages of minimum connectivity at a reduced or free price, along with free access to specific platforms (health, emergency services, education, information).

Telefónica's state-of-the-art networks enabled the Group to facilitate record growth in traffic driven by remote working and increased consumption of entertainment services while maintaining high levels of customer experience and service quality.

Note 3. Proposed appropriation of net results

Telefónica, S.A. obtained 1,685 million euros of losses in 2020.

Accordingly, the Company's Board of Directors will submit the following proposed appropriation of 2020 net results for approval at the Shareholders' Meeting:

Millions of euros

Proposed appropriation:

Loss for the year	(1,685)
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Distribution to:

Unrestricted reserves	(1,685)
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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.

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

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

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

f) Related party transactions

In business merger or spin-off transactions involving the parent company and its direct or indirect subsidiary, as well as in the case of non-monetary contributions of businesses between Group companies and in the case of dividend distributions, when an exemption from preparing consolidated financial statements in accordance with the Standards on Preparing Consolidated Financial Statements (Spanish "NOFCAC") applies, the assets and liabilities may be measured at their pre-transaction carrying amount in the individual financial statements, although there is also the option of using consolidated values in under IFRS as adopted by the European Union, provided that this consolidated information does not differ significantly from that obtained by applying NOFCAC. In addition, the Company may also opt to use the values resulting from a reconciliation to NOFCAC.

In the particular case of a contribution to a group company of the shares of another group company, the pre-transaction carrying amount in the standalone financial statements of

the contributing company may be used, unless the net equity amount is higher, in which case this amount is used.

The change in value arising in the contributing company as a result of the above accounting treatment is recognised 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:

- The amount resulting from the application of the rules for measuring provisions and contingencies.
- 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 2020 and 2019 are as follows:

Millions of euros		
Item	2020	2019
Total assets	105,051	118,877
Equity:		
Attributable to equity holders of the parent	11,235	17,118
Attributable to minority interests	7,025	8,332
Revenue from operations	43,076	48,422
Profit for the year:		
Attributable to equity holders of the parent	1,582	1,142
Attributable to minority interests	375	522

Note 5. Intangible assets

The movements in the items composing intangible assets and the related accumulated amortization in 2020 and 2019 are as follows:

2020					
Millions of euros	Opening balance	Additions and allowances	Disposals	Transfers	Closing balance
INTANGIBLE ASSETS, GROSS	259	7	(3)	(1)	262
Software	159	4	(1)	1	163
Other intangible assets	100	3	(2)	(2)	99
ACCUMULATED AMORTIZATION	(235)	(8)	1	—	(242)
Software	(150)	(6)	1	—	(155)
Other intangible assets	(85)	(2)	—	—	(87)
NET CARRYING AMOUNT	24	(1)	(2)	(1)	20

2019					
Millions of euros	Opening balance	Additions and allowances	Disposals	Transfers	Closing balance
INTANGIBLE ASSETS, GROSS	248	11	—	0	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

As of December 31, 2020 and 2019 commitments to acquire intangible assets amount to 0.5 and 0.4 million euros.

As of December 31, 2020 and 2019, the Company had 225 million euros and 220 million euros, respectively, of fully amortized intangible assets.

In December 2019 the Company disposed of trademarks in non-strategic markets with a net carrying value of 0.1 million euros. The "gain in disposal of assets" was 45 million euros, shown in 2019 income statement.

Note 6. Property, plant and equipment

The movements in the items composing property, plant and equipment (PP&E) and the related accumulated depreciation in 2020 and 2019 are as follows:

2020					
Millions of euros	Opening balance	Additions and allowances	Disposals	Transfers	Closing balance
PROPERTY, PLANT AND EQUIPMENT, GROSS	541	12	(7)	2	548
Land and buildings	198	4	—	1	203
Plant and other PP&E items	339	7	(7)	3	342
PP&E under construction and prepayments	4	1	—	(2)	3
ACCUMULATED DEPRECIATION	(405)	(10)	7	5	(403)
Buildings	(112)	(4)	—	5	(111)
Plant and other PP&E items	(293)	(6)	7	—	(292)
NET CARRYING AMOUNT	136	2	—	7	145

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

Firm commitments to acquire property, plant and equipment at December 31, 2020 and 2019 amounted to 0.7 million euros and 2 million euros, respectively. At December 31, 2020 and 2019, the Company had 258 and 259 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 65 and 68 million euros at 2020 and 2019 year-ends, respectively. It also includes the net carrying amount of the remaining assets in this site (mainly property, plant and equipment items) of 15 and 12 million euros at December 31, 2020 and 2019, respectively.

Disposals in 2019 referred 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 2020 and 2019 and the related accumulated depreciation are as follows:

2020					
Millions of euros	Opening balance	Additions and allowances	Disposals	Transfers	Closing balance
INVESTMENT PROPERTIES, GROSS	432	1	—	(1)	432
Land	100	—	—	—	100
Buildings	332	1	—	(1)	332
ACCUMULATED DEPRECIATION	(100)	(9)	—	(5)	(114)
Buildings	(100)	(9)	—	(5)	(114)
NET CARRYING AMOUNT	332	(8)	—	(6)	318

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

"Investment properties" mainly includes in both 2020 and 2019 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 is included as Disposals in the chart of movements of 2019 and generated a profit of 47 million euros shown as "Gains on disposal of fixed assets" of the income statement. On the same date, the Company signed a 10-year contract to rent this same building. The compromised payments for this rent are included in Note 19.

In 2020, the Company has buildings with a total area of 327,920 square meters (323,979 square meters in 2019) leased to several Telefónica Group companies, equivalent to an occupancy rate of 93.94% of the buildings it has earmarked for lease (91.68% in 2019).

Total income from leased buildings in 2020 and 2019 (see Note 19.1.a) amounted to 43 million euros in both years.

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

	2020	2019
Millions of euros	Future minimum recoveries	Future minimum recoveries
Up to one year	38	39
Between two and five years	1	1
Total	39	40

The most significant lease contracts held with subsidiaries occupying Distrito Telefónica have been renewed in 2020 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:

2020									
Millions of euros	Opening balance	Additions	Disposals	Transfers	Exchange rate impacts	Dividends	Net investment hedges	Closing balance	Fair value
Equity instruments (Net) (1)	69,267	(8,164)	(2,017)	—	—	(47)	(285)	58,754	96,059
Equity instruments (Cost)	93,267	2,792	(2,291)	(151)	—	(47)	(285)	93,285	
Impairment losses	(24,000)	(10,956)	274	151	—	—	—	(34,531)	
Loans to Group companies and associates	831	—	(241)	—	—	—	—	590	587
Other financial assets	32	12	—	(20)	—	—	—	24	24
Total non-current investment in Group companies and associates	70,130	(8,152)	(2,258)	(20)	—	(47)	(285)	59,368	96,670
Loans to Group companies and associates	2,777	9,702	(2,934)	—	5	—	—	9,550	9,550
Derivatives	61	—	(42)	—	—	—	—	19	19
Other financial assets	15	10	(6)	20	—	—	—	39	39
Total current investments in Group companies and associates	2,853	9,712	(2,982)	20	5	—	—	9,608	9,608

(1) Fair value at December 31, 2020 of Group companies and associates quoted in an active market (Telefónica 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.

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	123,603
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 (Telefónica 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 2020 and 2019 as well as their accounting impacts are described below:

2020

In November 2019 the Board of Directors of Telefónica, S.A. designed a scheme for a reorganization of the Group's operations in Latin America. Subsequently, Telefónica Hispanoamérica, S.A.U. (previously Latin American Cellular Holdings, S.L.U.) has obtained direct and indirect ownership in the Group's operators in Chile, Colombia, Ecuador, México, Perú, Venezuela and Uruguay. Telefónica, S.A. is its sole shareholder.

On March 31, 2020 Telefónica, S.A. and Telefónica Latinoamérica Holding, S.L.U. agreed to a capital increase in Telefónica Hispanoamérica, S.A.U. ("T.Hispam"). The share capital increased by 473 million euros and was fully subscribed by Telefónica, S.A. and paid with an in-kind contribution of 3,000 shares of Telefónica Chile Holdings, S.L.U. Telefónica, S.A. has registered the new investment amounting to 1,209 million euros equivalent to the equity value of Telefónica Chile Holdings, S.L.U. whose net carrying value was 473 million euros. The difference between both figures amounting to 736 million euros was registered as unrestricted reserves (Note 11) in Telefónica. The Company gained a 68.58% ownership in the above mentioned subsidiary and shown in the additions column in 2020 chart of movements.

Moreover, on March 31, 2020 Telefónica, S.A. signed several sale agreements with T. Hispam to transfer the investments in Colombia Telecomunicaciones, S.A. E.S.P., Telefónica Venezolana, C.A., Comtel Comunicaciones Telefónicas, S.A., Fisatel México S.A. de C.V., and Telefónica Móviles Chile, S.A. The net carrying value of the investments was 503 million euros and a loss in the sale of investments was registered by 177 million euros. These transactions are shown as disposals in 2020 chart of movements.

On October 20, 2020 Telefónica, S.A. fully purchased the 54,000 stocks of T. Hispam (31.42% of its share capital) from Telefónica Latinoamérica Holding, S.L.U. for 974 million euros, reaching the 100% of ownership in the subsidiary.

2019

On February 14, 2019, after the pertinent regulatory approvals were 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 amounted to 88 million euros.

As a consequence of the policy of asset management in the Group, on July 25, 2019, the Company 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 required 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 amounted to 126 million euros.

On December 18, 2019, after the pertinent regulatory approvals were obtained, the propriety of the Miami Data Center was transferred with an additional gain in sale of companies of 4 million euros.

Other movements

On July 10, 2020 the deed of the partial division of Telefónica Ingeniería de Seguridad, S.A.U. contributed to the newly-created company Telefónica Cybersecurity & Cloud Tech, S.L. (previously Telefónica Cybersecurity Tech, S.L.) was filed in the Madrid Companies' Register. The net carrying value of the split-off investment is 5 million euros. The transaction is shown as "Transfers" in the 2020 chart above.

On August 7, 2020 the deed of the partial division of Telefónica Digital España, S.A.U. contributed to Telefónica Cybersecurity & Cloud Tech, S.L. was filed in the Madrid Companies' Register. The net carrying value of the split-off investment is 24 million euros. The transaction is shown as "Transfers" in the 2020 chart above.

On August 18, 2020, the deed of the merger between Taetel, S.L. and Telefónica Gestión Integral de Edificios y Servicios, S.L.U. (a subsidiary of Telefónica Servicios Globales, S.L.U.) was filed in the Madrid Companies' Register. The net book value of the merging entity amounted to 67 million euros and it is included as "Transfers" in the chart above.

On October 15, 2020 Telefónica Centroamérica Inversiones, S.L. distributed reserves to its shareholders. The Company recognized 47 million euros as a decrease in the cost of the investment for this concept and it is shown as "Dividends" in the 2020 chart of movements.

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

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

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

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

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

On May 17, 2019 and on December 2, 2019, Pontel Participaciones, S.L. distributed reserves by 19 and 41

million euros shown as "Dividends" in 2019 chart of movements.

On February 20, 2019 the Board of Directors of Telefónica, S.A. authorized the sale of the Group operators in Central América. The direct ownership in Costa Rica amounted to 291 million euros and it was transferred to "Net assets held for sale" and shown as Transfers in 2019 chart of movements. As of December 31, 2020 Telefónica, S.A. is waiting for the pertinent regulatory approvals to carry out the sale.

As of December 31, 2020, Telefónica de Costa Rica, T.C. has redeemed reserves paying its shareholder an amount of 17,370 million colones (equivalent to 23 million euros). This amount has decreased the amount in "Net assets held for sale".

On December 31, 2019 the Company 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 interests were transferred to an account receivable from Tax Authorities amounting to 42 million euros. The transaction was shown as "Transfers" in the 2019 chart of movements and disclosed in Note 8.5.

"Transfers" of "Loans to Group Companies and Associates" in 2019 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.

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

Millions of euros		
Companies	2020	2019
Telefónica Hispanoamérica, S.A.U.	2,183	—
Telefónica Digital España, S.L.U.	157	137
Telefónica Móviles México, S.A. de C.V.	122	250
Telefónica Innovación Alpha, S.L.	—	19
Pontel Participaciones, S.L.	323	—
Other companies	7	4
Total Group companies and associates	2,792	410

2020

The additions carried out with T.Hispam have been detailed at the beginning of this note.

On January 9, 2020, Telefónica Digital España, S.L.U. has carried out a capital increase of 157 million euros fully subscribed and paid by Telefónica, S.A.

On February 7, 2020, Telefónica Móviles México, S.A. de C.V. has carried out a capital increase of 2,500 million Mexican pesos (equivalents to 122 million euros) fully subscribed and paid by the Company.

On October 20, 2020 the deed of the capital increase of Pontel Participaciones, S.L. was filed to the Madrid Companies' Register. This capital increase was subscribed by the shareholders on June 8, 2020 but the payment was subject to the achievement of certain conditions. Once the conditions have been fulfilled, the Company disbursed pro-rata its ownership an amount of 323 million euros.

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 were fully subscribed and paid by Telefónica, S.A.

b) Disposals of investments and capital decreases:

Millions of euros		
Companies	2020	2019
Daytona, S.L. (formerly Panamá Cellular Holdings, S.L.)	—	53
Telefónica Global Technology, S.A.U.	231	—
Fisatel México, S.A. de C.V.	196	—
Telefónica Móviles México, S.A. de C.V.	891	—
Colombia Telecomunicaciones, S.A. ESP	272	—
Telefónica Venezolana, C.A.	123	—
Telefónica Chile Holdings, S.L.U.	473	—
Telefónica Móviles Chile, S.A.	89	—
Other companies	16	—
Total Group companies and associates	2,291	53

2020

Transactions related with Fisatel México, S.A. de C.V., Colombia Telecomunicaciones, S.A., ESP, Telefónica Venezolana, C.A., Telefónica Chile Holdings, S.L.U. and Telefónica Móviles Chile, S.A. have been detailed at the beginning of this Note.

On May 28, 2020 Telefónica Móviles México, S.A. de C.V., using the proceeds collected from the restructuring of its investments, reduced its share capital paying out its

shareholder 891 million euros shown as a decrease in the investment of this company.

On December 23, 2020 the Company has sold Telefónica Global Technology, S.A.U. to Telefónica de Contenidos, S.A.U. by an amount equivalent to the net book value at the transaction date of 150 million euros.

2019

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

In addition, in the specific case of the impairment test for Telefónica O2 Holdings, Ltd, the Company has considered the agreement reached on May 7, 2020 between Telefónica and Liberty Global, plc. to merge their operating businesses in the United Kingdom (O2 Holdings Ltd. and Virgin Media UK, respectively) and form a 50/50 Joint Venture (see Note 20. d). The Company has assessed the recoverable amount of this investment as of December 31, 2020 by reference to its fair value less costs to sell, determined as the consideration expected to be received through its participation in the joint venture and the additional payments agreed between the parties which Telefónica expects to receive 5,7 billion pounds sterling (an estimated figure as of the date of the agreement and subject to the usual adjustments included in these sort of transactions), as well as the value of the remaining assets and liabilities.

In order to determine the fair value, the Company has counted on an independent expert. In order to make this estimate, the discounted cash flow methodology has been used, with a valuation cross-check based on the Market Approach multiples from both companies and selected guideline companies to give market consistency to the results obtained.

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. With respect to the investment in Telefónica Móviles México, S.A. de C.V., after the sale of its investments to T.Hispam in 2020, this method of valuation has been considered the most appropriate.

As a result of these estimations and the effect of the net investment hedge in 2020, a write down of impairment provision of 10,956 million euros was recognized (reversal of 2,226 million euros in 2019). This amount derives mainly from the following companies:

- a. a write down, net of hedges, of 3,581 million euros for Telefónica O2 Holdings, Ltd. (write down reversal of 2,947 million euros, net of hedges, was registered in 2019);
- b. a write down, net of hedges, of 2,593 million euros for Telefônica Brasil, S.A. (write down reversal amounting to 484 million euros in 2019) and a write down of 551 million euros for Sao Paulo Telecomunicações, Ltda (write down reversal amounting to 100 million euros in 2019);
- c. a write down by 334 million euros for Telefónica Móviles México, S.A. de C.V. (write down by 224 million euros in 2019) mainly due to the impact of the exchange rate devaluation of the Mexican peso in the transfer transactions carried out in its restructuring process.
- d. a write down of 100 million euros for Telefónica Digital España, S.L.U. (a write down of 146 million euros in 2019).
- e. a write down of 3,321 million euros for Telefónica Latinoamérica Holding, S.L.U. (write down by 875 million euros in 2019). The write down is mainly originated by the decrease in the estimated cash flows from the Argentinian and Brazilian subsidiaries.
- f. a write down of 509 million euros for Telefónica Móviles de Argentina, S.A. amounting to 509 million euros (224 million euros in 2019).

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

In 2020, despite it has been affected by COVID-19, Brazil has succeeded in reducing the impact of the pandemic almost by half when compared to the rest of the Latin American economies. This positive behavior is the combination of a milder incidence of the disease, more relaxed close-down measures and direct funds granted to final consumers. The previously weak fiscal balances have been affected by these policies and new uncertainties have been raised harming the exchange rate. As for the long-term OIBDA margin two-years estimates of Telefónica's Group analysts for the operator in Brazil, it is in a range within 41% to 45%. Regarding investments, the operator will invest a percentage within the range of the investment needs forecasted by analysts (around 16%). The interest rates increase has resulted in an increase in the cost of debt of the company, and the WACC (Weighted average cost of capital) has risen from 10% in 2019 to 11.1% in 2020.

Argentina is one of the most affected countries worldwide by the crisis triggered by COVID-19 pandemic mainly due to the lack of ambitious tax policies and a long and strict close-down. Moreover, the future economic recovery is expected to be slower and the levels pre-COVID are not estimated to be reached before 2023-24. In addition, the country is sunk in a high inflation scenario that is being dealt with short-term unsuccessful measures and not with long-term structural policies. The Decree of Need and Urgency (DNU) approved by the government in the third quarter of 2020 to control the prices of the IT sector, is conditioning unequally its future evolution. The Decree will also have a strong negative impact in the revenue growth and in the gross margin of the business in the country. On the other hand, the dual exchange rate system caused by the scarce foreign currencies, an unpredictable institutional framework and the need to carry out deep tax adjustments are worsening the inequalities that Argentina will have to deal with after the pandemic. The value in use of the investment in Argentina has been updated with the latest approved strategic plan, using different valuation scenarios. The WACC in local currency is considering that inflation rate impacts the cash flows over the plan horizon with a perpetuity rate of 23%. The perpetuity growth rate of 10% is consistent with the perpetuity inflation rate. Both variables are aligned with the analysts' expectations for the Argentinian market using a strong currency. With respect to operating ratios, a long term OIBDA of 26% is being used which is below analysts' estimations for peers and the investment over revenues ratio is around 10%.

8.3. Detail of subsidiaries and associates

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

8.4. Transactions protected for tax purposes

Transactions carried out in 2020 that qualify for special tax regime, as defined in Articles 76 and 87, as applicable, of Chapter VII of Title VII of Legislative Royal Decree 27/2014 of November 27 approving the Spanish Corporate Income Tax Law, are detailed in the following paragraphs. Transactions qualified for special tax regime carried out in prior years are disclosed in the financial statements for those years.

On February 18, 2020, Telefónica, S.A., as the sole shareholder of the company Telefónica Ingeniería de Seguridad, S.A.U., approved the partial spin-off of this company in favor of Telefónica Cybersecurity & Cloud Tech, S.L.U., a newly set up company, of which it is the sole shareholder. The spin-off implies the entire transfer of the branch of activity called "Cybersecurity and Information Security". The spin-off involves the transfer *in bloc* and by universal succession of all its assets and liabilities to the beneficiary company. Telefónica, S.A., as the sole shareholder of both companies, registers the partial reduction in the value of the stake in Telefónica Ingeniería de

Seguridad, S.A.U., and the acquisition of capital in Telefónica Cybersecurity & Cloud Tech, S.L.U. at net book value of 5 million euros. The spin-off has been registered in the Madrid Companies' Register on July 10, 2020 (Note 8.1).

On February 18, 2020, Telefónica, S.A., as the sole partner of the company Telefónica Digital España, S.L.U., approved the partial division of this company in favor of Telefónica Cybersecurity & Cloud Tech, S.L.U., of which it is the sole shareholder. In the spin-off, the branch of activity called "Cybersecurity and Information Security" is transmitted *in bloc*. The spin-off implies the full transfer and with universal succession of all its assets and liabilities to the beneficiary company. Telefónica, S.A., as the sole shareholder of both companies, registers the partial reduction in the value of the stake in Telefónica Digital España, S.L.U., and the capital increase in Telefónica Cybersecurity & Cloud Tech, S.L.U. at a net book value of 24 million euros. The spin-off has been registered in the Madrid Companies' Register on August 7, 2020 (Note 8.1).

On March 31, 2020, Telefónica S.A., transferred through a contribution in-kind to the company Telefónica Hispanoamérica, S.A.U. the full ownership of 100% of the shares of Telefónica Chile Holdings S.L.U. As a consequence of this contribution, Telefónica, S.A. began to participate directly in 68.58% of the capital of Telefónica Hispanoamérica, S.A.U. Prior to this transaction, Telefónica, S.A. participated indirectly, through the company Telefónica Latinoamérica Holding, S.L.U., in 100% of Telefónica Hispanoamérica, S.A.U.

Telefónica, S.A. has registered the shares received in the contribution for a value of 1,209 million euros, corresponding to the equity value of Telefónica Chile Holdings, S.L.U. (Note 8.1). As of March 31, 2020, the tax value of the shares to be contributed is 473 million euros.

On June 30, 2020, the management bodies of the companies, Telefónica Open Innovation, S.L.U. (formerly Wayra Research and Development, S.L.U.) and Telefónica Innovation Ventures, S.L.U., approved the merger by absorption of the last one for the first, with the consequent dissolution without the settlement of the absorbed company and the full transfer of its assets in favor of the absorbing company, as well as the rights and obligations it acquires as universal legal successor. The deed of merger has been registered in the Madrid Companies' Register on November 16, 2020.

On July 7, 2020, Telefónica de España, S.A.U. approved the merger by absorption of DTS, Distribuidora de Televisión Digital, S.A.U. with the consequent dissolution of the latter entity and the full transfer of its corporate assets to Telefónica de España, S.A.U., which, as the absorbing company, acquired by universal succession the rights and obligations of the absorbed entity DTS.

Telefónica de España, S.A.U. has derecognized in its accounts the shares cancelled in the merger, valued at 1,038 million euros, corresponding to their net book value.

On August 5, 2020, Telefónica Gestión Integral de Edificios y Servicios, S.L. approved the merger by absorption of Taetel, S.L.U., with the consequent dissolution of Taetel, S.L.U., and the full transfer of its corporate assets to Telefónica Gestión Integral de Edificios y Servicios, S.L., which, as the absorbing company, acquired by universal succession the rights and obligations of the absorbed entity Taetel, S.L.U.

8.5. Maturity of loans to Group companies and associates

The breakdown and maturity of loans to Group companies and associates in 2020 and 2019 are as follows:

2020

Millions of euros

Company	2021	2022	2023	2024	2025	2026 and subsequent years	Final balance, current and non-current
Telefónica Móviles España, S.A.U.	2,192	—	—	—	—	—	2,192
Telefónica O2 Holdings, Ltd.	3,837	—	—	—	—	—	3,837
Telfisa Global, B.V.	1,364	—	—	—	—	—	1,364
Telefónica de España, S.A.U.	1,311	—	—	—	—	—	1,311
Telxius Telecom, S.A.	—	280	—	140	—	140	560
Telefônica de Brasil, S.A.	221	—	—	—	—	—	221
Telefónica Finanzas, S.A.U.	199	—	—	—	—	—	199
Other companies	426	—	—	—	—	30	456
Total	9,550	280	—	140	—	170	10,140

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

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

- The outstanding balance with Telefónica Móviles España, S.A.U. in 2020 includes dividends distributed and uncollected as of December 2020 amounting to 1,949 million euros (774 million euros in 2019).

Moreover, 243 million euros of tax balances are receivable from this subsidiary for its tax expense declared in the consolidated tax return (95 million euros in 2019).

- The receivable with Telefónica O2 Holdings, Ltd. includes dividends distributed and uncollected as of December 2020 amounting to 3,500 million pounds sterling (3,837 million euros).
- On December 31, 2019 Telefónica, S.A. 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).

Once the sale of the business in México to Telefónica Hispanoamérica, S.A.U. was completed, the credit still unpaid after the above-mentioned capitalization, amounted to 4,700 million Mexican pesos equivalent to 221 million euros, was cancelled on March 31, 2020.

- In December 2020, Telfisa Global, B.V. has approved the distribution of dividends totaling 1,364 million euros that remain unpaid as of the formulation date of these financial statements (178 million euros in 2019).
- The balance of Telefónica de España, S.A.U. consists of dividends distributed in December 2020 amounting to 1,207 million euros that are outstanding as of December 31, 2020 (1,214 million euros in 2019).

Additionally, there is also a balance of 104 million euros comprising tax receivables from the subsidiary for its tax expense declared in the consolidated tax return (19 million euros in 2019).

- On May 27, 2016, 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.
- The balance totaling 221 million euros shown in 2020 with Telefônica Brasil, S.A. entirely corresponds to dividends agreed by the subsidiary and unpaid at year end (210 million euros in December 2019).
- The balance of Telefónica Finanzas, S.A.U. in December 2020 amounting to 178 million euros includes dividends distributed and uncollected at year end.

Additionally, there is also a balance of 21 million euros comprising tax receivables from the subsidiary for its tax expense declared in the consolidated tax return (3 million euros in 2019).

In the 2020 chart of movements, additions of current loans to group companies and associates comprise 549 million euros (247 million euros in 2019) 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 247 million euros (589 million euros in 2019).

Total accrued interest receivable at December 31, 2020 and 2019 included under "Current loans to group companies and associates" amount to 1 million euros.

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 2019 and 2020 with a maturity date longer than 2021 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, 2020 and 2019 is as follows:

2020	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						
Millions of euros													
Non-current financial investments	320	1,054	2,420	3,794	320	3,474	—	—	1,106	1,106	1,112	4,900	4,906
Equity instruments	320	—	—	320	320	—	—	—	—	—	—	320	320
Derivatives (Note 16)	—	1,054	2,420	3,474	—	3,474	—	—	—	—	—	3,474	3,474
Loans to third parties and other financial assets	—	—	—	—	—	—	—	—	1,106	1,106	1,112	1,106	1,112
Current financial investments	—	459	690	1,149	—	1,149	—	1,014	4	1,018	1,018	2,167	2,167
Loans to third parties and other financial assets	—	—	—	—	—	—	—	1,014	4	1,018	1,018	1,018	1,018
Derivatives (Note 16)	—	459	690	1,149	—	1,149	—	—	—	—	—	1,149	1,149
Total financial investments	320	1,513	3,110	4,943	320	4,623	—	1,014	1,110	2,124	2,130	7,067	7,073

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

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, 2020 and 2019 (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, 2020 and 2019 are as follows:

December 31, 2020					
Millions of euros	Opening balance	Additions	Disposals	Fair value adjustments	Closing balance
Banco Bilbao Vizcaya Argentaria, S.A.	220	—	—	(42)	178
China Unicom (Hong Kong), Ltd.	—	92	—	(7)	85
Promotora de Informaciones, S.A. (PRISA)	94	—	—	(37)	57
Total	314	92	—	(86)	320

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

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.

At December 31, 2020 and 2019 Telefónica, S.A.'s investment in BBVA represents 0.66% of that company's share capital.

Promotora de Informaciones, S.A. (Prisa)

At December 31, 2020 and 2019 Telefónica, S.A.'s investment in Prisa represents 9.03% of its share capital.

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

China Unicom (Hong Kong), Ltd.

On March 27, 2020 Telefónica Hispanoamérica, S.A.U. has transferred its investment (182 million shares) in China Unicom (Hong Kong), Ltd. to Telefónica, S.A. The shares represent 0.593% of that company's share capital and are quoted in Hong Kong stock exchange. This transaction is shown as Additions in the 2020 chart of movements.

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

The difference between the amount shown as "Fair Value adjustments" in this note and the "Valuation at market value" of available for sale financial assets in Note 11 is due to hedges which partially offset the exchange rate impact in the valuation of China Unicom.

Neither in 2020 nor in 2019 write-downs have been registered for any available for sale investment.

9.4 Other financial assets and loans to third parties

The breakdown of investments included in this category at December 31, 2020 and 2019 is as follows:

Millions of euros	2020	2019
Other non-current financial assets:		
Deposits related to investment properties	9	9
Collateral guarantees	1,076	403
Other receivables	21	—
Other current financial assets:		
Loans to third parties	981	1,149
Other current financial assets	37	6
Total	2,124	1,567

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 206,919 bonds issued by Telefónica Emisiones, S.A.U. deposited in a securities account owned by Telefónica, S.A. with a notional of 194 million euros (there were 145,000 bonds with a notional of 129 million euros in 2019).

9.4.1 Loans to third parties

In 2020 Telefónica, S.A. has set up bank deposit contracts with a maturity period between 3 and 12 months totaling 981 million euros (1,149 million euros in 2019).

Outstanding interest revenues, amounting to 0.3 million euros in 2020 and 2019, are registered as other current financial assets.

Note 10. Trade and other receivables

The breakdown of "Trade and other receivables" at December 31, 2020 and 2019 is as follows:

Millions of euros	2020	2019
Trade receivables	1	68
Trade receivables from Group companies and associates	179	163
Other receivables	—	1
Employee benefits receivable	1	1
Tax receivables (Note 17)	101	103
Total	282	336

"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 2020 and 2019 include balances in foreign currency equivalent to 68 and 78 million euros, respectively.

In 2020 and 2019 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 8 million euros in 2020 (2 million euros of exchange rate losses in 2019).

Note 11. Equity

11.1 Capital and reserves

a) Share capital

2020

As of December 31, 2020, the share capital of Telefónica, S.A. was set at 5,526,431,062 euros and is divided into 5,526,431,062 common shares, of a single series and with a par value of 1 euro each, fully paid in. All the shares of the Company have the same characteristics and carry the same rights and obligations.

On July 8, 2020, the deed was registered for a paid-up capital increase in the amount of 136,305,986 euros, in which 136,305,986 ordinary shares with a par value of 1 euro each were issued against reserves as part of the scrip dividend. Following the share capital increase, the share capital was set at 5,328,437,672 euros.

On December 30, 2020, a deed was granted for the share capital increase in the amount of 197,993,390 euros, in which 197,993,390 ordinary shares with a par value of 1 euro each were issued against reserves as part of the scrip dividend shareholder remuneration. Following the share capital increase, the share capital was set at 5,526,431,062 euros. On January 5, 2021 this deed was registered in the Madrid Commercial Register.

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

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.

As of May 16, 2019, Telefónica's shares were excluded from trading on the London Stock Exchange, and, as of July 12, 2019, Telefónica's shares were excluded from trading on the Buenos Aires Stock Exchanges.

Authorizations by Shareholders' Meeting

As regards the authorizations conferred in respect of the share capital, the shareholders acting at the Ordinary General Shareholders' Meeting held on June 12, 2020 resolved to delegate to the Board of Directors, as broadly as

required by Law, pursuant to the provisions of Section 297.1.b) of the Companies Act, the power to increase the share capital on one or more occasions and at any time, within a period of five year from the date of adoption of such resolution, by the maximum nominal amount of 2,596,065,843 euros, equal to one-half of the share capital of the Company on the date of adoption of the resolution at the General Shareholders' Meeting, issuing and floating the respective new shares for such purpose with or without a premium, the consideration for which will consist of monetary contributions, with express provision for incomplete subscription of the shares to be issued. The Board of Directors was also authorized to exclude preemptive rights in whole or in part, as provided in section 506 of the Companies Act. However, the power to exclude preemptive rights is limited to 20% of the share capital on the date on which the resolution is adopted. In accordance with the above-mentioned authorization, as of the end of fiscal year 2020, the Board would be authorized to increase the share capital by the maximum nominal amount of 2,596,065,843 euros.

Furthermore, the shareholders acting at the Ordinary General Shareholders' Meeting of Telefónica, S.A. held on June 12, 2020 delegated to the Board of Directors, in accordance with the general rules governing the issuance of debentures and pursuant to the provisions of applicable law and the Company's By-Laws, the power to issue debentures, bonds, notes and other fixed-income securities and hybrid instruments, including preferred shares, which may in all cases be simple, exchangeable and/or convertible and/or grant 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 aforementioned securities may be issued on one or more occasions, within a maximum period of five years as from the date of adoption of the resolution. The securities issued may be debentures, bonds, notes and other fixed-income securities, or debt instruments of a similar nature, or hybrid instruments in any of the forms admitted by Law (including, among others, preferred interests) both simple and, in the case of debentures, bonds and hybrid instruments, convertible into shares of the Company and/or exchangeable for shares of the Company, of any of the companies of its Group or of any other company and/or giving the holders thereof an interest in the corporate earnings. Such delegation also includes warrants or other similar instruments that may entitle the holders thereof, directly or indirectly, to subscribe for or acquire newly-issued or outstanding shares, payable by physical delivery or through differences. The aggregate amount of the issuance or issuances of instruments that

may be approved in reliance on this delegation may not exceed, at any time, 25,000 million euros or the equivalent thereof in another currency. In the case of notes and for purposes of the above-mentioned limits, the outstanding balance of those issued in reliance on the delegation shall be computed. In the case of warrants, and also for the purpose of such limit, the sum of the premiums and exercise prices of each issuance shall be taken into account.

Furthermore, under the aforementioned delegation resolution, the shareholders at the Ordinary General Shareholders' Meeting of Telefónica, S.A. resolved to authorize the Board of Directors to guarantee, in the name of the Company, the issuance of the aforementioned instruments issued by the Companies belonging to its Group of Companies, within a maximum period of five years as from the date of adoption of the resolution.

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.

At December 31, 2020 and 2019, Telefónica, S.A. held the following treasury shares:

	Number of shares	Euros per share		Market value (*)	%
		Acquisition price	Trading price		
Treasury shares at Dec 31 2020	98,231,380	4.84	3.25	319	1.77748 %
Treasury shares at Dec 31 2019	77,562,635	9.88	6.23	483	1.49385 %

(*) Millions of euros

The movement in treasury shares of Telefónica, S.A. during the years 2020 and 2019 is as follows:

	Number of shares
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	68,640,303
Scrip dividend (Note 11.d)	6,252,817
Disposals	(1,560,215)
Employee share option plan (see Note 19.3)	(3,118,898)
Other movements	(49,545,262)
Treasury shares at 12/31/20	98,231,380

Acquisitions

In 2020 and 2019 acquisition of treasury shares amounting to 234 and 99 million euros respectively, have been registered (see Note 21).

Share redemption and disposals

In 2020 there has been share disposals of 7 million euros. In 2019 there were no share redemption or disposals of treasury shares.

Employee share option plan

Treasury shares related to share plans redemptions in 2020 and 2019 amount to 30 and 20 million euros, respectively.

Other movements

On September 17, 2019 Telefónica, S.A. signed an agreement with Prosegur Compañía de Seguridad, S.A. ("Prosegur") to purchase the 50% of their business of security systems in Spain by creating a joint venture company combining the complementary resources of both companies.

On February 28, 2020, once the pertinent regulatory approvals have been obtained, Telefónica de Contenidos, S.A.U. acquired 50% of the capital stock of Prosegur Alarmas España, S.L. with an in-kind delivery of 49,545,262 Telefónica shares previously acquired to the Company equivalent to 266 million euros as of the quotation on the delivery date. This transaction is shown as other movements in 2020 chart (see Note 20). The impact derived from the delivery of this treasury shares is shown under the Other transactions with shareholders and owners caption within the statement of changes in equity.

Other instruments

The Company also has a derivative instrument, to be settled by offset, on a nominal value equivalent to 176 million of Telefónica shares in 2020 (48 million of Telefónica shares in 2019), 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, this reserve was fully constituted and amounted to 1,038 million euros. As of December 31, 2020 the legal reserve amounts to 1,038 million euros representing 18.79% of the share capital at the date.

c) Other reserves

"Other reserves" include:

- 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 2020 and 2019, an amount of 5 million euros, corresponding to revaluation reserves subsequently considered unrestricted has been reclassified to "Other reserves". The balance of this reserve at December 31, 2020 and 2019 was 62 million euros and 67 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, 2020 and 2019 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 restricted reserve of 2 million euros for goodwill amortization. Pursuant to the provisions of Royal Decree 602/2016 of December 2, 2016 regarding the mandatory amortization of all intangible assets, the goodwill amortization as of January 1, 2015, amounting to 10 million euros was registered with a counterparty in this reserve.
- In addition to the restricted reserves explained above, "Other reserves" includes unrestricted reserves from gains obtained by the Company in prior years. In 2020 the impact in equity of the capital increase of T.Hispam detailed in Note 8, amounting to 736 million euros has been included under this caption, and shown as "Other movements" in the statement of changes in equity. The tax effect of this equity impact amounts to 9 million euros (See Note 17)

d) Dividends

Dividend distribution in 2020

Approval was given at the General Shareholders' Meeting of June 12, 2020 to pay a scrip dividend amounting to approximately 0.40 euros per share in two tranches, consisting of the assignment of free allotment rights with an irrevocable purchase commitment by the Company, and a subsequent capital increase by means of the issue of new shares to fulfill said allotments, following a specific calculation mechanism which might result in variations of the amount. The distribution of the first tranche, amounting approximately 0.20 euros per share, took place in June of 2020 and the second tranche, amounting approximately 0.20 euros per share, took place in December 2020, after the adoption of the corresponding corporate resolutions.

At its meeting held on June 12, 2020, the Board of Directors agreed to carry out the execution of the increase in paid-up capital, related to the shareholders compensation by means of a scrip dividend. Thus, each shareholder received one free allotment right for each Telefónica share held. Such free allotment rights were traded on the Continuous Market in Spain during a period of 15 calendar days. Once this trading period ended, the shareholders of 36.99% of the free-of-charge allotment rights accepted the irrevocable purchase commitment assumed by Telefónica, S.A. Cash payment was made on July 3, 2020 and had an impact in equity amounting to 371 million euros.

On the other hand, the shareholders of 63.01% of the free-of-charge allotment rights were entitled, therefore, to receive new shares of Telefónica, S.A. So the final number of shares issued after June 30, 2020 in the capital increase was 136,305,986 shares with a nominal value of 1 euro each.

The Executive Commission of Telefónica, S.A. Board of Directors meeting of December 4, 2020 agreed the implementation of the second capital increase with charge to reserves related to the shareholder compensation by means of a scrip dividend. The shareholders of 33.12% of the free-of-charge allotment rights accepted the irrevocable purchase commitment assumed by Telefónica, S.A. Cash payment was made on December 30, 2020 and had an impact in equity amounting to 342 million euros.

On the other hand, the shareholders of 66.88% of the free-of-charge allotment rights were entitled, therefore, to receive new shares of Telefónica, S.A. Thus, the final number of shares issued in the capital increase on December 30, 2020 was 197,993,390 shares with a nominal value of 1 euro each (3.72% of the share capital), with a capital increase of 197,993,390 euros.

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.

11.2 Unrealized gains (losses) reserve

The movements in the items composing "Unrealized gains (losses) reserve" in 2020 and 2019 are as follows:

2020

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)	(48)	(76)	—	—	—	(124)
Cash flow hedges	(276)	(990)	248	702	(175)	(491)
Total	(324)	(1,066)	248	702	(175)	(615)

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)

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

Note 12. Financial liabilities

The breakdown of "Financial liabilities" at December 31, 2020 and 2019 is as follows:

2020	LIABILITIES AT FAIR VALUE						LIABILITIES AT AMORTIZED COST			
	MEASUREMENT HIERARCHY									
	Financial liabilities held for trading	Hedges	Subtotal financial liabilities at fair value	Level 1: quoted prices	Level 2: Estimates based on other directly observable market inputs	Level 3: Estimates not based on other directly observable market data	Trade and other payables	Trade and other payables at fair value	TOTAL CARRYING AMOUNT	TOTAL FAIR VALUE
Millions of euros										
Non-current financial liabilities	1,429	2,596	4,025	—	4,025	—	40,640	47,278	44,665	51,303
Payable to Group companies and associates	—	—	—	—	—	—	38,900	45,503	38,900	45,503
Bank borrowings	—	—	—	—	—	—	1,392	1,439	1,392	1,439
Derivatives (Note 16)	1,429	2,596	4,025	—	4,025	—	—	—	4,025	4,025
Other financial liabilities	—	—	—	—	—	—	348	336	348	336
Current financial liabilities	536	42	578	—	578	—	12,891	12,917	13,469	13,495
Payable to Group companies and associates	—	—	—	—	—	—	12,263	12,286	12,263	12,286
Bank borrowings	—	—	—	—	—	—	318	321	318	321
Bonds and other marketable debt securities	—	—	—	—	—	—	269	269	269	269
Derivatives (Note 16)	536	42	578	—	578	—	—	—	578	578
Other financial liabilities	—	—	—	—	—	—	41	41	41	41
Total financial liabilities	1,965	2,638	4,603	—	4,603	—	53,531	60,195	58,134	64,798

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
Loans with financial entities	—	—	—	—	—	—	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
Loans with financial entities	—	—	—	—	—	—	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

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, 2020 and 2019, only includes a promissory notes programme registered with the CNMV.

The features of the 2020 programme are the following :

Amount	Placement system	Nominal amount of the Promissory notes	Terms of the Promissory notes	Placement
2,000 millions of euros	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 features of the 2019 programme were the following :

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, 2020 and 2019 are as follows:

	2020	2019
Millions of euros	Other marketable debt securities (Promissory notes)	Other marketable debt securities (Promissory notes)
Opening balance	75	181
Additions	522	213
Disposals	(328)	(319)
Closing balance	269	75
Details of maturities:		
Current	269	75

The average interest rate during 2020 has been -0.12% (-0.23% in 2019).

Note 14. Interest-bearing debt and derivatives

14.1 Detail of debt balances

The balances at December 31, 2020 and 2019 are as follows:

December 31, 2020			
Millions of euros	Current	Non-current	Total
Loans with financial entities (Note 12)	318	1,392	1,710
Derivatives (Note 16)	578	4,025	4,603
Total	896	5,417	6,313

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

14.2 Disclosure of nominal amount of debts

The nominal values of the main interest-bearing debts at December 31, 2020 and 2019 are as follows:

2020					
Description	Value Date	Maturity Date	Currency	Limit 12/31/2020 (millions of local currency)	Balance (millions of euros)
Structured Financing (*)	05/03/2011	07/30/2021	USD	18	15
Structured Financing (*)	02/22/2013	01/31/2023	USD	199	162
Structured Financing (*)	08/01/2013	10/31/2023	USD	187	152
Structured Financing (*)	12/11/2015	03/11/2026	USD	414	338
Structured Financing (*)	12/11/2015	03/11/2026	EUR	281	281
Bilateral loan	07/11/2019	08/14/2026	EUR	—	200
Bilateral loan	12/04/2019	05/06/2027	EUR	—	200
Bilateral loan	11/08/2019	03/12/2030	EUR	—	150
Credit	05/23/2013	03/01/2023	GBP	100	111

(*) Facility with amortization schedule, showing in the column "Limit 12/31/2020" the outstanding amount.

2019

Description	Value Date	Maturity Date	Currency	Limit 12/31/2019 (millions of local currency)	Balance (millions of euros)
Structured Financing (*)	05/03/2011	07/30/2021	USD	59	53
Structured Financing (*)	02/22/2013	01/31/2023	USD	316	282
Structured Financing (*)	08/01/2013	10/31/2023	USD	273	243
Structured Financing (*)	12/11/2015	03/11/2026	USD	503	448
Structured Financing (*)	12/11/2015	03/11/2026	EUR	341	341
Bilateral loan	07/11/2019	08/14/2026	EUR	—	200
Credit	05/23/2013	03/01/2022	GBP	100	117

(*) Facilities with amortization schedule, showing in the column "Limit 12/31/2019" the outstanding amount.

14.3 Maturities of balances

The maturity of balances at December 31, 2020 and 2019 are as follows:

December 31, 2020	Maturity						Closing balance
Millions of euros	2021	2022	2023	2024	2025	Subsequent years	
Loans with financial entities	318	120	133	118	335	686	1,710
Derivatives (Note 16)	578	305	86	133	73	3,428	4,603
Total	896	425	219	251	408	4,114	6,313

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

14.4 Interest-bearing debt arranged or repaid in 2020

The most significant transactions in 2020 mainly includes the following:

Description	Limit Dec 31 2020 (millions)	Currency	Outstanding balance Dec 31 2020 (million euros)	Arrangement date	Maturity date	Drawdown 2020 (million euros)	Repayment 2020 (million euros)
Telefónica, S.A.							
Bilateral Credit (1)	135	EUR	—	05/14/2019	05/14/2024	—	—
Bilateral Loan (2)	200	EUR	—	12/18/2020	06/18/2024	—	—
Bilateral Loan	—	EUR	150	11/08/2019	03/12/2030	150	—
Bilateral Loan	—	EUR	200	12/04/2019	05/06/2027	200	—

(1) On February 18, 2020, Telefónica reduced the limit of the bilateral loan from 300 to 135 million euros.

(2) The bilateral loan has two annual extension options.

14.5 Average interest on loans and borrowings

The average interest rate in 2020 on loans and borrowings denominated in euros was 0.387% (0.386% in 2019) and 1.79% (2.058% in 2019) 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, 2020 and 2019, Telefónica had undrawn credit facilities amounting to 10,709 million euros and 11,157 million euros, respectively.

Financing arranged by Telefónica, S.A. at December 31, 2020 and 2019 is not subject to compliance with financial ratios (covenants).

Note 15. Payable to group companies and associates

15.1 Detail of group debts

The breakdown of payable to group companies and associates at the 2020 and 2019 year ends is as follows:

December 31, 2020			
Millions of euros	Non-current	Current	Total
Loans	38,873	11,703	50,576
Trade payables to Group companies and associates	3	120	123
Derivatives (Note 16)	—	4	4
Tax Group payables to subsidiaries	24	436	460
Total	38,900	12,263	51,163

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

The maturity of these loans at the 2020 and 2019 year ends is as follows (figures in millions of euros):

December 31, 2020							
Company	2021	2022	2023	2024	2025	2026 and subsequent years	Final balance, current and non-current
Telefónica Emisiones, S.A.U.	3,326	3,114	2,228	1,008	2,273	20,853	32,802
Telefónica Europe, B.V.	1,467	999	2,243	997	1,294	3,693	10,693
Telfisa Global, B.V.	6,311	—	—	—	—	—	6,311
Telefónica Participaciones, S.A.U.	599	—	—	—	—	—	599
Telefónica de Argentina, S.A.	—	—	—	—	171	—	171
Total	11,703	4,113	4,471	2,005	3,738	24,546	50,576

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

Financing raised by Telefónica, S.A. through its subsidiary Telefónica Europe, B.V. at December 31, 2020 amounting 10,693 million euros (11,159 million euros in 2019). This financing entails a number of loans paying market interest rates calculated on a Euribor plus spread basis, with average interest rates in both 2020 and 2019 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 7,502 million euros (7,782 million euros in 2019), bonds and debentures amounting to 1,596 million euros (1,617 million euros in 2019) and commercial paper amounting to 1,248 million euros (1,390 million euros in 2019).

Financing raised by Telefónica, S.A. through Telefónica Emisiones, S.A.U. at December 31, 2020 was 32,802 million

euros (35,814 million euros in 2019). 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 2020 was 3.32% (3.57% in 2019). 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 2020 by tapping the European, and American capital markets, issuing bonds totaling 3,500 million euros (3,598 million euros in 2019).

The characteristics of the main bonds issued during 2020 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	02/03/2020	02/03/2030	1,000	EUR	1,000	0.664 %
EMTN bond	05/21/2020	08/21/2027	1,250	EUR	1,250	1.201 %
EMTN bond	05/21/2020	05/21/2032	750	EUR	750	1.807 %
EMTN bond	07/13/2020	07/13/2040	500	EUR	500	1.864 %

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, 2020 and 2019 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 6,311 million euros in 2020 (7,068 million euros in 2019).

Financing raised by Telefónica, S.A. through Telefónica Participaciones, S.A.U. at December 31, 2020 totals 599 million euros (592 million euros in 2019) 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.

The 2020 disclosure includes a new loan granted by Telefónica de Argentina, S.A. to the Company in September 2020 amounting to 209 million US dollars (171 million euros as of year end exchange rates), maturity date in 2025 and a variable interest rate referred to Libor.

15.2 Tax liabilities

The balance of "Payable to subsidiaries due to taxation on a consolidated basis" was 460 and 41 million euros at December 31, 2020 and 2019, respectively. This basically includes payables to Group companies for their contribution of taxable income (tax loss carryforwards) to the tax group headed by Telefónica, S.A. (see Note 17). The current or non-current classification is based on the Company's projection of maturities.

The most significant balances correspond to Telefónica de España, S.A.U. amounting to 118 million euros (there was no liability in 2019), Telefónica Móviles de España, S.A.U. amounting to 221 million euros (there was no liability in 2019), Telefónica Latinoamérica Holding, S.L.U. amounting to 21 million euros in 2020 y 2019 and Telefónica Digital España, S.L.U. amounting 28 million euros (11 million euros in 2019).

Note 16. Derivative financial instruments and risk management policies

a) Derivative financial instruments

During 2020, 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, 2020, the total outstanding balance of derivatives transactions was 88,359 million euros (103,395 million euros in 2019), of which 55,524 million euros related to interest rate risk and 32,835 million euros to foreign currency risk. In 2019, 76,367 million euros related to interest rate risk and 27,028 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, 2020, Telefónica, S.A. had transactions with financial institutions to hedge exchange rate risk for other Telefónica Group companies amounting to 1,651 million euros (2,113 million euros in 2019). At year-end 2020 and 2019, the Company had no transactions to hedge interest rate risk for other Group companies. These external trades are matched by intragroup hedges with identical terms and maturities between Telefónica, S.A. and Group companies, and therefore involve no risk for the Company. External derivatives not backed by identical intragroup transactions consist of hedges on net investment and future acquisitions that, by their nature, cannot be transferred to Group companies and/or transactions to hedge financing raised by Telefónica, S.A. as parent company of the Telefónica Group, which are transferred to Group subsidiaries in the form of financing rather than via derivative transactions.

The breakdown of Telefónica, S.A.'s interest rate and exchange rate derivatives at December 31, 2020, their notional amounts at year end and the expected maturity schedule is as follows:

2020

Millions of euros

Type of risk	Value in Euros	Telefónica receives		Telefónica pays	
		Carrying	Currency	Carrying	Currency
Euro interest rate swaps	37,650				
Fixed to fixed	175	175	EUR	175	EUR
Fixed to floating	20,685	20,685	EUR	20,685	EUR
Floating to fixed	16,790	16,790	EUR	16,790	EUR
Foreign currency interest rate swaps	17,039				
Fixed to floating					
CHFCHF	139	150	CHF	150	CHF
GBPGBP	1,336	1,200	GBP	1,200	GBP
USDUSD	15,181	18,625	USD	18,625	USD
Floating to fixed					
USDUSD	383	470	USD	470	USD
Exchange rate swaps	17,022				
Fixed to fixed					
EURBRL	184	184	EUR	1,171	BRL
EURUSD	618	618	EUR	758	USD
MXNUDI	353	5,938	MXN	1,305	UDI
UDIMXN	243	1,305	UDI	5,938	MXN
Fixed to floating					
JPYEUR	95	15,000	JPY	95	EUR
Floating to floating					
CHFEUR	125	150	CHF	125	EUR
GBPEUR	1,009	900	GBP	1,009	EUR
USDEUR	14,395	16,545	USD	14,395	EUR
Forwards	15,634				
BRLEUR	4	27	BRL	4	EUR
CLPEUR	—	350	CLP	—	EUR
CZKEUR	64	1,708	CZK	64	EUR
EURBRL	2,435	2,435	EUR	15,527	BRL
EURCLP	43	43	EUR	37,800	CLP
EURGBP	8,494	8,494	EUR	7,628	GBP
EURMXN	1	1	EUR	25	MXN
EURUSD	3,102	3,102	EUR	3,806	USD
GBPEUR	528	472	GBP	528	EUR
GBPUSD	2	2	GBP	2	USD
USDBRL	155	187	USD	988	BRL
USDCLP	6	7	USD	5,295	CLP
USDCOP	1	1	USD	3,504	COP
USDEUR	627	759	USD	627	EUR
USDGBP	27	32	USD	24	GBP
USDPEN	2	2	USD	8	PEN
CLPUSD	1	752	CLP	1	USD
BRLUSD	142	920	BRL	174	USD
MXNEUR	—	3	MXN	—	EUR
Subtotal	87,345				

Millions of euros

Notional amounts of structured products with options	Value in euros	Notional	Currency
Interest rate options Caps & Floors	835		
Caps&Floors	835		
GBP	835	750	GBP
Currency options	179		
EURGBP	(2,899)	(2,899)	EUR
GBPEUR	2,917	2,917	EUR
USDBRL	(943)	1,157	USD
BRLUSD	1,104	(1,355)	USD
Subtotal	1,014		
Total	88,359		

The breakdown by average maturity is as follows:

Millions of euros

Hedged underlying item	Notional	Up to 1 year	From 1 to 3 years	From 3 to 5 years	Over 5 years
Pension Plans	6,567	960	1,762	1,458	2,387
Loans	6,740	1,903	3,685	1,040	112
In national currency	3,510	785	1,925	800	—
In foreign currencies	3,230	1,118	1,760	240	112
Debentures and bonds MtM	54,478	8,354	5,443	3,265	37,416
In national currency	14,217	1,550	2,767	2,925	6,975
In foreign currencies	40,261	6,804	2,676	340	30,441
Other underlying (*)	20,574	16,855	3,031	401	287
CCS	781	246	124	124	287
Currency options	178	178	—	—	—
Forward	15,635	15,635	—	—	—
IRS	3,980	796	2,907	277	—
Total	88,359	28,072	13,921	6,164	40,202

(*) 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 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 and Commercial Paper	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 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, 2020, net financial debt in pounds sterling was equivalent to 8,371 million euros (3,938 million euros at December 31, 2019), 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 2020 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	(100)	(64)	(858)	(858)
-100bp	97	61	858	858

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, 2020 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, 2020 was assumed, as well as a 100 basis point decrease in all currencies and terms. Cash flow hedge positions were also considered as they are the only positions where changes in market value due to interest-rate fluctuations are recognized in equity.

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

Share price risk

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

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

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

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

In addition, part of the treasury shares of Telefónica, S.A. held at December 31, 2020 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 (See Note 20).

Capital management

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

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

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

Derivatives Policy

Telefónica's derivatives policy emphasizes the following points:

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

Hedge accounting

Hedges can be of three types:

- Fair value hedges.
- Cash flow hedges. Such hedges can be set at any value of the risk to be hedged (interest rates, exchange rates, etc.) or for a defined range (interest rates between 2% and 4%, above 4%, etc.). In this last case, the hedging instruments used are options and only the intrinsic value of the option is recognized as an effective hedge. The changes in the temporal value of the option are registered in the income statements.
- Net investment hedges in consolidated foreign subsidiaries. Generally such hedges are arranged by the parent company 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 2020 the Company recognized a profit of 48.7 million euros for the ineffective part of cash flow hedges (a loss of 17.1 million euros in 2019).

The fair value of Telefónica, S.A.'s derivatives with third parties amounted to a positive MtM (accounts receivable) of 20 million euros in 2020 (1,567 million euros in 2019).

The fair value of Telefónica, S.A.'s intragroup derivatives amounted to a positive MtM (accounts receivable) of 15 million euros in 2020 (negative MtM of 54 million euros in 2019).

The breakdown of the Company's derivatives with third party counterparties at December 31, 2020 and 2019 by type of hedge, their fair value at year end and the expected maturity schedule of the notional amounts is as follows:

2020

Millions of euros

Derivatives	Fair value (**)	Notional amount maturities (*)				Total
		2021	2022	2023	Subsequent years	
Interest rate hedges	(1,337)	—	(490)	(800)	(2,639)	(3,929)
Cash flow hedges	14	—	67	—	—	67
Fair value hedges	(1,351)	—	(557)	(800)	(2,639)	(3,996)
Exchange rate hedges	1,031	404	125	—	5,856	6,385
Cash flow hedges	1,031	404	125	—	5,856	6,385
Interest and exchange rate hedges	(184)	247	189	668	886	1,990
Cash flow hedges	(184)	247	189	668	886	1,990
Net investment Hedges	19	(3,752)	—	—	—	(3,752)
Other derivatives	451	(11,779)	42	(258)	1,103	(10,892)
Interest rate	(75)	(4,637)	(673)	(258)	(1,283)	(6,851)
Exchange rate	271	(7,303)	561	—	2,386	(4,356)
Other	255	161	154	—	—	315

(*) 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.

2019

Millions of euros

Derivatives	Fair value (**)	Notional amount maturities (*)				Total
		2020	2021	2022	Subsequent years	
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.

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 2020 and 2019 comprised 44 and 42 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, 2020 and 2019 are as follows:

Millions of euros	2020	2019
Tax receivables:	2,216	2,164
Deferred tax assets:	2,115	2,061
Deferred income tax (income)	371	194
Long-term tax credits for loss carryforwards	869	980
Unused tax deductions	875	887
Current tax receivables (Note 10):	101	103
Withholdings	21	20
Corporate income tax payable	68	76
VAT and Canary Islands general indirect tax refundable	12	7
Tax payable:	219	326
Deferred tax liabilities:	151	143
Current payables to public administrations (Note 18):	68	183
Personnel income tax withholdings	5	8
Withholding on investment income, VAT and other	61	173
Social security	2	2

Telefónica S.A., considers that unused tax loss carryforwards in Spain, taking into account tax litigation in which the group is involved, amount to 4,854 million euros at December 31, 2020.

Dec 31 2020	Total carry-forwards	Less than 1 year	More than 1 year	Total recognized
Tax Group tax credits for loss carryforwards	4,603	646	3,957	3,476
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, 2020 therefore amounts to 869 million euros (980 million euros in 2019).

During 2020, Telefónica, S.A., as head of the Telefónica tax group, made payments on account of income tax amounting to 39 million euros (59 million euros in 2019).

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, 2020 and 2019 are as follows:

2020					
Millions of euros	Tax credits	Temporary differences, assets	Deductions	Total deferred tax assets	Deferred tax liabilities
Opening balance	980	194	887	2,061	143
Arising in the year	27	199	56	282	25
Reversal	(138)	(15)	(99)	(252)	—
Transfers to the tax group's net position	—	(7)	31	24	(17)
Closing balance	869	371	875	2,115	151

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

The group assesses the recoverability of deferred tax assets based on the future activities carried out by the different companies, on tax regulations in the different countries in which these companies operate, and on the strategic decisions affecting the companies. Due to the COVID-19 crisis (see Note 2), at December 31, 2020 the hypothesis assumed and the estimation of recoverability of deferred tax assets were revalued, taking into account the latest regulatory changes. As a result, Telefónica, S.A. reversed deferred tax assets for loss carryforwards with a counterparty in Corporate income tax amounting to 138 million euros, corresponding to the tax group in Spain (16 million euros in 2019). The effect of asset deductions in 2020 is a net addition of 56 million euros (9 million euros of in 2019).

A partial resolution upholding the claims of Telefónica, S.A. by the Tribunal Económico-Administrativo Central (TEAC) pertaining the overpayments made in 2008-2011 resulted in a collection of 702 million euros, which was shown as "Transfers" in the caption "Tax Credits" of the 2019 chart of movements. Moreover, compensating interests of 201 million euros related to this resolution were collected (see Notes 17.3 and 21).

On the other hand, pursuant to the 16th transitional provision of RDL 3/2016, establishing the compulsory integration by fifth parts of the investment write-offs considered as deductible prior to January 1, 2013, in 2020 134 million euros have been disposed from the deferred tax caption. In 2019, 136 million euros were disposed from the same caption, creating a liability with the Tax Authorities.

Following the publication in the BOE of December 31, 2020 of Law 11/2020 on General State Budgets 2021, and with effect from January 1, 2021, the exemption to avoid double taxation of the dividends and positive income derived from the transfer of shares of article 21 of LIS, will be reduced by 5% in concept of non-deductible management expenses, which reduces the effective exemption to 95%.

With respect to consolidated tax group, this 5% will not be eliminated even when it relates to dividends or income derived from the transfer of shares, distributed or obtained (respectively) within the tax group.

As a consequence of the analysis of this impact in Telefónica, S.A. 24 million euros of deferred tax assets and 25 million euros of deferred tax liabilities have been accounted in 2020 and shown as Additions in the chart of movements.

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

The calculation of the income tax expense and income tax payable for 2020 and 2019 is as follows.

Millions of euros	2020	2019
Accounting profit (loss) before tax	(1,966)	5,122
Permanent differences	307	(7,285)
Temporary differences:	529	594
Arising in the year	38	74
Arising in prior years	491	520
Tax result	(1,130)	(1,569)
Gross tax payable	(283)	(392)
Corporate income tax refundable	(283)	(392)
Activation/Reversal of loss carryforwards and/or deductions	46	8
Temporary differences for tax valuation	(132)	(149)
Other effects	63	(117)
Corporate income tax accrued in Spain	(306)	(650)
Foreign taxes	25	32
Income tax	(281)	(618)
Current income tax	(257)	(360)
Deferred income tax	(24)	(257)

The permanent differences mainly correspond to the write-off of the investments in Group companies, to the non-tributable dividends received, to the non-tributable capital gains on the sale of several subsidiaries (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 56 million euros (activation of 9 million euros in 2019) and the reversal of loss carryforwards by 101 million euros in 2020 (reversal of 16 million euros in 2019).

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

17.3 Tax inspections and tax-related lawsuits

In July 2019, new inspection proceedings were initiated with respect to several of the companies belonging to tax group 24/90, of which Telefónica, S.A. is the dominant company. The taxes and period being audited 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. The maximum term of the tax inspections is 27 months. However, after the publication of RD 3/2020 of March 17 related to Covid-19, the proceeding was paralyzed between March 14, 2020 and June 1, 2020 and the term was in accordance extended until December 2021.

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 were registered as income tax in the 2019 income statement. Telefónica received this payment in July of this same year.

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 2020, 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 4% not amortized for five years (20% in total) will be recovered extending the deduction period from the initial 20 years to 25 years.

The Telefónica Group, under this regulation, has been amortizing for tax purposes the financial goodwill from its investments, both direct and indirect, in O2, BellSouth and Colombia Telecom (prior to December 21, 2007) and Vivo (acquired in 2010). The positive accumulated effect in the corresponding settlements of corporate income tax from 2004 to the closing of December 31, 2020, was 1,716 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, 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 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) 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 420 million euros as of 31 December 2020 (352 million euros as of 31 December 2019).

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	2020	2019
Suppliers	101	68
Accounts payable to personnel	39	40
Other payables	9	16
Other payables to public administrations (Note 17)	68	183
Total	217	307

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 has been fully cancelled in 2020.

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:

	2020	2019
	Number of days	Number of days
Weighted average maturity period	36	38
Ratio of payments	36	38
Ratio of outstanding invoices	40	32
	Millions of euros	Millions of euros
Total Payments	270	253
Outstanding invoices	21	23

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 2020 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 2020 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 2020 and 2019 the concepts and amounts under the provisions caption are the following:

2020			
Millions of euros	Non-current	Current	Total
Tax Provisions	433	—	433
Termination plans (Note 19)	94	24	118
Other provisions	178	2	180
Total	705	26	731

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

Movements in the provisions during 2020 and 2019 are disclosed below:

Millions of euros	2020	2019
Opening balance:	668	587
Additions	83	127
Amortization and reversals	(17)	(45)
Transfers	(3)	—
Fair value adjustments and others	—	(1)
Closing balance:	731	668
Non-current	705	653
Current	26	15

In 2020 and 2019 the caption “Additions” includes 68 million euros in both cases, 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 in 2016 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. launched a new voluntary termination plan for the employees who met certain requirements regarding the age of the employee and the seniority in the Company. The programme was 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 left the Company in December 2019.

Moreover, the new voluntary programmes launched in 2019 by Telefónica de España, S.A.U. and Telefónica Móviles España, S.A.U. resulted in liabilities related to employees of these subsidiaries who had also been working in Telefónica, S.A., and part of their indemnities had to be assumed by Telefónica, S.A. The total impact was an expense of 55 million euros in the 2019 income statement.

In 2020, the programmes launched in 2019 (Plan 5 and Plan 10) with requirements regarding age and seniority in the Company for active employees as of January 1, 2020 have been implemented. Additional expense of 15 million euros has been registered to cover the programmes.

In 2020 and 2019 amortization of 17 and 28 million euros, respectively, related to the different programmes launched in previous years have been registered.

Note 19. Revenue and expenses

19.1 Revenue

a) Rendering of services

Telefónica, S.A. has contracts for the right to use the Telefónica brand with Group companies which use the license. The amount each subsidiary must recognize as a cost for use of the license is stipulated in the contract as a percentage of income obtained by the licensor. In 2020 and 2019, "Rendering of services to Group companies and associates" included 379 and 393 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 2020 and 2019 amounted to 30 and 34 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 2020 and 2019 is as follows:

Millions of euros	2020	2019
Telfisa Global, B.V.	1,364	178
Telefónica de España, S.A.U.	1,207	1,214
Telefónica O2 Holdings Limited	4,459	647
Telefónica Móviles España, S.A.U.	1,949	774
Telefônica Brasil, S.A.	302	410
Sao Paulo Telecomunicações, Ltda	35	156
Telefónica Hispanoamérica, S.A.U.	417	—
Telefónica Centroamérica Inversiones, S.L.	11	153
Telefónica de Contenidos, S.A.U.	105	—
Telefónica Finanzas, S.A.U.	178	—
Telfin Ireland, Ltd.	136	555
Other companies	94	155
Total	10,257	4,242

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	2020	2019
Telefónica Móviles México, S.A. de C.V.	7	57
Telefónica Hispanoamérica, S.A.U.	3	—
Telxius Telecom, S.A.U.	8	8
Other companies	3	8
Total	21	73

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.

Pursuant to the Data Centers sale transaction signed with Asterion Industrial Partners SGEIC, S.A. in 2019 (see Note 8), in December 2020 a Data Center located in Madrid has been sold with an additional revenue of 12 million euros recognized as other current revenue.

19.3 Personnel expenses and employee benefits

The breakdown of "Personnel expenses" is as follows:

Millions of euros	2020	2019
Wages, salaries and other personnel expenses	158	209
Pension plans	7	11
Social security costs	39	25
Total	204	245

In 2020, "Wages, salaries and other personnel expenses" includes compensation accruals amounting to 15 million euros (55 million euros in 2019).

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, 2020, 2,266 participants have signed up for the plan (2,205 participants in 2019). 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 2020 and 2019.

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 8 and 7 million euros in both 2020 and 2019, respectively. In 2020 some executives under this Pension Plan for Senior Executives left the Company, and accordingly their accumulated contributions were retrieved by Telefónica, S.A. and registered as a decrease in the expense totaling 5 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 2020-2019 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.

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

The plan will be in force for five years and is divided into three cycles of three years each. The first cycle commenced in 2018 and finalized on December 31, 2020. The maximum number of shares assigned to this cycle of the plan at inception was 8,466,996 shares (out of which, 2,942,891 shares were assigned to Telefónica, S.A.'s employees) with a fair value of 6.4631 euros per share for the FCF objective ("Free Cash Flow") and 4.516 euros for the TSR ("Total Shareholder Return"). As of December 31, 2020 the number of outstanding shares was 7,093,162 (out of which, 2,780,383 shares correspond to Telefónica, S.A.'s employees). Once considered the target fulfillment levels for 2018, 2019, and 2020, a weighted achievement ratio of 50% has been reached. Performance assessment has been carried out based on the evolution of the stock price and on the audited results of the Company.

Nevertheless, on February 23, 2021, the Chairman & CEO declared in the Nominating, Retribution and Good Governance Committee that he considered appropriate to renounce to this incentive perception as a sign of responsibility with society, customers, shareholders and employees of Telefónica as well as a cautious measure after the economic impacts of the COVID-19 crisis. The COO made the same declaration. The renounce was accepted by the Board of Directors.

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, 2020 8,257,335, with the following breakdown:

	No. of shares assigned	Outstanding shares at 12/31/2020	Unit fair value (euros)
Second cycle			
TSR Objective	4,735,744.5	4,128,667.5	4.44
FCF Objective	4,735,744.5	4,128,667.5	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, 2020 are 3,127,264.

The third cycle commenced in 2020 and will be finalized on December 31, 2022, with delivery of the respective shares in 2023. The maximum number of shares assigned to this cycle of the plan was 5,346,508 shares and the outstanding shares

at December 31, 2020 5,309,098, with the following breakdown:

Third cycle	No. of shares assigned	Outstanding shares at 12/31/2020	Unit fair value (euros)
TSR Objective	2,673,254	2,654,549	1.64
FCF Objective	2,673,254	2,654,549	3.21

Out of this total, the shares assigned to Telefónica, S.A.'s employees are 1,935,025. The outstanding shares as of December 31, 2020 are 1,933,407.

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

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

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

The first cycle commenced in 2018 and finalized on December 31, 2020. The maximum number of shares assigned to this cycle of the plan at inception was 787,500 shares (out of which, 92,500 shares were assigned to Telefónica, S.A.'s employees) with a fair value of 6.4631 euros per share for the FCF objective ("Free Cash Flow") and 4.516 euros for the TSR ("Total Shareholder Return"). As of December 31, 2020 the number of outstanding shares was 691,750 (out of which, 85,250 shares corresponded to Telefónica, S.A.'s employees). Once considered the target fulfillment levels for 2018, 2019, and 2020, a weighted achievement ratio of 50% has been reached. Performance assessment has been carried out based on the evolution of the stock price and on the audited results of the Company.

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 745,000 outstanding shares at December 31, 2020, with the following breakdown:

Second cycle	No. of shares assigned	Outstanding shares at 12/31/2020	Unit fair value (euros)
TSR Objective	406,000	372,500	4.44
FCF Objective	406,000	372,500	6.14

From this total, the shares assigned to Telefónica, S.A.'s employees are 110,250. The outstanding shares as of December 31, 2020 are 98,750.

The third cycle commenced in 2020 and will be finalized on December 31, 2022, with delivery of the respective shares in 2023. The maximum number of shares assigned to this cycle of the plan was 897,400 shares and there were 894,000 outstanding shares at December 31, 2020, with the following breakdown:

Third cycle	No. of shares assigned	Outstanding shares at 12/31/2020	Unit fair value (euros)
TSR Objective	448,700	447,000	1.64
FCF Objective	448,700	447,000	3.21

From this total, the shares assigned to Telefónica, S.A.'s employees are 127,000. The outstanding shares as of December 31, 2020 are 121,200.

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 one free share for each two shares 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, 2020, 16,665 employees had registered for the plan.

19.4 Average number of employees in 2020 and 2019 and number of employees at year-end

2020

Professional category	Employees at 12/31/20			Average no. of employees in 2020		
	Females	Males	Total	Females	Males	Total
Chairman and General Managers	—	1	1	—	1	1
Directors	49	124	173	55	127	182
Managers	152	159	311	160	172	332
Project Managers	135	150	285	140	150	290
University graduates and experts	170	145	315	176	145	321
Administration, clerks, advisors	113	2	115	111	3	114
Total	619	581	1,200	642	598	1,240

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

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	1
Administration, clerks, advisors	1
Total	3

19.5 External services

The items composing "External services" are as follows:

Millions of euros	2020	2019
Rent	10	11
Independent professional services	165	123
Donations	61	3
Marketing and advertising	97	101
Other expenses	64	59
Total	397	297

In 2020 the line Donations include funds contributed and paid to Fundación Telefónica amounting to 57 million euros.

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 December 31, 2020 the Company has requested an early cancellation of the contract, paying the indemnity of 15 million euros which is shown as Other operating expenses in the 2020 chart of External services.

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

Future minimum rentals payable under non-cancellable operating leases without penalization at December 31, 2020 and 2019 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 2020	31	4	8	7	12
Future minimum rentals 2019	56	10	18	12	16

19.6 Finance revenue

The items composing "Finance revenue" are as follows:

Millions of euros	2020	2019
Dividends from other companies	10	11
Other third parties financial revenues and gains on derivative instruments	365	467
Total	375	478

"Other third parties finance revenues and gains on derivative instruments" include the effect of the financial hedges arranged to unwind positions for 2020 and 2019, 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	2020	2019
Interest on borrowings from Group companies and associates	1,584	1,785
Finance costs payable to third parties and losses on interest rates of financial hedges	387	424
Total	1,971	2,209

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

Millions of euros	2020	2019
Telefónica Europe, B.V.	461	492
Telefónica Emisiones, S.A.U.	1,089	1,278
Other companies	34	15
Total	1,584	1,785

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 gains recognized in the income statement is as follows:

Millions of euros	2020	2019
On current operations	31	39
On loans and borrowings	67	108
On derivatives	2,043	950
On other items	98	10
Total	2,239	1,107

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

Millions of euros	2020	2019
On current operations	122	59
On loans and borrowings	188	117
On derivatives	1,320	872
On other items	8	16
Total	1,638	1,064

The variation in exchange gains and losses is due to the fluctuations in the main currencies the Company works with. In 2020 Euro exchange rate has appreciated against US dollar (8.47%), Pound Sterling (5.22%) and Brazilian real (29.01%).

In 2019 Euro exchange rate depreciated against US dollar (1.99%) and Pound Sterling (5.12%) and has appreciated against Brazilian real (1.95%).

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

Note 20. Other information

a) Financial guarantees

At December 31, 2020, Telefónica, S.A. had provided financial guarantees for its subsidiaries and investees to secure their transactions with third parties amounting to 40,648 million euros (45,668 million euros at December 31, 2019). These guarantees are measured as indicated in Note 4.g).

Millions of euros		
Nominal Amount	2020	2019
Debentures and bonds and equity instruments	38,681	43,555
Loans and other payables	719	723
Other marketable debt securities	1,248	1,390
Total	40,648	45,668

The debentures, bonds and equity instruments in circulation at December 31, 2020 issued by Telefónica Emisiones, S.A.U., Telefónica Europe, B.V. and Telefónica Participaciones, S.A.U., were guaranteed by Telefónica, S.A. The nominal amount guaranteed was equivalent to 38,681 million euros at December 31, 2020 (43,555 million euros at December 31, 2019). During 2020, Telefónica Emisiones, S.A.U. issued debt instruments on capital markets for an equivalent of 3,500 million euros (3,598 million euros in 2019) and 5,635 million euros matured during 2020 (3,613 million euros during 2019).

The main loans and other debts guaranteed by Telefónica, S.A. at December 31, 2020 are: the cash-settled equity link bonds non-dilutive issued by Telefónica Participaciones, S.A.U., whose outstanding amount at December 31, 2020 and 2019 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, 2020 was 1,248 million euros (1,390 million euros at December 31, 2019).

Telefónica, S.A. provides operating guarantees granted by external counterparties, which are offered during its normal commercial activity. At December 31, 2020 and 2019, 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 2020 (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 companies 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 in the amount 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, specifically, 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 declared the existence of an infringement of competition law, it annulled Article 2 of the contested Decision and required the European Commission to reassess the amount of the fine imposed. The General Court considered 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 non-controlling 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 korunas (approximately 23 million euros) to Venten and 227 million Czech korunas (approximately 8 million euros) to Lexburg, in each case plus interest.

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

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

Venten and Lexburg filed with the Supreme Court a motion to partially abolish the suspension of enforceability of the Decision of the High Court in Prague. On January 17, 2018,

Telefónica filed its response seeking dismissal of such motion for lack of legal basis.

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

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

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

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

Telefónica, S.A. (Telefónica) and Millicom International Cellular, S.A. (Millicom) reached an agreement on February 20, 2019 for the purchase and sale of the entire capital stock of Telefónica de Costa Rica TC, S.A.

In March 2020, Telefónica informed Millicom that, once the pertinent regulatory authorizations had been obtained and all the other conditions established in the aforementioned agreement for the execution of the sale had been completed, the execution of the contract and the closing of the transaction should be in April 2020.

Millicom expressed its refusal to proceed with the closing, arguing that the competent Costa Rican administrative authorities had not issued the appropriate authorization.

On May 25, 2020, Telefónica filed a lawsuit against Millicom before the New York Supreme Court, considering that Millicom had breached the terms and conditions established in the sale contract, demanding compliance with the provisions of the aforementioned agreement, and compensation for all damages that this unjustified breach could cause to Telefónica.

On June 29, 2020, Millicom filed a Motion to Dismiss, to which Telefónica replied on July 8, 2020.

On August 3, 2020, Telefónica submitted an amendment to the lawsuit, removing the requirement to comply with the provisions of the sale and purchase contract and requesting only compensation for all damages that the unjustified breach of said agreement could cause Telefónica.

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

c) Other contingencies

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

d) Commitments

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

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

Once the relevant regulatory approvals were obtained and all the remaining conditions set forth in the agreement for the consummation of the sale of Telefónica de Costa Rica were completed, Millicom International Cellular, S.A. refused to close the acquisition arguing that one of the Costa Rican administrative authorities had not issued the appropriate authorization. On May 25, 2020, Telefónica filed a lawsuit against Millicom International Cellular, S.A. before the New York Supreme Court, considering that Millicom has breached the terms and conditions established in the sale contract. Further details on this legal proceeding against Millicom International Cellular, S.A. are provided in Note 20 b) of these financial statements.

On July 30, 2020, Telefónica, S.A. reached an agreement with Liberty Latin America LTD, S.A. for the sale of 100% of Telefónica de Costa Rica TC, S.A., a company that provides fixed and mobile communications services in Costa Rica, for an amount (enterprise value) of 500 million U.S. dollars, approximately 425 million euros at the exchange rate as of the date of the agreement.

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

Contracts for the provision of IT services with Nabiax

On May 8, 2019, Telefónica, S.A. signed an agreement for the sale of a portfolio of eleven Data Centers to a company controlled by Asterion Industrial Partners SGEIC, SA. (currently, Nabiax, S.A.).

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

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

On May 7, 2020, Telefónica agreed to enter into a 50:50 joint venture with Liberty Global plc ("Liberty Global") (the "Joint Venture"). The terms of the Joint Venture are agreed pursuant to a contribution agreement dated 7 May 2020 between Telefónica, Telefonica O2 Holdings Limited, Liberty Global, Liberty Global Europe 2 Limited and a newly formed entity intended to be the future principal Joint Venture company, recently renamed VMED O2 UK Limited (the "Contribution Agreement"). The Contribution Agreement includes customary warranties, covenants and indemnities in respect of the businesses contributed to the Joint Venture. The Contribution Agreement also addresses customary matters such as conduct of business in the pre-completion period, employee, pensions and incentive matters, and insurance arrangements.

Immediately upon completion of the transaction contemplated by the Contribution Agreement, Telefónica and Liberty Global will each hold an equal number of shares in the Joint Venture vehicle. At completion, Telefónica will contribute its O2 mobile business in the United Kingdom to the Joint Venture. With effect no later than completion, Liberty Global will have contributed its Virgin Media business in the United Kingdom to the Joint Venture.

The corporate governance of the Joint Venture will be regulated by a shareholders' agreement, which will be entered into by the parties to the Contribution Agreement (the "Shareholders' Agreement"). It is expected that the Shareholders' Agreement will provide that each of Telefónica and Liberty Global will designate four of the eight members of the Board of Directors of the Joint Venture, contain provisions regulating the management of the Joint Venture, the procedure to pass resolutions on certain reserved matters and distributions to shareholders, and will also contain customary non-solicitation, non-compete and information sharing provisions. It is further expected that the Shareholders' Agreement will provide that each of Telefónica or Liberty Global will have the right to initiate an initial public offering of the Joint Venture after the third (3rd) anniversary of the closing of the transaction, with the opportunity for the other shareholder to sell shares in the initial public offering on a pro rata basis. It is also expected that there will be general restrictions on transfers of interests in the Joint Venture until the third (3rd) anniversary of the closing of the transaction, subject to certain limited exceptions. After the fifth (5th) anniversary of the closing of the transaction, each shareholder will be able to initiate a sale of the Joint Venture to a third party in accordance with certain drag procedures, subject to a right of first offer in favor of the other shareholder. The parties will also enter in certain services, licensing and other agreements upon the completion of the transaction.

Prior to the completion of the Joint Venture, both Telefónica and Liberty Global will operate their businesses independently within the United Kingdom. Completion of the Joint Venture is currently expected in mid-2021 but,

pursuant to the Contribution Agreement, this is conditional upon antitrust clearance (from the Competition and Markets Authority in the United Kingdom) and a financing condition relating to the recapitalization of the Joint Venture upon completion. If these conditions are not satisfied within twenty-four months following the date of the Contribution Agreement, both parties will have the right to terminate the agreement. This is subject to an option to extend the long stop date by six months if a prospective shareholder reasonably believes that the conditions will be satisfied in this time frame.

The completion of the Joint Venture is expected to provide, after an equalization payment, Telefónica with proceeds of approximately 5.7 billion pounds sterling and Liberty Global with net proceeds of approximately 1.4 billion pounds sterling (calculated at the date of the agreement and subject to customary adjustments in this type of transactions).

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 2020, the total amount of compensation accrued by the Directors of Telefónica, in their capacity as such, was 3,002,534 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 2020 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 2021 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 five years (i.e. 2020, 2019, 2018, 2017 and 2016), which was set in his capacity as Chief Operating Officer, remaining invariably after his appointment as Chairman in 2016. 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 2021 financial year is equal to the one received in the years 2020 and 2019.

Individualized description

Appendix II provides an individual breakdown by item of the compensation and benefits that the members of the Board of Directors 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 2020. 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 4.96%, 4.68% and 4.70%, respectively.

During 2020 and 2019 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:

2020		
Millions of euros	BBVA	la Caixa
Financial expenses	6	—
Receipt of services	1	2
Total expenses	7	2
Financial revenues	2	—
Dividends received (1)	6	—
Total revenues	8	—
Financing transactions	294	273
Guarantees granted	—	8
Time deposits	126	—
Time deposits (Others)	216	10
Dividends distributed	125	126

(1) As of December 31, 2020 Telefónica holds 0.66% investment in BBVA (See Note 9.3).

2019		
Millions of euros	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 held 0.66% investment in BBVA.

In addition, the nominal outstanding value of derivatives held with BBVA and la Caixa in 2020 amounted to 10,211 and 542 million euros, respectively (14,029 million euros held with BBVA and 557 million euros with la Caixa in 2019). The fair value of these derivatives in the balance sheet is 215 and -11 million euros, respectively, in 2020 (454 and -2 million euros, respectively, in 2019). 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 2020 there are collateral guarantees (liabilities) of certain derivatives held with BBVA and la Caixa amounting to 164 and 10 million euros, respectively (a liability of 276 and 19 million euros, respectively, in 2019).

Until July 30, 2020, BBVA Bancomer, Institución de Banca Múltiple, Grupo Financiero Bancomer (subsidiary of Banco Bilbao Vizcaya Argentaria, S.A.) held a shareholding together with Telefónica Móviles México, S.A. de C.V. (subsidiary of Telefónica, S.A.) in Adquira México, S.A. de C.V. On the said date, July 30, 2020, Telefónica Móviles México, S.A. de C.V. sold to Openpay, S.A. de C.V. (company within BBVA Group) its shareholding in Adquira México, S.A. de C.V.

Similarly, on November 20, 2020, Telefónica Digital España, S.L.U. and Compañía Chilena de Inversiones, S.L., an affiliated company of BBVA, entered into a joint venture agreement related to the incorporation of a subsidiary in Colombia with the aim of commercializing loans to consumers and SME in such country.

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, 2020 and 2019 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 2020 of 2,654,581.42 euros (1,996,090 euros in 2019). This scheme provides coverage for Telefónica, S.A. and its subsidiaries in certain cases. Out of this amount, Telefónica, S.A. has paid 1,380,668 euros (1,059,268 euros in 2019).

Certain Telefónica Group subsidiaries performed transactions in 2019 with Global Dominion Access Group, entity related to Director Mr. José Riberas Mera, related to the Group's ordinary course of business, mainly in Telefónica de España amounting to 11 million euros (27 million euros in 2019).

On September 25, 2020, Telefónica Digital España, S.L.U. and ASTI Mobile Robotics, S.A., entity related to Director Ms.

Verónica Pascual Boé, signed a Framework Agreement, the purpose of which is to establish the commercial, economic and legal conditions that will apply to those Operators of the Telefónica Group that may be interested in acquiring Automated Guided Vehicles (AGVs), as well as other complementary services manufactured and marketed by ASTI. During 2020, no commercial transactions have materialised between the parties that have generated economic amounts.

g) Auditors' fees

The services commissioned to PricewaterhouseCoopers Auditores, S.L., the Principal Auditor of Telefónica, S.A. for the years 2020 and 2019, 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 3.38 million euros and 3.27 million euros respectively.

The detail of these amounts is as follows:

Millions of euros	2020	2019
Audit services	3.00	2.87
Audit-related services	0.38	0.40
Total	3.38	3.27

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

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

During the years 2020 and 2019, 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 2020 amounted to a loss of 1,966 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 down impairment of investments in Group companies, associates and other investments of 10,956 million euros (in 2019 a reversal of 2,226 million euros).
- The losses on disposal of subsidiaries amounting to 177 million euros, mainly attributable to the sale of Colombia Telecomunicaciones, S.A. ESP, Fisatel México, S.A. de C.V. y Telefónica Móviles Chile, S.A. (in 2019 the gains in the sale of Antares and Daytona, S.L. amounting to 218 million euros).
- Declared dividends as income in 2020 for 10,257 million euros (4,242 million euros in 2019), interest accrued on loans granted to subsidiaries of 21 million euros (73 million euros in 2019) and a net financial expense of 995 million euros (1,688 million euros in 2019), 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 3,669 million euros (5,298 million euros in 2019). The main items included are:

a) Net interest paid:

Payments of net interest and other financial expenses amounted to 614 million euros (1,547 million euros in 2019), including:

- Net proceeds from external credit entities, net of hedges, for 1,164 million euros, (net proceeds of 205 million euros in 2019 offset by their hedges), and
- Interest and hedges paid to Group companies of 1,778 million euros (1,752 million euros in 2019).

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

Millions of euros	2020	2019
Telefónica Móviles Argentina, S.A.	—	92
Telefónica Móviles España, S.A.U.	774	552
Telefónica O2 Holdings, Ltd.	622	647
Telefónica de España, S.A.U.	1,214	1,574
Telefónica Hispanoamérica, S.A.U.	417	—
Telfisa Global, B.V.	178	700
Telefónica Finanzas, S.A.U. (TELFISA)	83	—
Telfin Ireland, Ltd.	—	555
Telefônica Brasil, S.A.	252	417
Sao Paulo Telecomunicações, Ltda	62	103
Telefónica Centroamérica Inversiones, S.L.	11	161
Telefónica Luxembourg Holding S.à.r.l.	4	165
Pontel Participaciones, S.L.	44	22
Telefónica Global Technology, S.A.U.	32	—
Fisatel México, S.A. de C.V.	24	—
Other dividend collections	24	30
Total	3,741	5,018

In addition to the dividends declared in 2020 (see Note 19.1) and collected in the same period, this caption also includes dividends from previous periods collected in 2020.

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 39 million euros were made in 2020 (59 million euros in 2019) as disclosed in Note 17, and income taxes repayments of 2019 have been received amounting to 89 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 317 million euros, corresponding to: 96 million euros for the 2019 income tax settlement and 221 million euros in payments of account of 2020 income tax.

In 2019, there was an income collected of 394 million euros, mainly due to the settlement of income tax of 202 million euros in 2018 and 192 million euros in payments of account of 2019 income tax.

- Telefónica de España, S.A.U.: collection of 142 million euros, corresponding to: 25 million euros for the 2019 income tax settlement and 117 million euros in payments of account of 2020 income tax.

In 2019 there was an income collected 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 2019 a partial resolution upholding the claims of Telefónica, S.A. by the Tribunal Económico-Administrativo Central (TEAC) pertaining the overpayments made in 2008-2011 resulted in a collection of 702 million euros. Moreover, an indemnity of 201 million euros related to this resolution was 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 6,369 million euros (2,647 million euros in 2019). The main transactions to which these payments refer are as follows:

- Capital increases: the main disbursements correspond to Pontel Participaciones, S.L. amounting to 323 million euros, Telefónica Digital España, S.L. amounting to 157 million euros and Telefónica Móviles México, S.A. de C.V. amounting to 122 million euros. These capital increases, as well as other minor disbursements of this same concept are disclosed fully in Notes 8.1.a.
- Payments of share investments mainly corresponding to T.Hispam (974 million euros) and China Unicom (92 million euros). These additions have been fully detailed in 8.1.a. and 9.3.
- Loans granted to Telefónica del Perú, S.A.A. amounting to 164 million euros.
- Payments of financial investments related to the reinvestment of treasury overage amounting to 1,246 million euros.
- Payments of collaterals related to financial derivative instruments amounting to 3,251 million euros.

Proceeds from disposals totaling 5,489 million euros in 2020 (4,392 million euros in 2019) includes:

- Proceeds from the capital share reduction of Telefónica Móviles México, S.A. de C.V. amounting to 891 million euros and Telefónica de Costa Rica TC, S.A. amounting to 23 million euros (see Note 8.1.a).
- Proceeds from reserves distributed by Telefónica Centroamérica Inversiones, S.L. amounting to 47 million euros (see Note 8).

- Proceeds from the sale of the investments in Colombia Telecomunicaciones, S.A. E.S.P., Telefónica Venezolana, C.A., Comtel Comunicaciones Telefónicas, S.A., Fisatel México S.A. de C.V., y Telefónica Móviles Chile, S.A. amounting to 327 million euros and Telefónica Global Technology amounting to 150 million euros (see Note 8).
- Proceed from the repayment at maturity of the loan granted to Telefónica Móviles México, S.A. de C.V. amounting to 211 million euros (See Note 8) and the cancellation by T.Hispam of the loans granted to Telefónica del Perú, S.A.A. amounting to 159 million euros.
- Proceeds from financial investments related to the reinvestment of treasury overage amounting 1,341 million euros.
- Proceeds from collaterals related to financial derivative instruments amounting to 2,224 million euros.
- Proceeds from the sale of the trademark VIVO by 45 million euros.

Cash flows from/(used in) financing activities

This caption mainly includes the following items:

- Proceeds from equity instruments: mainly related to the payment of the treasury shares in the transaction of Prosegur Alarmas España, S.L. (see Note 11.a).
- Proceeds from financial liabilities:

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

Millions of euros	2020	2019
Telefónica Emisiones, S.A.U. (Nota 15)	3,500	3,598
Promissory notes (Note 13)	194	—
Telefónica de Argentina, S.A. (Note 15)	179	—
Telefónica Europe B.V. (Note 15)	500	1,800
Bilateral loans (Note 14)	450	200
Other collections	312	53
Total	5,135	5,651

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

Millions of euros	2020	2019
Bilateral loans with several entities (Note 14.4)	—	1,835
Telfisa Global, B.V. financing (Note 15)	757	1,669
Telefónica Europe, B.V. (Note 15)	736	2,553
Telefónica Europe, B.V. promissory notes (Note 15)	131	276
Promissory notes redemption	—	107
Telefónica Emisiones, S.A.U. (Note 15)	5,635	3,613
Structured Financing	351	378
Credit lines with several entities	—	274
Other payments	74	203
Total	7,684	10,908

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.

iii. Acquisition of treasury shares, as indicated in Note 11.a.

iv. Payments of dividends amount to 824 million euros (2,056 million euros in 2019). 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 2021. In addition, the withholding taxes referred to the dividend distribution made in December 2019 which have been paid to the Tax Authorities in January 2020.

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

- In February 2021, Telefónica Europe, B.V. announced the following transactions related to its hybrid capital:

(a) a new issue amounting to 1,000 million euros, guaranteed by Telefónica, S.A. The net proceeds thereof will be subject to specific eligibility criteria to be applied to new or existing projects, as detailed in Telefónica's Sustainable Development Goals Framework (the "SDG Framework"). The SDG Framework is in accordance with the Green Bond Principles 2018, Social Bond Principles 2018 and Sustainability Bond Guidelines 2018, each published by the International Capital Market Association. The settlement took place on February 12, 2021. On the same date Telefónica, S.A. perceived a loan from Telefónica Europe, B.V. of similar amount, terms and conditions; and

(b) a tender offer for hybrid instruments in euros, with first call date in March 2022. Telefónica Europe, B.V. offered to purchase for cash any and all of the tendered securities in an aggregate principal amount of 758 million euros. The tender offer settled on February 15, 2021. On the same date Telefónica, S.A. made the full repayment of the principal of the loan granted by Telefónica Europe, B.V. of similar amount, terms and conditions.

- On 16 February 2021, Telefónica Emisiones, S.A.U. redeemed 1,500 million dollars of its notes issued on 16 February 2011. 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.

Investments

- On January 13, 2021 Telefónica Digital España, S.A.U. Telefónica Digital España, S.A.U. has launched a capital increase fully subscribed and paid by Telefónica, S.A. amounting to 185 million euros.
- On January 28, 2021 Telefónica Hispanoamérica, S.A.U. has launched a capital increase of 370 million euros fully subscribed and paid by Telefónica, S.A.

Equity

As already mentioned in Note 11.a. on January 5, 2021 the deed of the capital increase pursuant to the scrip dividend distributed in December 2020 was filed in Madrid Companies' Register.

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 24, 2021. In the event of a discrepancy, the Spanish-language version prevails.

Appendix I: Details of subsidiaries and associates at December 31, 2020

Name and corporate purpose	% Ownership					Income (loss)		Net carrying amount
	Direct	Indirect	Capital	Reserves	Dividends	From operations	For the year	
Telefónica Latinoamérica Holding, S.L.U. (SPAIN) Holding Company Distrito Telefónica, Ronda de la comunicación s/n 28050 Madrid	100%	—	237	12,784	—	(2,340)	(2,040)	11,008
Telefónica Móviles España, S.A.U. (SPAIN) Wireless communications services provider Distrito Telefónica, Ronda de la Comunicación s/n 28050 Madrid	100%	—	209	(516)	1,949	1,049	784	5,561
Telfin Ireland Limited (IRELAND) Intragroup financing 28/29 Sir John Rogerson's Quay, Dublin 2	100%	—	—	8,078	136	—	137	8,191
Telefónica O2 Holdings Limited (UNITED KINGDOM) Wireless communications Wellington Street, Slough, SL11YP	100%	—	13	10,613	4,459	—	—	14,015
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%	—	5,776	(4,697)	—	(996)	(1,043)	36
Telefónica de España, S.A.U. (SPAIN) Telecommunications service provider in Spain Gran Vía, 28 - 28013 Madrid	100%	—	1,024	554	1,207	1,368	1,010	2,455
O2 (Europe) Ltd. (UNITED KINGDOM) Holding Company Wellington Street, Slough, SL11YP	100%	—	1,239	3,909	—	(752)	(782)	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	829	105	(3)	142	1,197
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%	—	—	(628)	1,364	(2)	1,369	712
O2 Oak Limited (UNITED KINGDOM) Holding Company 260 Bath Road, Slough Berkshire SL1 4BX	100%	—	—	—	—	—	—	—
Telefónica Innovación Alpha, S.L. (SPAIN) Telecommunications activities Distrito Telefónica, Ronda de la Comunicación s/n, Madrid 28050	100%	—	1	10	—	(11)	(6)	5
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, 28013 Madrid	100%	—	—	2	—	—	—	2
O2 Worldwide Limited (UNITED KINGDOM) Private Limited Company 20 Air Street, London, England W1B 5AAN	100%	—	8	21	—	(17)	(13)	—
Telefónica Capital, S.A.U. (SPAIN) Finance Company Gran Vía, 28 - 28013 Madrid	100%	—	7	184	—	—	13	110

Millions of euros	% Ownership					Income (loss)		
Telefónica Digital España, S.L.U. (SPAIN)								
Holding Company Ronda de la Comunicación, s/n Distrito Telefónica Edificio Central - 28050 Madrid	100%	—	24	312	—	(134)	(99)	237
Telefónica Internacional USA, Inc. (U.S.A.)								
Financial Advisory services 1221 Brickell Avenue suite 600 - 33131 Miami - Florida	100%	—	—	1	—	—	—	—
Lotca Servicios Integrales, S.L. (SPAIN)								
Holding, operation and aircraft leases Gran Vía, 28 - 28013 Madrid	100%	—	17	48	—	(8)	(7)	59
Telefónica Ingeniería de Seguridad, S.A.U. (SPAIN)								
Security services and systems Ramón Gómez de la Serna, 109-113 Posterior 28035 Madrid	100%	—	8	18	—	(7)	(6)	22
Telefónica Tech , S.L. (SPAIN)								
Promotion of business initiatives and holding of real estate assets Gran vía 28-28013 Madrid	100%	—	5	23	—	—	—	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	2	178	(5)	67	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 Global Solutions, S.L.U. (SPAIN)								
International services provider Ronda de la Comunicación, s/n – 28050 Madrid	100%	—	1	115	—	(22)	(20)	73
Telefónica Investigación y Desarrollo, S.A.U. (TIDSA) (SPAIN)								
Telecommunications research activities and projects Ronda de la Comunicación, s/n – 28050 Madrid	100%	—	7	2	—	7	5	14
Telefónica Luxembourg Holding S.à.r.L. (LUXEMBOURG)								
Holding Company 26, rue Louvingny, L-1946- Luxembourg	100%	—	3	175	4	1	1	4
Telefónica Servicios Globales, S.L.U. (SPAIN)								
Management and administrative services rendered Ronda de la Comunicación, s/n – 28050 Madrid	100%	—	1	81	—	—	(1)	82
Telefónica Hispanoamérica, S.A.U.								
Holding Company Ronda de la Comunicación, s/n – 28050 Madrid	100%	—	—	1,139	417	(952)	(1,027)	2,183
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%	—	—	10	—	(2)	2	—
Telefónica Europe, B.V. (NETHERLANDS)								
Fund raising in capital markets Strawinskylaan 1259; tower D; 12th floor 1077 XX – Amsterdam	100%	—	—	3	4	(1)	3	—
Telefónica Cybersecurity Tech España, S.L. (SPAIN)								
Private Limited Company Ronda de la Comunicación s/n Madrid 28050	100%	—	8	21	—	(17)	(13)	30
Toxa Telco Holding, S.L. (SPAIN)								
Holding Company Ronda de la Comunicación s/n Madrid 28050	100%	—	—	—	—	—	—	—
Pontel Participaciones, S.L. (SPAIN)								
Holding Company Distrito Telefónica, Ronda de Comunicación, s/n	83.35%	—	—	1,407	44	—	52	1,216

Millions of euros	% Ownership					Income (loss)		
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 Enrique Butty 240, piso 20 - Buenos Aires	73.20%	26.80%	352	1,662	—	(647)	(750)	850
Telefónica Centroamérica Inversiones, S.L (SPAIN) Holding Company Ronda de la Comunicación, s/n. - 28050 Madrid	60.00%	—	1	149	11	(6)	(6)	84
Telefónica Consumer Finance E.F.C., S.A. (SPAIN) Lending and consumer loans c/Caleruega, 102 -28033 Madrid	50.00%	—	5	29	2	1	1	15
Aliança Atlântica Holding B.V. (NETHERLANDS) Portfolio Company Strawinskylaan 1725 – 1077 XX – Amsterdam	50.00%	50.00%	150	(108)	—	—	—	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	(2,681)	35	(1)	150	1,503
Telefônica Brasil, S.A. (BRAZIL) (1) (*) Wireline telephony operator in Sao Paulo Sao Paulo	29.77%	44.19%	23,164	(12,230)	302	1,150	838	6,265
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	2	—
Telefónica de Argentina, S.A. (1) (ARGENTINA) Telecommunications services provider Av. Ingeniero Huergo, 723, PB – Buenos Aires	0.09%	98.39%	1,669	(651)	—	(237)	(199)	7
Telefónica Infra, S.L. (ESPAÑA) Portfolio Company (Holding) Ronda de la Comunicación S/N - 28050 Madrid	100%	—	—	1	—	—	—	1
Telefónica Telecomunicaciones México, S.A. de C.V. (MÉXICO) Holding Company Prolongación Paseo de la Reforma 1200 Col. Cruz Manca, México D.F. CP.05349	49.00%	—	195	(15)	—	—	11	—
Telefónica Factoring España, S.A. (SPAIN) Factoring Zurbano, 76, 8 Plta. - 28010 Madrid	50.00%	—	5	2	4	7	7	2
Telefónica Factoring México, S.A. de C.V. SOFOM ENR (MEXICO) Factoring México D.F.	40.50%	9.50%	2	—	—	(1)	—	1
Telefónica Factoring Perú, S.A.C. (PERÚ) Factoring Lima	40.50%	9.50%	1	1	1	—	2	1
Telefónica Factoring Colombia, S.A. (COLOMBIA) Factoring Bogotá	40.50%	9.50%	1	—	—	2	1	—
Telefónica Factoring Do Brasil, Ltd. (BRAZIL) Factoring Avda. Paulista, 1 106 – Sao Paulo	40.00%	10.00%	2	(2)	3	(1)	5	1
Jubii Europe N.V. (NETHERLANDS) (*) Internet Portal Richard Holkade 36, 2033 PZ Haarlem	32.10%	—	N/A	N/A	—	N/A	N/A	1
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
Other Companies (2)					31			
Total group companies and associates					10,253			58,754

(1) Consolidated data.

(2) Dividends distributed by Telefónica Global Technology, S.A.U. This company was sold on December 23, 2020 (see Note 8).

(*) Companies listed on international stock exchanges at December 31, 2020.

(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	—	—	3,111,960	—	5,966	5,041,026
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	—	200,000	25,000	—	115,467	—	340,467
Mr. Ángel Vilá Boix	1,600,000	—	—	2,157,600	—	19,440	3,777,040
Mr. Juan Ignacio Cirac Sasurain	—	120,000	10,000	—	12,133	—	142,133
Mr. Peter Erskine	—	120,000	19,000	—	113,600	—	252,600
Ms. Sabina Fluxà Thienemann	—	120,000	4,000	—	3,733	—	127,733
Ms. Carmen García de Andrés	—	120,000	24,000	—	22,400	—	166,400
Ms. María Luisa García Blanco	—	120,000	22,000	—	22,400	—	164,400
Mr. Jordi Gual Solé	—	120,000	20,000	—	22,400	—	162,400
Mr. Peter Löscher	—	120,000	30,000	—	39,200	—	189,200
Mr. Ignacio Moreno Martínez	—	120,000	35,000	—	44,800	—	199,800
Ms. Verónica Pascual Boé	—	120,000	9,000	—	11,200	—	140,200
Mr. Francisco Javier de Paz Mancho	—	120,000	31,000	—	124,800	—	275,800
Mr. Francisco José Riberas Mera	—	120,000	—	—	—	—	120,000
Ms. Claudia Sender Ramírez	—	120,000	10,000	—	11,200	—	141,200

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 2020 and paid in the year 2021. In reference to the bonus corresponding to 2019, which was paid in 2020, Executive Board Member Mr José María Álvarez-Pallete López received 3,447,734 euros and Executive Board Member Mr Ángel Vilá Boix received 2,390,400 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.

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	—	158,102	—	—	—	—	158,102
Mr. Ángel Vilá Boix	—	—	—	—	—	—	—
Mr. Juan Ignacio Cirac Sasurain	—	—	—	—	—	—	—
Mr. Peter Erskine	—	30,000	—	—	—	—	30,000
Ms. Sabina Fluxà Thienemann	—	—	—	—	—	—	—
Ms Carmen García de Andrés	—	—	—	—	—	—	—
Ms. María Luisa García Blanco	—	—	—	—	—	—	—
Mr. Jordi Gual Solé	—	—	—	—	—	—	—
Mr. Peter Löscher	—	73,989	—	—	—	—	73,989
Mr. Ignacio Moreno Martínez	—	—	—	—	—	—	—
Ms. Verónica Pascual Boé	—	—	—	—	—	—	—
Mr. Francisco Javier de Paz Mancho	—	285,553	—	—	—	—	285,553
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 2020 and paid in the year 2021 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.

Additionally, as mentioned in the Remuneration Policy section, the Executive Board Members have a series of Assistance Services. Below, the contributions made during 2020 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 2020
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 2020 amounts for life insurance premiums were as follows:

LIFE INSURANCE PREMIUMS

(Amounts in euros)

Directors	Life insurance premiums
Mr. José María Álvarez-Pallete López	19,978
Mr. Ángel Vilá Boix	21,593

As regards to remuneration plans based on shares (exclusively involving Executive Directors), the following long-term variable remuneration plan was in existence during the year 2020:

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 ended on December 31, 2020.

This cycle had a maximum of 733,000 shares allocated on January 1, 2018, to the executive Directors, with a unit fair value of 6.4631 euros per share for FCF ("Free Cash Flow") and 4.5160 euros for TSR ("Total Shareholder Return"). At the end of the cycle date, Kepler has submitted the Nominating, Compensation and Good Governance Committee the calculation of TSR for Telefónica, S.A., which has concluded below the median according to the

performance scale. Therefore, there is no right to perceive the number of shares linked to the relative TSR objective.

With respect to Free Cash Flow objective, considering the partial fulfillment of 2018, 2019 and 2020, the average weighted payment coefficient is 50%. Performance assessment has been carried out based on the results audited both by independent and internal auditors of the Company, analyzed firstly by the Audit and Control Committee and subsequently submitted to the Nominating, Compensation and Corporate Governance Committee and approved by the Board of Directors.

Nevertheless, on February 23, 2021, the Chairman & CEO declared in the Nominating, Retribution and Good Governance Committee that they considered appropriate to renounce to this incentive perception as a sign of responsibility with society, customers, shareholders and employees of Telefónica as well as a cautious measure after the economic impacts of the CoVID-19 crisis. The COO made the same declaration. The renounce was accepted by the Board of Directors.

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 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.

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 second and third cycle of the Plan. It is noted that the maximum number of shares allocated for the third cycle represents a 50% decrease in the economic value of the allocation compared to the first and second cycle of the Plan:

PSP - Second Cycle / 2019-2022

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.

PSP - Third Cycle / 2020-2023 (shares allocated in July 2020)

Directors	Maximum number of shares (*)
D. José María Álvarez-Pallete López	267,000
D. Ángel Vilá Boix	198,000

(*) 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 second and third 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 Italia, Vodafone Group, Proximus, Royal KPN, Millicom, Swisscom, Telenor, TeliaSonera, and Tim Participações. It is hereby stated that Tim Participações has been replaced by TIM Brasil Serviços e Participações S.A. following its integration into that entity.

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 of the cycle 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, in order to strengthen Telefónica's character as a global employer, creating a common remuneration culture throughout the Company, encouraging the participation in the share capital of all the Group's employees, and fostering their motivation and loyalty, the Ordinary General Shareholders' Meeting, held on June 8, 2018 approved the launch of a fourth edition of the incentive share purchase plan of Telefónica, S.A. (2019-2021) aimed at all employees of the Group at international level (including management personnel as well as Executive Directors) called "Global Employee Share Plan" ("GESP").

Through this Plan, employees are offered the possibility of acquiring Telefónica, S.A.'s shares for a maximum period of twelve months (purchase period), with the Company's commitment to deliver a certain number of shares free of charge to the participants in the Plan, provided that certain requirements are met. The maximum amount that each employee can allocate to it is 1,800 euros, and the minimum amount is 300 euros. If the employee remains in the Telefónica Group and holds the shares for an additional year after the purchase period (vesting period), he/she is entitled to receive one free share for every two shares purchased and held until the end of the vesting period.

The two Executive Directors of Telefónica, S.A. have decided to participate in this Plan with the maximum contribution, that is one hundred and fifty euros per month (or its equivalent in local currency), for twelve months. Thus, at the date of formulation of this report, the two Executive Directors had acquired a total of 335 shares under this plan, and were entitled to receive 167 shares free of charge, provided, among other conditions, that the shares acquired were held during the vesting period (twelve months following the end of the purchase period).

In addition, it should be noted that the external directors of the company do not perceive nor have perceived remuneration during the year 2020 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 2020, 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 2020, excluding those who form an integral part of the Board of Directors, have accrued a total amount of 5,904,357 euros during the 2020 fiscal year.

In addition, and in terms of long-term savings systems, the contributions made by the Telefónica Group during the year 2020 to the Social Security Plan described in the "Income and expenditure" note with regard to these directors increased to 927,898 euros; the contributions corresponding to the Pension Plan increased to 21,508 euros; the contributions to the Seguro Unit link-Excess Pension Fund increased to 115,744 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 83,648 euros.

On the other hand, regarding share-based remuneration plans, during the year 2020, there was in force the following long-term variable remuneration plan:

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 concluded on December 31, 2020. This cycle had a maximum of 344,570 shares allocated on January 1, 2018 to the group of directors forming part of the company's Senior Management, with a unit fair value of 6.4631 euros per share for FCF and 4.5160 euros for TSR. At the end of the cycle date, Kepler has submitted the Nominating, Compensation and Good Governance Committee the calculation of TSR for Telefónica, S.A., which has concluded below the median according to the performance scale. Therefore, there is no right to perceive the number of shares linked to the relative TSR objective.

With respect to Free Cash Flow objective, considering the partial fulfillment of 2018, 2019 and 2020, the average weighted payment coefficient is 50%. Performance assessment has been carried out based on the results audited both by independent and internal auditors of the Company, analyzed firstly by the Audit and Control Committee and subsequently submitted to the Nominating, Compensation and Corporate Governance Committee and approved by the Board of Directors.

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 382,291

The measurement period of the third and last cycle objectives began on January 1, 2020 and will conclude on December 31, 2022. The maximum number of shares assigned to be delivered in 2023 in the event of maximum compliance with the TSR ("Total Shareholder Return") and FCF ("Free Cash Flow") target, set for the third cycle (2020-2023) to the group of Directors part of the Company's Senior Management was 242,162.

With regard to the Global Employee Share Plan (2019-2021), all Directors part of the Company's Senior Management have decided to participate in this plan with the maximum contribution (i.e. 150 euros per month for twelve months). Thus, at the date of formulation of this report, Directors part of the Company's Senior Management have acquired a total of 1,340 shares under this plan, and are entitled to receive 670 shares free of charge, provided, among other conditions, that the shares acquired are held during the vesting period (twelve months following the end of the purchase period).

¹ For these purposes, Senior Management is understood to be those persons who perform, de jure or de facto, senior management functions reporting directly to the Board of Directors or Executive Committees or Managing Directors of the Company, including, in all cases, the person responsible for Internal Audit.

Management report 2020

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

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

Business Model

Telefónica's strategy is based on two pillars: its mission to "make the world more human by connecting people's lives" and its Principles of Responsible Business Principles. The latter include not only its code of ethics but also its policy of responsibility towards its stakeholders and society in general.

Accordingly, our strategy starts out by recognising the growing importance of the transition to a more digital, green, sustainable and engaged economy for all our stakeholders, and takes into account the impacts and long-term goals it aims to achieve both internally and externally.

The main lines of our future strategy are based on three pillars:

Generate a positive impact on progress in favour of economic and social development through digitisation:

Our customers recognise how important communication services are in their daily lives. Telefónica responds to this social demand by developing an efficient telecommunications infrastructure based on new, faster, higher-capacity networks that are essential for long-term progress, increasing its coverage in even the most remote areas and, at the same time, developing products and services that are in line with the needs of each customer segment to ensure zero exclusion.

Recent developments have highlighted—and at the same time accelerated—a trend towards greater digitisation in companies and businesses as a prerequisite for increased competitiveness. Telefónica is committed to helping SMEs in their transformation process, extending its range of communication services with specific IT solutions adapted to their needs.

Our **customers also demand trust** when using our networks and our various related network services. Telefónica implements the most advanced physical and logical security protocols on its networks to guarantee service security. Telefónica has also renewed its Digital Pact, whereby it makes a commitment to customers regarding the responsible use of their data based on transparency and the consent of the ultimate owners of the data: our customers.

Telefónica recognises the importance of **training people** for this new digital world and the challenges it involves. In the coming years, digitisation will have a strong impact on the working world, requiring new digital skills, new specialist profiles and catering for the emergence of new professions. This requires a strong commitment to the continuous training of our main asset: our employees. Telefónica has developed upskilling and re-skilling plans for its entire workforce, providing employees with access to the training tools that will enable them to acquire the necessary skills for the future.

Build a greener future by developing ecological sustainability initiatives:

Telefónica is aligned with global goals to **reverse climate change**. We acknowledge the growing importance of ecological sustainability for our societies and have developed plans to reduce the impact of our business and assist our customers in their ecological transition.

Internally, Telefónica **deploys state-of-the-art networks** (fibre, 5G) that are much more efficient than their forerunners in terms of energy consumption and, therefore, their ecological footprint. Specific plans have been developed to make Telefónica's business carbon-neutral in the coming years.

Telefónica is also a key supplier of services that help **our customers (mainly businesses) reduce their environmental impact**. By digitising their internal processes, businesses can increase their energy efficiency and avoid unnecessary emissions. Telefónica's services help customers in different ways: by reducing the need for travel (e.g. via home working, audio/video conferencing, Cloud services, etc.), automating processes (e.g. with IoT) and optimising internal resources (e.g. with Big Data solutions).

In collaboration with our suppliers and partners, Telefónica promotes the **transition to a more sustainable, circular economy** based on recycling. We have put plans in place for the recovery and recycling of materials (mainly electronic and customer equipment related to network deployment) in all our operations. Telefónica has set itself the goal of becoming a zero-waste company in the medium term.

Lead by example in all our activities:

Beyond corporate responsibility, Telefónica is committed to **building trust** in all its internal activities:

As Telefónica moves towards digitisation, it needs the best digital talent. Promoting **diversity and inclusion among our employees** ensures the optimum conditions for attracting,

developing and retaining talent. Telefónica guarantees equal opportunities in access to employment and is committed to increasing the presence of women in its management bodies in line with government targets, thereby eliminating the wage gap.

Telefónica considers it essential to promote the **sustainability and reliability of its supply chain**, and does so by extending its principles of action to its suppliers and providers, thereby generating a positive impact in terms of responsibility beyond its own sphere of business and reducing the risks to its own reputation as a result of third-party activities. Monitoring in our supply chain primarily focuses on our main international suppliers of major purchases (network equipment, systems and professional services, etc.), but is to be extended to the entire supplier network.

Telefónica aspires to lead in terms of **trust and reputation** in every society in which it operates. The basis of this trust lies in the assumption of all our principles of action in each of the Company's processes, in its culture and in its projection towards the outside world. The objective is to promote trust among customers and society in general through transparency, clarity, reliability and consistency.

Organisation of Telefónica

Last year, the Company made important organisational decisions to reinforce its strategy and lines of action. Today, Telefónica maintains a strong vision for the future and is making solid progress in each of the important changes it has undertaken.

Accordingly, the **current organisation** responds to the Company's own business strategy and will ensure that the necessary changes are made to achieve the targets that have been set:

A focus on the four key operators (Spain, Germany, UK and Brazil):

The Telefónica Group has refocused its strategy in order to concentrate its resources and investment in the most mature markets, in stable economies and where operators have a strong and sustainable long-term market position.

Over the past year, the Company has taken key steps to strengthen its position in these four markets:

- It signed a strategic joint venture agreement with Virgin Media in the UK, which will result in the creation of a leading national, convergent offering.
- It sustained leadership in fibre deployment and launched new services (security, health, etc.) to consolidate our positioning in Spain.

- It participated in the market consolidation process in Brazil, with the auction of Oi's mobile assets (in process).
- It significantly improved network quality in Germany, resulting in major improvements in customer satisfaction.
- It launched 5G technology in all key operators, with a target of rapid deployment.

Launch of Telefónica Tech:

This new venture seeks to capture the growth of the digital services market in order to complete the connectivity offering to corporate customers.

The initial focus has been on a service offering in three businesses: Cybersecurity, Cloud and IoT/Big Data. During this first year, Telefónica Tech has worked to complete the demerger of these assets to bring them under a corporate structure for the provision of services to all the Group's operators.

In addition, we have strengthened our main corporate alliances with leaders in each industry (Microsoft, Google, Amazon, etc.) and continue to acquire proprietary capabilities to grow in managed services for our customers.

Creation of Telefónica Infra:

This new company was created with the main aim of developing and adding value to Telefónica's valuable infrastructure, taking advantage of the current appetite for investment in the market through a structure open to third-party involvement.

In January 2021, Telefónica Infra announced an agreement with American Towers for the sale of its portfolio of more than thirty thousand towers in Europe and Latin America, thereby enabling the monetisation of valuable assets and greater flexibility for the Group's future strategy. In addition, an agreement has been announced with Allianz in Germany for the development of fibre-to-the-home projects in rural and semi-rural areas (initially covering up to two million households) in carrier-neutral mode (Fiberco).

Accordingly, Telefónica Infra is developing new future projects to accelerate ultra-broadband deployments in the geographical areas in which it operates.

Operational spin-off of Hispam businesses:

After completing the operational spin-off of the Company, we reduced our exposure to assets in Latin America with a focus on differentiated management.

Various organic and inorganic alternatives are currently being assessed in order to capture growth opportunities in the region, accelerate infrastructure deployment and reduce exposure to financial risks generated by macroeconomic shocks and their impact on exchange rates.

Organically, Telefónica continued to optimise the use of capital through infrastructure-sharing and co-investment (an agreement with AT&T in Mexico and the launch of a FiberCo in Chile, among other initiatives), enabling it to maintain

expansion plans in the region, materialising value creation and reducing total investment needs.

In terms of inorganic operations, Telefónica Hispam completed the legal separation process to become an independent company. In addition, the sale of our assets in Costa Rica has been completed (pending regulatory approval) and a strategic review of the portfolio in the region remains ongoing in order to simplify the Group's structure.

New operating model:

The acceleration of digitisation initiatives across the Group's operating units will capture synergies from process simplification and automation. In addition, the Corporate Centre has been restructured, its size being reduced to focus on activities that can provide differential value to operators, maximise synergies and materialise the value of Telefónica's scale.

Value creation model

Telefónica's value creation model is based on the exploitation of a series of valuable **ASSETS**, which mainly include:

- Fixed and mobile **telecommunications networks**, including both the basic infrastructure (fibre, civil engineering, telecommunications towers, ducts and buildings, etc.) and the physical elements associated with access, transport and switching (hardware equipment) so that we can provide our customers with basic connectivity and communications services. Telefónica builds, operates and maintains these networks in each of the countries in which it operates.
- The IT **infrastructure** (data centres, hardware and software) necessary for the provision of services to end customers (front office) and proprietary operations (back office). This includes the main platforms for building services on top of basic connectivity (communications, TV, digital services, etc.) that are either proprietary or based on third-party services.
- The necessary **licences** and authorisations according to applicable regulations and, in the case of mobile operations, the radio **spectrum** acquired in each country for the provision of our services.
- **Other intangible assets** necessary for the provision of our services that Telefónica has built up over the years, such as know-how in operations and processes, and the value of our brands in each market.

Telefónica exploits these assets by building **SERVICES** adapted to our customers' requirements. These services can be entirely proprietary (e.g. exclusively connectivity and communications services) or based on third-party offerings through partnerships or distribution agreements (as is the case for certain digital services). The main features of Telefónica's commercial proposal to customers include:

- **Basic telecommunications services**, covering Internet connectivity (residential or the more sophisticated business and corporate products) and fixed and mobile communications (traditional voice and other communication SVAs).
- Proprietary and third-party **digital services** provided over Telefónica's telecommunications networks and connectivity to complement our offering to end customers (e.g. digital television and content, cloud services, etc.).
- **Professional services and similar** necessary to facilitate our customers' digitisation processes and access to technology, including (logical and physical) security, business consulting based on Big Data and IT services and managed communications for companies, etc.

On a commercial level, Telefónica serves a wide variety of **CUSTOMERS** in each of the markets in which it operates, providing solutions that meet their needs over the course of their digital lives. The Telefónica Group's customer portfolio spans virtually every segment of every market, including:

- **Residential customers**, to whom Telefónica offers solutions for the home (fixed connectivity, fibre, TV, etc.) and for individuals (e.g. mobile lines).
- **Corporate clients**, with an offering adapted to the digital requirements of different types of companies (from businesses and SMEs to the world's leading multinationals).
- **Public administrations** and other governmental or official bodies.

Economic results of Telefónica, S.A.

Telefónica, S.A. obtained negative net results of 1,685 million euros in 2020. Highlights of the 2020 income statement include:

- Revenue from operations, amounting to 10,750 million euros, higher than 2019 figure due to the increase in dividends registered as revenues (disclosed in Note 19).
- The figure of "Impairment losses and other losses" amounting to a write down of 10,956 million euros in 2020 (a reversal of 2,226 million euros in 2019).
- The caption "Losses on disposal of subsidiaries amounting to 177 million euros, mainly attributable to the sale of Colombia Telecomunicaciones, S.A. ESP, Fisatel México, S.A. de C.V. y Telefónica Móviles Chile, S.A.
- Net financial expense totaled 995 million euros in 2020 (1,688 million euros of financial expense in 2019). This figure is mainly due to finance costs with Group companies and associates, principally from Telefónica

Europe, B.V. amounting to 461 million euros (492 million euros in 2019) and Telefónica Emisiones, S.A.U. totaling 1,089 million euros (1,278 million euros in 2019) which were partially offset by exchange gains amounting to 601 million euros (43 million in 2019).

Investment activity

The investment activity of the Company regarding additions, sales, valuation criteria and impact of this valuation in 2020 is described in Note 8 of these financial statements.

Share price performance

Global market developments in 2020 were marked by the unprecedented COVID-19 crisis. The MSCI World closed the year with gains (+14.1%), as did the US indices (Nasdaq: +43.6%; S&P: +16.3%; Dow Jones: +7.2%), which reached record highs during the year. This was driven by the technology sector, which was perceived as a safe haven sector during the crisis. In Europe, which was more exposed to “cycle” and “value”, the main markets (except for the DAX (+2.5%)) closed the year with declines: EStoxx-50 (-5.1%); CAC-40 (-7.1%); FTSE-100 (-14.3%, a performance that was also affected by the evolution of the Brexit negotiations); while the Ibex-35 continued its trend of a poorer relative performance (-15.5%).

Stock markets hit annual lows in March, with declines in the major European and US markets of around 35% on average from pre-pandemic highs in anticipation of the sharp contraction in economic activity in the second quarter caused by lockdowns. The recovery of indices thereafter was marked by government monetary and fiscal stimuli, progress in the development of the COVID-19 vaccine, the outcome of the US presidential election and progress on the Brexit deal. Thus, the main European and US markets rallied by around 18% in the final two months of the year, boosted by (i) the positive news regarding the high efficiency of vaccines in early November, which was accompanied by strong rises — Europe saw the biggest one-month rises in its history — and market rotations from defensive and growth stocks, the biggest beneficiaries since the beginning of the pandemic, towards cyclical and value stocks; (ii) the start of vaccination programmes around the world; (iii) the approval of new fiscal stimuli in the United States and (iv) the signing of the Brexit agreement.

Although the pandemic has shown how essential telecommunications networks have become to society and the economy, the telecommunications sector performed relatively worse than the overall market (-16.1%). Performance was affected by (i) preferences for momentum and growth during the pandemic; (ii) roaming exposure; (iii) the complex regulatory environment; (iv) the high level of

indebtedness; (v) expectations of increased investment; and (vi) high levels of competition in certain markets. This has been partly offset by news of company mergers and acquisitions, which have become a potential indicator of progress in the sector, where most relative valuations are trading at historic lows.

Telefónica's share price ended 2020 at €3.25 per share: -47.9% for the year with a total shareholder return of -42.7%. The dividend payment in 2020 was made in the form of a voluntary flexible dividend and amounted to €0.40 per share. Telefónica's share performance can be explained by (i) the poorer relative performance of the sector in a complex regulatory and competitive environment, (ii) the poorer relative performance of the Spanish market, which was one of the hardest hit by the pandemic, (iii) the Company's exposure to emerging markets, (iv) the depreciation of Latin American currencies and (v) the level of indebtedness. However, Telefónica's performance has been resilient, protecting cash generation during the year. This was a result of efficiency measures and prioritisation of investments, which allowed the Company to mitigate the impacts of the pandemic on revenues and OIBDA, and continue to reduce its debt.

Telefónica ended the 2020 financial year with a market capitalisation of €17.959 billion, making it the 25th largest company in the global telecommunications sector.

Research, Development and Innovation

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

In our innovation areas, most of our work focuses on identifying future opportunities for our business, adapting to a changing technological environment and seeking new spaces in which to develop our activity and offer new products and services, either through our own solutions (Core Innovation) or through agreements with third parties (Open Innovation).

This enables us to ensure our ability to anticipate the specific needs of our clients and the new demands of society in general.

We also promote the development of sustainable solutions whose objective is not only to obtain economic benefits, but also to generate a positive impact on the social and

economic development of the regions in which we operate and protect our natural environment.

Core Innovation

Our goal is to identify the next big area of opportunity on a global scale and then make it real. We want to be always offering our customers better solutions while exploring new technologies, projects and businesses that provide us with the ability to reinvent ourselves in the medium and long term.

A significant part of these innovation activities are carried out by research and development teams from the Core Innovation area. This area's mission is to improve our competitiveness by analysing Telefónica's own assets, platforms and services, such as connectivity, data and entertainment platforms.

Work is also being carried out on the development of new products and on experimental and applied research projects. It is precisely in carrying out these functions that this unit collaborates with other public and private organisations and national and international universities, with the aim of promoting new technologies.

The working model of the Core Innovation units is based on the use of Lean Startup methodology. This methodology has been adapted for use by large companies in a model known as Lean Elephant, and makes it possible to speed up the innovation and design process, making it more efficient and maintaining a clear customer focus throughout.

Another of the main pillars of in-house innovation is the creation of a culture of intra-entrepreneurship and innovation. For this purpose, the global "IN_Prendedores" programme provides funds and resources to the best ideas and projects presented by employees in response to different challenges that regularly affect issues considered strategic for the Company.

Key innovation indicators

	2019	2020
Investment in R&D and innovation (million euros)	5,602	4,626
Investment in R&D and innovation / revenue (%)	11.6%	10.7%
Investment in R&D (million euros)	866	959
Investment in R&D / revenue (%)	1.8%	2.2%
Annual increase/decrease in investment in R&D (%)	(8.6%)	10.7%
Industrial property rights portfolio	477	440
New patents registered	27	14

*These figures have been calculated using the OECD guidelines.

New assets generated in 2020

Scope

14 patents	10 European patents 4 international PCT patents
1 industrial design	EUIPO European Union Intellectual Property Office

Open Innovation

Telefónica's Open Innovation area is structured into three units: Telefónica Open Future, Wayra and Telefónica Ventures. These are global and open programmes designed to connect entrepreneurs, startups, investors and public and private organisations around the world. More than 140 public and private partners have signed up to our initiatives via agreements that seek to strengthen our strategic priorities and reinforce the business fabric and socio-economic development of the main regions in which we are present through entrepreneurship.

The main objective is to develop and promote talent and technological and digital entrepreneurship in local ecosystems and incorporate the innovation of the startups we support. This is done by supporting the growth of ideas, projects and companies while at the same time detecting talent at any stage of maturity.

Our hubs provide startups with unique access to large corporate partners, investors, governments, public institutions and relevant entrepreneurs. In addition, having public and private partners means we can strengthen the global entrepreneurship ecosystem by expanding our range of services and offering entrepreneurs in our ecosystem access to events, competitions and financing rounds.

During the challenging year that was 2020, we completed Telefónica's Open Innovation strategy through the launch of three new vehicles: Wayra Builder, to leverage Telefónica's internal talent and technology; Wayra X, to invest globally in 100% digital startups; and Tech Ventures, to invest in cybersecurity.

In 2020 we maintained our investment activity by investing €11.4M in 42 companies through Wayra and Telefónica Ventures, and continued to rotate our portfolio, generating €3.4m through the sale of 18 startups. We have also continued to generate business between Telefónica and startups. Telefónica works with > 130 of its investee startups to either complement our commercial offering or improve our processes.

Key Open Innovation indicators

	2020
Startups in portfolio/active in Open Innovation	> 500
Startups working with Telefónica	> 130
Countries in which Open Innovation is present	12
Wayra Hubs	7
Open Future spaces	35
Telefónica Ventures (centres)	8
Startups invested in by Wayra	> 770
Startups invested in directly by Telefónica Ventures	> 25
Direct investment in startups in 2020 (million euros)	11.4
Startups invested in through other funds by Telefónica Ventures	> 120
Third-party investment in startups (million euros)	1,900

In short, the Open Innovation programmes are a unique and comprehensive interface between entrepreneurs and our network of partners: large companies, governments and other major players. They also collaborate with startups in our ecosystem to increase the Group's efficiency or offer new solutions to our customers.

Sustainable innovation

At Telefónica, we approach sustainability as a cross-cutting process throughout the organisation. We particularly focus on solutions that contribute to social and environmental transformation, taking into account the major global challenges we are facing today. In addition, our commitment to the 2030 Agenda and the Sustainable Development Goals provides us with a particular framework in which technology and digitisation can add value.

Environment

The past year was unquestionably marked by an unprecedented global health crisis, but also by an increase in awareness about the impact caused by environmental damage on all that surrounds us, health and the economy, etc. Biodiversity protects us, economic activity depends on a sustainable environment and, in short, our own wellbeing is absolutely interlinked to that of the environment. Against this backdrop, there are leaders in governments and companies who are focussing on a new paradigm that modifies the economic model and places the environment at the heart of policies and decisions such as the European Green Deal.

Telefónica wants to be part of this shift and our activities, as those of any other company, are dependent on the environment. We are therefore striving to ensure our impact on the environment is minimal and are committed to decoupling the growth of our business from our environmental footprint.

From this perspective, the main issues are associated with:

- **Inclusive connectivity:** Ensuring that we bring connectivity and new digital services to everyone without leaving anyone behind.
- **Developing more sustainable societies:** Implementing solutions that improve the quality of life of individuals and communities.
- **The development of new products that contribute to protecting the planet:** Implementing solutions that reduce emissions and waste and improve energy efficiency at the Company and for our customers.

In this regard, in recent years we have sponsored the development of new lines of activity, such as new IoT solutions aimed at protecting natural ecosystems, solutions that make technology more accessible to people with disabilities and Big Data for Social Good initiatives that include research and studies on Smart Agro, the evaluation of pandemics and environmental pollution.

In 2020 took place the 5th edition of the Sustainable Innovation Initiative. During that event, 262 projects were presented from 10 countries. Employees, startups from the Open Innovation ecosystem, universities and Telefónica Group suppliers presented ideas that addressed some of the lines of activity related to bringing connectivity to everyone, protecting the planet and developing more sustainable societies, while at the same time presenting a profitable business model for the Company. The top three best projects have been financed and helped along internally, and are either currently in pilot testing phase or have been launched commercially.

Digitalisation is a crucial tool in the face of these environmental challenges. Some of our products and services already provide solutions for climate change, waste, water, air pollution and biodiversity.

We are working to achieve a world in which digital technology contributes to protecting the planet. We have a global environmental strategy and act in alignment with our business strategy at all levels of the organisation. The environment is a central issue throughout the Company, involving both operations and management areas, as well as business and innovation areas.

In 2020 we set ourselves ambitious new goals which go further than the Paris Agreement. We will be a company with net zero emissions in our main markets by 2025 and, including our value chain, by 2040 at the latest. In order to achieve this, we will reduce emissions in line with the 1.5°C scenario and neutralise residual emissions through projects based on nature. In this way, we will reduce our emissions by

70% by 2025 (90% in our main markets) and emissions in our value chain by 39%. We will also continue working to become a company with zero-waste, thereby helping to create a more circular economy by fostering the ecodesign, reuse and recycling of electronic equipment.

In a digital world there are also more opportunities for ecoefficiency and a decarbonised and circular economy; therefore, we want to play our part in the transition to a green economy. Through connectivity and our digital services, we will help our customers to prevent the emission of 5 million tCO₂ a year by 2025.

As part of integrating the environment into the Company's strategy, in 2020 we issued another Green Bond —the first hybrid in the sector— based on our Sustainable Financing Framework, under which the Company had already issued the first Green Bond for the telecommunications sector globally in early 2019.

The funds from the hybrid Green Bond (500 million euros) have served to finance projects aimed at increasing the Company's energy efficiency through the process of transforming the copper network into fibre optic (85% more efficient) in Spain. The issuing of the bond has made it possible to save 50 GWh just between the months of May 2019 and August 2020, which means avoiding the emission into the atmosphere of 10,075 tonnes of CO₂, equivalent to the carbon sequestered by 165,000 trees. In addition, the deployment of fibre has allowed us to close hundreds of technical buildings, re-using much of the equipment and recycling all the material as part of our commitment to the circular economy. The Company's goal is to have 100% of its retail customers in Spain using fibre by 2025.

Sustainable financing contributes to Telefónica's decarbonisation strategy and its goals of reducing emissions and energy consumption.

Governance

The environmental strategy is the responsibility of the Board of Directors, which approves the Global Environmental Policy and objectives, within the framework of our Responsible Business Plan. The carbon reduction targets are part of the variable remuneration of all the Company's employees, including the Board of Directors.

Materiality

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

However, we do not neglect other environmental aspects. We 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 risk focus on the high geographic dispersion of infrastructure, which is controlled through environmental management based on uniform processes and certified according to the ISO 14001 standard.

With regard to the guarantees and provisions arising from environmental risk, in 2020 the Group continued to develop, both locally and globally, several insurance programmes in order to mitigate the possible occurrence of an incident deriving 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. We also have environmental liability insurance to cover the environmental liabilities set out by the applicable laws and regulations. Both insurance policies are based on limits, sub-limits and cover that are appropriate to the risks and exposure of Telefónica and its Group of companies.

Environmental management

Environmental Management System (EMS) ISO 14001 is the model that we chose to ensure the protection of the environment. In 2020 we continued to have 100% of our operators certified under the requirements of the standard (Venezuela is out of the scope).

We have a set of global standards that incorporate the life cycle perspective. We also incorporate the life cycle perspective into the various aspects of our value chain and we pay particular attention to involving our partners in environmental management.

Having a certified EMS enables us to ensure that we successfully control and comply with the environmental legislation applicable to each operation and it is the preventive model of compliance is associated with the Company's overall compliance process. We were not subject to any significant environmental penalties in 2020.

In addition, we maintained the Energy Management Systems (ISO 50001) certification for our operations in Spain and Germany and are working to expand it to other operations, such as Brazil (the EcoBerrini headquarters has already been certified).

Responsible network and biodiversity

With the goal of providing top quality service while at the same time promoting care for the environment, we adequately monitor the environmental risks and impacts related to managing the network throughout its life cycle. In 2020 we invested around 24 million euros towards this goal (similar to the investment in 2019).

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

An example of the responsible management of the network is the fact that 98% of our waste was recycled in 2020.

In order to minimise the impact of network deployment we implement best practices, such as noise insulation measures when necessary and the sharing of infrastructures. Therefore, whenever possible during installation of our facilities we share space with other operators. This makes it possible to keep the occupation of land, the visual impact, energy consumption and waste generation to a minimum.

RESPONSIBLE NETWORK LIFE CYCLE

PLANNING AND CONSTRUCTION

Environmental licences and permits	5,334
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Visual impact reduction measures	484
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Base stations with renewable energy	436
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OPERATION AND MAINTENANCE

Energy efficiency projects	173
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Renewable energy (%)	87.5
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Emissions (scopes 1+2) (tCO ₂ eq)	743,366
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No. of measurements of electromagnetic fields	48,956
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Energy consumption by traffic (MWh/PB)	78
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DISMANTLING

Network equipment reused	855
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Hazardous waste (t)	4,872
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Total waste recycled (%)	98 %
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With regard to biodiversity, the impact of our facilities is limited, although we conduct environmental impact studies and implement corrective measures when necessary, such as in protected areas.

In order to analyse the impact of the Group's infrastructure on biodiversity in more detail, a Geographic Information System (GIS) was used to put together the area occupied by each type of infrastructure and different layers of information about protected spaces and species obtained from renowned international organisations, such as the International Union for Conservation of Nature (IUCN). This information has enabled us to establish the quality of the habitats in which some type of the Company's infrastructure is present (classifying them into five levels, from very low to very high) and assess the potential impact on biodiversity

(destruction of vegetation or habitat disturbance in the area of influence, such as fragmentation, alteration or introduction of invasive species). As a result, it has been observed that practically all facilities are in low or very low value habitats, and none are in habitats with a very high value; therefore, the potential impact on biodiversity is very limited.

MILESTONES 2020 AND CHALLENGES 2021

Our main achievements in 2020:

- We issued our second Green Bond, amounting to 500 million euros.
- We announced net-zero targets, going further than the Paris Agreement. We will reduce emissions in line with the 1.5°C scenario and will neutralise residual emissions.
- 100% certified company under ISO standard 14001:2015.
- We consumed 100% renewable electricity in Europe, Brazil and Peru.
- We reduced our carbon emissions by 61.1% compared to 2015 (scopes 1+2) and those of our value chain (scope 3) by 26.8% compared to 2016.
- With our services we avoided 9.5 million tCO₂, three times more than the previous year thanks to the high penetration of digitalisation during the COVID-19 crisis.
- We reduced our energy consumption per traffic unit by 80.9% compared to 2015.
- We received the maximum "A" classification from CDP with regard to climate change for the seventh year in a row.
- We recycled 98% of our waste.

The most significant challenges we face for 2021:

- To avoid 5 million tonnes of CO₂ for our customers by 2025.
- To reduce our CO₂ emissions (Scopes 1+2) by 70% by 2025, and by 90% in our main markets.
- To reduce CO₂ emissions in our value chain by 39% by 2025 compared to 2016 (Scope 3).
- To continue to consume 100% renewable electricity in our main markets and reaching 100% at global level as well by 2030.
- To continue to move towards becoming a zero-waste company through ecodesign, re-use and recycling.

Human Resources

Introduction

In 2020 we have faced an unprecedented health crisis and at the same time we have deepened in the transformation and delivering value to our customers. During the last 20 years we have managed complex crises resulting from natural disasters (earthquakes, floods, hurricanes) in a discontinuous manner and we have confronted wide scope diseases (yellow fever, H1N1, SARS, MERs), however, the current context exceeds any crisis known so far.

Our priority from the beginning of the COVID-19 crisis has been people —ensuring the health and safety of the team above all else— and caring for all colleagues who have contracted the disease.

The section on **Employee health and safety** details the actions carried out within the Group to guarantee the health and safety of our teams as well as the action plan designed to ensure the progressive and safe return to the different work centres.

Diversity

A core pillar of our internal transformation process is the management of diversity and inclusion. We need to have a diverse workforce and foster an organisational culture of equity, plurality and inclusion, where our employees' unique skills, abilities and ways of help us make the best decisions for the business.

We firmly believe that effective diversity management, in addition to adhering to the principles of social justice, helps us to achieve better business results. To this end, we have designed initiatives aimed at fostering the inclusion of diverse talent, so as to attract and retain high potential professionals, get the best out of our employees, boost innovation and become more productive. Only in this way will we be able to empathise with our customers, understand their specific needs and innovate to meet their expectations.

Governance of diversity

We ensure the mainstreaming of our diversity and inclusion strategy by including **gender diversity criteria in the variable remuneration scheme** for Company employees. In addition, we have internal policies and a structure of internal bodies and figures that ensure the involvement of senior management:

- **Governance bodies and figures:**

- **Global Diversity Council**, made up of top-level executives. Its purpose is to promote and monitor the Company's diversity strategy.
- The **Transparency Commission**, made up of the Chairman and four senior managers. It ensures the

presence of both genders in the shortlists for selection processes.

- **Chief Diversity Officer**, a figure who supports the Board and the People area functions.
- **Diversity Champions**, who act as internal agents of change in all areas of the Company.

- **Internal policies:**

- **Global Diversity and Inclusion Policy**, approved in 2017 by the Board of Directors, which seeks to ensure management free of bias associated with differences.
- **Policy on Appointments and Departures of Executives**, which guarantees transparency and meritocracy in the recruitment and promotion of executive talent.
- **The Board of Directors Diversity Policy**, which ensures that proposals to appoint and re-elect members of the Board of Directors are based on prior analysis of needs, expressly encouraging diversity.
- **The Supply Chain Sustainability Policy**, which lays down the supplier's obligation not to discriminate against any group in its hiring, training and promoting policies.

Beyond these corporate bases, each of our operations has different programmes and diversity plans that represent an indisputable driver for making progress in taking the best business decisions.

Talent management and development

The qualified professionals working for the Company are the key resources to boost and multiply sustainable growth in Telefónica.

In order to achieve a diverse and committed team essential to consolidate the future of the Company, in Telefónica we want to enhance the highest professional performance of the employees. Therefore, we have launched several initiatives both locally and globally in order to develop talent, mobility and internal rotation favoring internal promotion and diversity as career development tools.

Our strategy is based on an increasing digitalization of People Management processes and the global usage of "Success Factors" software to set up training programmes, in the recruitment processes, for the performance valuation, rewards and administration, allowing multi-device accesses. All the employees of the Company have nowadays a global experience using Success Factors.

Capacities for the future

The evolution of our businesses, the explosion of data and the technological evolution of our networks require us both to attract external talent and to develop new skills within Telefónica's people and teams. On the other hand, the

digitalization and automatization of our processes replace some manual tasks or making them outdated.

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 gearing our training policies towards mass reskilling and upskilling programmes to adapt and improve the skills of our people, ensuring their employability and improving their future prospects in the working world.

We have reviewing our outlook on talent development and management focusing on capacities, promoting ongoing learning and development of new capacities such as leadership, which will be required in the next years.

We would like to highlight the reskilling and upskilling programmes in Telefónica de España, which have allowed more than 14,000 professionals upgrading some of our capacities.

The global business units have created several academies, such as: the IT&Network Academy, from the global Network and IT area, which shares the highest level of technical knowledge with all the Group's employees on, for example, the new 5G networks; the **CloudexAcademy**, which is aimed at training the Company's **Cloud** specialists so that they can obtain the necessary certifications; the **CiberAcademy+**, which is aimed at Telefónica's **cybersecurity** specialists; and finally, the **SalesAcademy**, providing knowledge to the sales representatives from the Company's business segments.

The COVID-19 pandemic has caused a shift in the distribution of in-person/virtual and online training. We have moved from 30% virtual/online training in 2019 to 92% online training in 2020.

Universitas Telefónica is the corporate university at which the employees of Telefónica and other companies work on improving their transformational leadership skills, enabling them to better take on the challenges of the digital revolution in which we live. Until the end of 2020 the courses of Universitas have been held in a unique environment where the participants can switch off from their daily responsibilities and completely focus on the course while staying there. Due to pandemic, in 2020 Universitas undertook a major **digitisation journey, virtualising our entire offering**, with a particular focus on developing resilience, which is so necessary in the turbulent times we have experienced. We have delivered 25 virtual courses, reaching 12,910 people across Telefónica. For the first time, 2,700 of these participants were also family members of our employees. We have relied on more than 100 internal facilitators, keeping alive the Universitas Exponential community launched in 2019.

Labour relationships

At Telefónica we are committed to the core standards of the International Labour Organization (ILO), particularly with regard to freedom of association and the right to collective

bargaining in all our companies in all the countries in which we operate. We ensure that worker representatives receive fair treatment free of discrimination and that they have all the facilities to be able to perform their representative duties. In both 2019 and 2020, 100% of Telefónica's employees were covered by a labour 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 recognise 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; 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 ensuring a free, open environment which allows the right 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.

COVID-19 return plan - trade union coordination

The plan to return to work centres has been addressed jointly by Telefónica and the main trade unions in Spain (UGT and CC.OO.), as well as the UNI Global Union.

The global agreement reached in May sets the objective of joining forces and ensuring the collaboration of everyone to guarantee the health and safety of all Telefónica Group employees at all times.

The return plan establishes teleworking as a priority and preferential act until such time as the World Health Organisation (WHO) and the competent governments or local authorities rule that the pandemic has been brought under control.

The return of workers to the workplace will be progressive and phased. The agreement includes specific aspects in relation to guaranteeing the availability and use of personal protective equipment, providing mechanisms for health monitoring by the Group's medical services, facilitating compliance with the protocols defined in the different workplaces, and managing the different stages established in this plan.

It also includes a commitment to create spaces for collaboration in the field of collective bargaining, with the aim of analysing and capitalising on the lessons learned from the management of the pandemic in order to consolidate teleworking and flexibility schemes, as well as new health and coexistence protocols.

Appropriate systems have been established through health and hygiene committees, temporary commissions linked to COVID-19 or other instruments of dialogue to ensure compliance with the agreements and to review any extraordinary incidents that may arise until the pandemic is under control.

Safety and health at work

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 positive overall effects that go beyond the Company. At Telefónica we have a **Global Policy on Occupational Health, Safety and Well-Being of our employees, our supply chain and partners**. This policy includes Telefónica's commitments that promote health, safety and well-being at work.

COVID-19 crisis management

The Telefónica Group has made it a top priority to manage this unprecedented health crisis. Since there was no equivalent precedent, we considered making initial decisions and then making adjustments as the real situation started to offer us further clues. After the first months of lockdown and the subsequent easing of it, we realised that this was not a sustained crisis, so we decided to adopt actions adaptable to changing realities in the short term.

Steps for a progressive return to work centres

Our return plan has always had people as our top priority, aligning our actions with the objectives of guaranteeing the safety and protecting the health of our employees, while ensuring business continuity.

The plan has been structured into **three stages**, linked to **clear milestones based on the evolution of the pandemic** and criteria based on business activities and employee groups. This has allowed us to establish a gradual return by ensuring that we have all the necessary mechanisms and protocols in place.

The return plan has been agreed with the main trade union bodies, both in Spain and globally: UGT, CC.OO. and the UNI Global Union.

The time planning is different in each country and is subject to many variables: key indicators of the country, active Company cases in this location, conditions for return. For this reason, although the plan is the same, implementation occurs at different times.

Measures implemented in the Telefónica Group to ensure health and safety during COVID-19

Measures to ensure social distancing:

- Flexibility measures to compensate remote work with in-person work when the situation allows.

- Introduction of a bubble model for in-person work management: Co-existence groups with a shift format.
- Management of capacity control data to identify improper access (accessing the centre on the day that does not correspond to the shift) and extraordinary access, and to sound the corresponding alerts.

Health measures:

- Specific COVID-19 protocol: Online Prevention Manual.
- Catalogue of PPE appropriate for each type of activity. Management of safety stock and agile supply process.
- Medical health application to monitor the status of each employee (app):
 - Symptom questionnaires managed and analysed by health staff.
 - Highly effective early detection of symptoms.
- Diagnostic tests: (depending on the indications of the country's health authority).
 - Voluntary tests offered to our employees (in countries where possible).
 - Special attention to employees with higher exposure (field, call centre, operations).
- Temperature monitoring (thermographic cameras and other devices adapted to each centre in countries where this is permitted).
- Emotional health support (psychological support solutions).
- Special measures to prevent risks to workers with special sensitivities and groups vulnerable to COVID-19.

Special measures in workplaces and stores:

- Establishment of special cleaning and disinfection protocols; provision of gel, mask and glove dispensers; screens; access and capacity control; use of UV sanitisers, etc.
- Work centre signage: vertical signs, horizontal signs, infographics, informative videos about the guidelines, definition of maximum capacities by zone, etc.
- Special measures for workers performing activities at the customer's home (diagnostic tests, PPE, etc.).
- Measures to be applied in the coordination of business activities with contractors, subcontractors, customers, users or other persons present in the centre outside the Company.

Ad hoc protocols for business activities:

We are conscious of the need for activities that support the business and we develop ad hoc protocols to ensure safety and security in these circumstances:

- **Protocol for international travel** (covers diagnostic tests, mobility certificates, special travel insurance, differentiated private security treatment, food and hygiene guidelines, symptom monitoring, etc.).
- **Protocol for essential meetings** in our secure facilities for our guests and employees.
- **Protocol for the opening of special centres** (Wayra Entrepreneurs hubs, Escuela 42, Fundación Telefónica activities).

Case traceability:

We have implemented protocols that allow rapid management of a positive case and identification of close contacts.

- Highly qualified health personnel perform the monitoring and traceability of each case.
- There are special measures to be taken in the event of a possible positive case.
- There is a specific medical channel for our employees to submit queries, consult symptoms and report cases. This is organised with partners of recognised prestige, as in the case of Spain, where we have a specific Quirón Salud call centre for the Telefónica Group.
- Data models and data mining tools to ensure:
 - Quality information for the healthcare team -> Proper case tracing, also in accordance with GDPR -> E2E monitoring of each case.
 - Management information -> Dashboard with case statistics for all Telefónica Group subsidiaries. Real-time data allows us to make decisions with the utmost reliability.

Training and communication:

- Continuous training through didactic communication devices (infographics, videos, tutorials, training pills). Content on health, safety and business continuity.
- Courses on our online platform prior to returning to in-person work.

Data model for decision making:

We decided to choose a set of measurable key indicators in all countries in which we are present. We monitor these indicators on a daily basis and assess whether we need to correct any decisions on in-person presence in our offices, customer relations or flexibility measures.

We have a protocol for data management and deletion in accordance with local data protection laws in each country. Our objective is to have real-time information that allows us to trace a positive case and identify potential close contacts to avoid contagion.

As regards people, we have made a major effort to protect our employees by ensuring safe and healthy workplaces. The result has been a significantly low number of positive cases compared to the real situations in the countries in which we are present. In-person presence in offices, in countries where it was possible, was not the cause of an increase in cases. On a sustained basis over time we have seen that the number of active cases was higher for employees with 100% remote working. During the easing process, we observed percentages between 50% and 70%.

Currently, **only 4.4% of the workforce has had the disease** and at the moment we have had no outbreaks in our workplaces. Unfortunately, however, we have recorded 23 deaths. These data are the result of a major coordination effort between many areas and countries.

We analyse the casuistry of all extra-professional quarantines **on a daily basis** and offer recommendations to all our employees so that they can protect themselves in their private lives in line with the best possible instructions. **Preserving individual health is the key to preventing the spread of the virus.**

The return to our work centres is aligned with the circumstances of each country. At the end of 2020, the percentage of remote versus in-person work in Spain was 79%.

Liquidity and capital resources

Financing

The main financing transactions carried out in the bond market in 2020 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	02/03/2020	02/03/2030	1,000	EUR	1,000	0.664 %
EMTN bond	05/21/2020	08/21/2027	1,250	EUR	1,250	1.201 %
EMTN bond	05/21/2020	05/21/2032	750	EUR	750	1.807 %
EMTN bond	07/13/2020	07/13/2040	500	EUR	500	1.864 %

These transactions are guaranteed by Telefónica, S.A. On the same dates Telefónica, S.A. perceived loans from Telefónica Emisiones, S.A.U. of similar amount, terms and conditions.

The main transaction under the main financing transactions arranged in 2020 in the bank market are as follow:

- On March 12, 2020, Telefónica, S.A. drew down 150 million euros of its bilateral loan signed on November 8, 2019 and maturing in 2030.
- On May 6, 2020, Telefónica, S.A. drew down 200 million euros of its bilateral loan signed on December 4, 2019 and maturing in 2027.

Available funds

At December 31, 2020 Telefónica, S.A.'s available funds from undrawn lines of credit in different financial institutions totaled 10,709 million euros (of which 10,484 million euros maturing in more than 12 months). Additionally, cash and cash equivalents as of December 31, 2020 amount to 3,030 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, 2020, Telefónica, S.A.'s long-term issuer default rating is "BBB stable outlook" from Fitch, "BBB-stable outlook" from Standard & Poor's and "Baa3 stable outlook" from Moody's. During 2020, Standard and Poor's revised the outlook to "negative" from "stable" on April 1, 2020 and later, on November 20, 2020 downgraded the rating to "BBB - stable" from "BBB negative". The last changes in the credit ratings prior to that took place in 2016 when Moody's downgraded the rating to "Baa3 stable" from "Baa2 negative" on November 7, 2016 and Fitch downgraded the rating to "BBB stable" from "BBB+ stable" on September 5, 2016.

In 2020, measures taken to protect the credit rating included an active portfolio management through the agreement reached for the sale of the entire share capital of Telefónica de Costa Rica TC, S.A. and the agreement to sell approximately 10,100 sites of Telefónica Germany to Telxius (which led to the partners making equity contributions in Telxius). Apart from that, Telefónica decided to distribute dividends for fiscal year 2020 through two voluntary scrip dividends. Additionally, there was an intensive financing activity, as the Group took advantage of the historical low refinancing rates to extend average debt life, while seeking to maintain an appropriate level of liquidity.

Telefónica also reached strategic deals in 2020 to reinforce its business profile, first with Liberty Global plc, with which it has agreed to combine their respective operating businesses in the United Kingdom in a 50-50 joint venture, and second, with Allianz, with which it has agreed to create a joint venture to deploy fiber in rural areas in Germany. In January 2021, Telxius signed an agreement with American Tower Corporation for the sale of its telecommunications towers division in Europe (Spain and Germany) and in Latin America (Brazil, Peru, Chile and Argentina).

Dividend policy

Telefónica, S.A.'s dividend policy is revised yearly based on the Group's earnings, cash generation, solvency, liquidity, flexibility to make strategic investments.

On March 2017 the Board of Directors of Telefónica, S.A. decided to define the corresponding payment periods of the dividends. Therefore, from there on, the dividend payment in the second quarter will take place in June, and the dividend payment in the fourth quarter will take place in December, in both cases on or before the third Friday of the corresponding month.

In February 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.

In February 2020, Telefónica announced the dividend policy for the year 2020: 0.40 euros per share payable in December 2020 (0.20 euros per share) and in June 2021 (0.20 euros per share).

In May 2020, after the corresponding analyses, it was concluded that the Company had a sufficiently healthy cash position to maintain the previously announced dividends payment. However, for reasons of financial prudence in the context of the COVID-19 health crisis and in order to grant greater flexibility in regard to cash outflows and different alternatives for the shareholders, it was deemed appropriate to propose for approval of the Annual General Shareholders Meeting held on June 12, 2020 the implementation of the payment of sums to be made during this fiscal year 2020 through separate scrip dividends (the "Telefónica Flexible Dividend"), which as is known, provides all shareholders with the choice of receiving the relevant compensation in shares or in cash, at the shareholder's discretion.

The Annual General Shareholders Meeting held on June 12, 2020 approved the Proposals of the scrip dividend, which were executed in June and December 2020.

Treasury shares

Telefónica has performed, and may consider performing, transactions with treasury shares and financial instruments or contracts that confer the right to acquire treasury shares or assets whose underlying is Company shares.

Treasury share transactions will always be for legitimate purposes, including:

- Undertaking treasury share acquisitions approved by the Board of Directors or pursuant to General Shareholders' Meeting resolutions.
- Honoring previous legitimate commitments assumed.
- Covering requirements for shares to allocate to employees and management under stock option plans.
- Other purposes in accordance with prevailing legislation. In the past, treasury shares purchased on the stock market were exchanged for other shares-securities (as in the case of preferred capital securities), swapped for stakes in other companies (e.g. the share exchange with KPN) acquired to reduce the number of shares in circulation (by redeeming the shares acquired), thereby boosting earnings per share, the delivery of treasury shares in exchange for the acquisition of a stake in another company (such as the agreement with Prosegur Compañía de Seguridad, S.A.).

Treasury share transactions will not be performed in any event based on privileged information or in order to intervene in free price formation. In particular, any of the conduct referred to in Articles 83.ter.1 of the Spanish Securities Market Law and 2 of Royal Decree 1333/2005 of November 11 implementing the Spanish Securities Market Law, with regards to market abuse will be avoided.

The disclosure of number of treasury shares at the end of 2020 and 2019, as well as the explanation about the evolution of the figure and the transactions involving treasury shares in 2020, 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 these Financial Statements.

These risks are currently considered by the Telefónica Group to be material, specific and relevant 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 specificity and materiality depending on the Group's assessment of their probability of occurrence and the potential magnitude of their impact.

Risks are presented in this section grouped into four categories:

- Business
- Operational
- Financial

- Legal and compliance

These categories are not presented in order of importance. However, within each category, the risk factors are presented in descending order of importance, as determined by Telefónica at the date of this document. Telefónica may change its vision about their relative importance at any time, especially if new internal or external events arise.

Risks related to 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 its revenues and market share. In addition, changes in competitive dynamics in the different markets in which we operate, such as in Chile and Peru, where there are aggressive customer acquisition offers, including unlimited data and discounts on certain services, among others, can affect the competitive position and the efficiency of Telefónica's operations.

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's strategy which is focused on driving new digital businesses and providing data-based services, increases its exposure to risks and uncertainties arising from data privacy regulation.

The Telefónica Group's commercial portfolio includes products and/or services which are based on the use, standardization and analysis of data, as well as the deployment of advanced networks and the promotion of new technologies related to Big Data, Cloud Computing, Cybersecurity, Artificial Intelligence and the Internet of Things ("IoT").

The large amount of information and data that is processed throughout the Group (approximately 345.4 million accesses

associated with telecommunications services, digital products and services and Pay TV and 112,797 employees as of December 31, 2020), increases the challenges of complying with privacy regulations. Moreover, there is a risk that measures adopted in response to these regulations may stifle innovation. Conversely, the Group's efforts to promote innovation may result in increased compliance risks and costs.

One of the most important pieces of regulation for the Telefónica Group's operations in the European Union is Regulation (EU) 2016/679 of the European Parliament and Council of April 27, 2016, on the protection of natural persons with regard to the processing of personal data and on the free movement of such data ("GDPR"), which content has become a benchmark for all countries where the Telefónica Group operates. In addition, progress continues to be made on the proposal for a future European regulation concerning the respect for privacy and protection of personal data in electronic communications ("e-Privacy Regulation"), which would repeal Directive 2002/58/EC. If approved, this proposal could establish additional and more restrictive rules than those established in the GDPR, which may increase compliance risks and costs.

Moreover, on July 16, 2020, the Court of Justice of the European Union issued a judgment which annulled, without granting a grace or transition period, the European Commission's Decision (EU) 2016/1250 of July 12, 2016 on the adequacy of the protection provided by the EU-U.S. Privacy Shield. Accordingly, such framework is not a valid mechanism to comply with EU data protection requirements when transferring personal data from the European Union to the United States. As a result of that decision, the Telefónica Group has been, among other measures, reviewing and where applicable revising, in a short period of time, international data transfers being made by the Telefónica Group companies from the European Economic Area ("EEA") to suppliers located in the United States with a view to minimizing the risk of breach of the GDPR. However, due to the complexity and uncertainties coming from the aforementioned judgement there can be no assurance that any such measures have been or will be fully effective in preventing a breach of the GDPR. In addition, there can be no assurance that the transfers which began under the framework of the EU-U.S. Privacy Shield did not result in a breach of the GDPR.

In addition, the following recent and prospective regulatory developments may be material to the Telefónica Group's operations: (i) in the United Kingdom, its exit from the European Union means that the Group must monitor how its operations and business in the United Kingdom are affected in terms of applicable privacy regulations and, specifically, the flow of data to and from the United Kingdom. The Trade and Cooperation Agreement between the United Kingdom and the European Union reached on December 24, 2020, which has been applied provisionally pending ratification by the authorities of the European Union, contains a Final Provision according to which, from January 1, 2021 and for a period of four months, extendable by two more months, the

transmission of personal data from the EEA to the United Kingdom will not be considered a transfer to a third country in accordance with the GDPR. The Final Provision will cease to be in effect if, during this period, the European Commission adopts an adequacy decision in relation to the United Kingdom. If the European Commission fails to adopt such a decision during this period, or if such adequacy decision contains terms which are more onerous than those currently in place, the Telefónica Group may face similar challenges as it is currently facing with respect to data transfers to the United States and may have to review and, where appropriate, revise the transfers of personal data to the United Kingdom; and (ii) in Latin America, Law No. 13,709 (LGPD) in Brazil imposes standards and obligations similar to those required by the GDPR, including a sanctioning regime which will be in force from August 2021, with fines for non-compliance of up to 2% of the Group's income in Brazil in the last financial year subject to a limit of 50 million Brazilian reais (approximately 8 million euros based on the exchange rate as of December 31, 2020) per infraction. In other countries of Latin America where the Group operates, such as Ecuador, Argentina and Chile, there are regulatory proposals to bring regulation more in line with the provisions set forth in the GDPR, which may increase compliance risks and costs.

Data privacy protection requires careful design of products and services, as well as robust internal procedures and rules that can be adapted to regulatory changes where necessary, all of which entails compliance risk. Failure to maintain adequate data security and to comply with any relevant legal requirements could result in the imposition of significant penalties, damage to the Group's reputation and the loss of trust of customers and users.

Telefónica's reputation depends to a large extent on the digital trust it is able to generate among its customers and other stakeholders. In this regard, in addition to any reputational consequences, it is important to note that, in the European Union, very serious breaches of the GDPR may entail the imposition of administrative fines of up to the larger of 20 million euros and 4% of the infringing company's overall total annual revenue for the previous financial year. Furthermore, once it is approved, the e-Privacy Regulation may set forth sanctions for breaches of it similar to those provided for in the GDPR.

Any of the foregoing could have an adverse effect on the business, financial condition, results of operations and/or cash flows of the Group.

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 (such as the provision of telephone services, Pay TV, the installation and operation of telecommunications networks, etc.) require licenses, concessions or authorizations from governmental authorities, which typically require that the Group satisfy certain obligations, including minimum specified quality levels, and service and coverage conditions. If the Telefónica Group breaches any of such obligations it may suffer consequences such as economic fines or, in a worst-case scenario, other 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. In this context, Telefónica Deutschland has adjusted the conditions of 4G wholesale services.

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.

The intention of the Group is to maintain current spectrum capacity and, if possible, to expand it, specifically through the participation of the Group in spectrum auctions which are expected to take place in the next few years, which will likely require cash outflows to obtain additional spectrum or to comply with the coverage requirements associated with some of the related licenses.

In Europe, two auction processes are expected in the near term: (i) in Spain, a spectrum auction of 75 MHz, in the band 700 MHz, is expected to take place in April 2021; 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 March 2021, although such auction could be delayed.

In Latin America, several auction processes are expected in the near term: (i) in Brazil, on February 5, 2020, ANATEL published the proposal for the 5G public auction. It is expected that the auction of 20 MHz of the 700 MHz band, 90 MHz of the 2.3 GHz band, 400 MHz of the 3.5 GHz band and 3,200 MHz of the 26 GHz band will take place in 2021; (ii) in Colombia, the "5G Plan" as well as the 2020-2024 Spectrum Public Policy and the 2020-2024 Spectrum Allocation Framework Plan were published. These policy documents announced actions to auction the remaining spectrum in the 700 MHz, 1,900 MHz and 2,500 MHz bands, without indicating a concrete time frame. Additionally, spectrum in the 3.5 GHz band is planned to be assigned in the second quarter of 2021; however, this auction could be postponed until 2022. Telefónica has requested the Ministerio de las Tecnologías de la Información y las Comunicaciones (MinTic) to delay the spectrum auction in the 3.5 GHz band, considering that the market is not yet sufficiently prepared. It has also proposed the revision of the spectrum valuation methodology downwards, in order to align costs with the spectrum value generation capacity. Finally, although it is in favor of increasing the spectrum caps, Telefónica has requested additional measures to avoid resource monopolization by the dominant operator; and (iii) in Peru, auctions were announced for the bands 1,750 - 1,780 MHz, 2,150 - 2,180 MHz and 2,300 - 2,330 MHz, which may take place during 2021. In addition, the Ministry of Transportation and Communications has started a public consultation regarding 5G and an auction model for the 3.5 GHz and 26 GHz bands.

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 Germany, Telefónica's and other parties' legal actions against Decisions III and IV adopted by the German regulator on the conditions of use of frequencies and the rules of the spectrum of the 2 GHz and 3.4-3.7 GHz bands auction, that ended on June 12, 2019, are pending. With its appeals, Telefónica is challenging in particular the imposed coverage obligations and the requirement to negotiate on network access. Other parties inter alia claim that the obligation to negotiate with other operators is not strict enough. It is yet unclear to what extent these different actions will affect the regulator's Decisions III and IV.

With respect to Latin America:

In Brazil, the publication by ANATEL of two regulations for the development of Law 13,879/2019 regarding the migration from the concession regime to the authorization regime are pending. ANATEL is working on the methodology for calculating the migration balance and there is a risk that consensus will not be reached between the parties regarding the migration calculation. If a decision is made not to

migrate, the Telefónica Servicio de Telefonía Fija Conmutada (STFC) concession will remain in force until 2025. In addition, Telefónica could lose its right to operate spectrum in the 450 MHz band, granted in certain cities, if Telefónica's appeal against a decision adopted by the regulator in June 2019 is not successful. Furthermore, regarding the extension of the 850 MHz band authorizations, ANATEL agreed to extend the current authorizations for the use of radio frequencies in Bands A and B, proposing their approval, on a primary basis, until November 29, 2028, if the legal and regulatory requirements are met. However, Telefónica has appealed the regulator's decision related to the amount due for the extension, arguing that it should be calculated based on net present value parameters to reflect the real economic value (market value) of the bands.

In Peru, an arbitration process was started by the Group, to challenge the decision adopted by the Ministry of Transportation and Communications ("MTC"), denying the renewal of concessions for the provision of fixed-line services, valid until 2027. Nevertheless, Telefónica del Perú S.A.A. holds other concessions for the provision of fixed-line services that allow it to provide these services beyond 2027. The renewal of the 1,900 MHz band in all of Peru (except for Lima and Callao), which expired in 2018, and of other telecommunications services were requested by the Group and a decision by the MTC, is still pending. Nevertheless, these concessions are valid while the procedures are in progress.

In Colombia, the period to request the renewal of the license to use 15 MHz in the 1,900 MHz band, will expire in April 2021. Unless it is renewed, the license will expire on October 18, 2021. MinTic must establish the renewal conditions in accordance with law 1978/19, which implies market prices conditions, extends the license periods to a maximum of 20 years and allows paying up to 60% of the price of the spectrum through obligations to do or take action.

In Chile, as a result of the Supreme Court ruling on the 700 MHz tender, Telefónica Móviles Chile returned 50 MHz in the 3.5 GHz band to the State in two regions in the south of the country and auctioned 10 MHz of the 1,900 MHz band, the result of which was announced on December 21, 2020.

In Argentina, in connection with Decree of Necessity and Urgency 690/2020 ("DNU 690/2020"), Telefónica de Argentina, S.A. and Telefónica Móviles Argentina, S.A. (collectively, "Telefónica Argentina") has filed a lawsuit against the Argentine State, in connection with a series of contracts for licenses to provide services and spectrum use authorizations entered into between Telefónica Argentina and the Argentine State, including the licenses resulting from the 2014 spectrum auction. Such contracts and their regulatory framework stated that the services provided by Telefónica Argentina were private and prices would be freely set by Telefónica Argentina. However, DNU 690/2020, by providing that the services will be "public services" and that prices will be regulated by the Argentine State, substantially modifies the legal status of those contracts, affecting the performance of their obligations and substantially depriving

Telefónica Argentina of essential rights derived from those contracts.

During 2020, the Group's consolidated investment in spectrum acquisitions and renewals amounted to 126 million euros (1,501 million euros in 2019, 1,425 million euros of which corresponded to spectrum acquisition in Germany), representing 0.3% of the Group's consolidated revenues for 2020 (3.1% in 2019). In the event that the licenses mentioned above are renewed or new spectrum is acquired, it would involve additional investments by Telefónica.

Further information on certain key regulatory matters affecting the Telefónica Group and the concessions and licenses of the Telefónica Group can be found in the Appendix VI of the Consolidated Financial Statements: "Key regulatory issues and concessions and licenses held by the Telefónica 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, 2020, the Group depended on three handset suppliers (one of them located in China) and eight network infrastructure suppliers (two of them located in China), which, together, accounted for 87% and 80%, respectively, of the aggregate value of contracts awarded in 2020 to handset suppliers and network infrastructure suppliers, respectively. One of the handset suppliers represented 54% of the aggregate value of contracts awarded in 2020 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.

If suppliers cannot supply their products to the Telefónica Group within the agreed deadlines or such products and services do not meet the Group's requirements, this could hinder the deployment and expansion plans of the network. This could in certain cases affect Telefónica's compliance with the terms and conditions of the licenses under which it operates, or otherwise adversely affect the business and operating results of the Telefónica Group. In addition, the possible adoption of new protectionist measures in certain parts of the world, including as a result of trade tensions between the United States and China, and/or the adoption of lockdown or other restrictive measures as a result of COVID-19 or any other crisis or pandemic, may have an

adverse impact on certain of Telefónica's suppliers and other players in the industry. The imposition of trade restrictions and any disruptions in the supply chain could result in higher costs and lower margins or affect the ability of the Telefónica Group to offer its products and services and could adversely affect the Group's business, financial condition, results of operations and/or cash flows.

During 2020, specific monitoring has been carried out and action plans have been developed by the Group with respect to the supply chain challenges resulting from the pandemic, as well as the potential discontinuation of use of some suppliers as a result of the US-China conflict. These developments may adversely affect the Group's business, financial condition, results of operations and/or cash flows.

Telefónica operates in a sector characterized by rapid technological changes and it may not be able to anticipate or adapt to such changes or select the right investments to make.

The pace of innovation and Telefónica's ability to keep up with its competitors is a critical issue in a sector so affected by technology such as telecommunications. In this sense, significant additional investments will be needed in new high-capacity network infrastructures to enable Telefónica to offer the features that new services will demand, through the development of technologies such as 5G or fiber 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 mobile network virtual operators ("MNVOs"), internet companies, technology companies or device manufacturers, could result in a loss of value for certain of the Group's assets, affect the generation of revenues, or otherwise cause Telefónica to have to update its business model. In this respect, revenues from traditional voice 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.

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, 2020, in Spain, fiber coverage reached 25.2 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.

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 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 2020 was 959 million euros (866 million euros and 947 million euros in 2019 and 2018, respectively). These expenditures represented 2.2%, 1.8% and 1.9% of the Group's consolidated revenues in 2020, 2019 and 2018, respectively. These figures have been calculated using the guidelines established in the Organization for Economic Co-operation and Development ("OECD") manual.

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, and (ii) avoids commercial or other actions or policies that may generate a negative perception of the Group or the products and services it offers, or that may have or be perceived to have a negative social impact. In addition to harming Telefónica's reputation, such actions could also result in fines and sanctions.

In order to respond to changing customer demands, Telefónica needs to adapt both (i) its communication networks and (ii) its 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 Wi-Fi" 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. For example, if streaming television services, such as Netflix or others, become the principal way television is consumed to the detriment of the Group's Pay TV service, the Group's revenues and margins could be affected.

In the development of all these initiatives it is also necessary to take into account several factors: on one hand, there is a growing social and regulatory demand for companies to behave in a socially responsible manner, and, on the other hand, the Group's customers are increasingly interacting through online communication channels, such as social networks, in which they express this demand. The Company's ability to attract and retain clients depends on their perceptions regarding the Group's reputation and behavior. The risks associated with potential damage to a brand's reputation have become more relevant, especially due to the impact that the publication of news through social networks can have.

If Telefónica is not able to anticipate or adapt to the evolving needs and demands of its customers or avoid inappropriate actions, its reputation could be adversely affected, or it could otherwise have an adverse effect on the business, financial condition, results of operations and/or cash flows of the Group.

Operating Risks.

Information technology is key to the Group's business and is subject to cybersecurity risks.

The risks derived from cybersecurity are among the Group's most relevant risks due to the importance of information technology to its ability to successfully conduct operations. Despite advances in the modernization of the network and the replacement of legacy systems in need of technological renewal, the Group operates in an environment increasingly prone to cyber-threats and all of its products and services, such as mobile Internet or Pay TV services, are intrinsically dependent on information technology systems and platforms that are susceptible to cyberattacks. Successful cyberattacks that disrupt the Group's operations could prevent the effective provision of products and services to customers. Therefore, it is necessary to continue to identify and remedy any technical vulnerabilities and weaknesses in the Group's operating processes, as well as to strengthen its capabilities to detect 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. Throughout 2020, as a result of the circumstances brought by the COVID-19 pandemic, security measures related to remote access and teleworking of employees and collaborators have been reviewed and strengthened, but no assurance can be provided that such security measures will be effective.

Telecommunications companies worldwide face continuously increasing cybersecurity threats as businesses become increasingly digital and dependent on telecommunications, 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 or disrupt the Group's operations. In addition, traditional security threats, such as theft of laptop computers, data devices and mobile phones may also affect the Group along with the possibility that the Group's employees or other persons may have 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 or even result in regulatory penalties.

In particular, in the past three years, the Group has suffered several cybersecurity incidents. Attacks during this period include (i) intrusion attempts (direct or phishing), exploitation of vulnerabilities and corporate credentials being compromised for ransomware deployment (through malicious software that encrypts business data); (ii) Distributed Denial of Service (DDoS) attack, using massive volumes of Internet traffic that saturate the service; and (iii) exploitation of vulnerabilities to carry out fraud through online channels, usually through the subscription of services without paying for them.

Some of the main measures adopted by the Telefónica Group to mitigate these risk are vulnerabilities checks, access control measures, log review of critical systems, network segregation in zones and the deployment of protective systems such as firewalls, intrusion prevention systems and virus scanners among other physical and logical security measures. In the event that preventive and control measures do not prevent damage to systems or data, backup systems are designed to provide for the full or partial retrieval of information.

Although Telefónica seeks to manage these risks by adopting technical and organizational measures, such as those referred to above, as defined in its digital security strategy, it cannot guarantee that such measures are sufficient to avoid or fully mitigate such incidents. Therefore, the Telefónica Group has insurance policies in place, which could cover, subject to the policies terms, conditions, exclusions, limits and sublimits of indemnity, and applicable deductibles, certain losses arising out of these types of incidents. To date, the insurance policies in place have covered some incidents of this nature, however due to the

potential severity and uncertainty about the evolution of the aforementioned events, these policies may not be sufficient to cover all possible losses arising out of an individual event.

Unanticipated network interruptions can lead to quality loss or the interruption of the service.

Unforeseen service 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 resulting from a software failure, 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.

During 2020, Telefónica Spain accounted for 28.8% (26.5% in 2019) of the Telefónica Group's revenues (sales and services), Telefónica UK accounted for 15.6% of the Telefónica Group's revenues (14.7% in 2019), Telefónica Brazil represented 17.2% of the Telefónica Group's revenues (20.7% in 2019) and Telefónica Hispam accounted for 18.4% of the Telefónica Group's revenues (19.9% in 2019). During 2020, 4.0% of the Telefónica Group's revenues came from Argentina, 3.8% from Peru and 3.7% from Chile (4.5%, 4.3% and 4.0%, respectively, in 2019). Approximately 23.2% of the Group's revenues in 2020 came from countries that do not have investment grade credit rating (in order of importance, Brazil, Argentina, Ecuador, Costa Rica, El Salvador and Venezuela), and other countries are just one grade away from losing this status. Likewise, Venezuela and Argentina are considered to be countries with hyperinflationary economies in 2020, 2019 and 2018.

The main risks are detailed below, by geography:

In Europe, there is the risk of both a faster spread of the COVID-19 pandemic if the vaccination schedule does not improve significantly and a tightening of financing conditions for both the private and public sectors that could adversely impact disposable income. Both global factors (including any global economic deterioration) and domestic issues (such as the worsening of the fiscal sustainability in some European countries (e.g. Spain or Italy)) may affect economic conditions in the countries where we operate.

- *Spain*: there are three other main sources of uncertainty. One of them stems from the economic policies to be implemented from 2021 onwards, given the high level of parliamentary fragmentation and the lack of agreement on key issues. This applies especially to the European Recovery Fund management. Secondly, there is a risk of wider negative economic impact from the pandemic, resulting in a larger proportion of corporate foreclosures and/or higher unemployment levels. Finally, as one of the most open countries in the world, from a commercial point of view, being among the top ten countries in respect of capital outflows and inflows globally, any situation of protectionist backlash could have significant implications.
- *United Kingdom*: the formal exit of the United Kingdom from the European Union on December 31st, 2020 ("Brexit") will entail an economic adjustment regardless of the agreement reached on the new economic and commercial relationship between the two regions. The trade and bureaucracy costs of leaving the single market and the customs union (especially those related to non-tariff barriers) could weigh on the country's net trade. In addition, there are still many gaps to be closed in the area of services (particularly, financial and professional services), so variables such as investment, economic activity and employment could be among the most affected, as well as volatility in financial markets, which could limit or condition access to capital markets. These changes can be costly and disruptive to business relationships in the affected markets, including those of Telefónica with its suppliers and customers. The Group would also be adversely affected if the pound sterling were to depreciate.
- *Latin America*: exchange risk is particularly important. This risk is due to both external factors (global trade tensions, abrupt movements in commodity prices and concerns about growth and financial imbalances in China) and internal factors (challenges relating to controlling the COVID-19 pandemic and managing the underlying fiscal deterioration, see "Unexpected and uncertain events such as the emergence of the COVID-19 (coronavirus) pandemic significantly affect our operations"):
- *Brazil*: fiscal sustainability remains the main risk, which the government is currently tackling through its commitment to structural reforms including administration and tax system reforms, which not only seek to guarantee sustainability but also raise Brazil's

potential growth. 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 and increasing external and internal financial needs, and could also negatively affect the exchange rate performance.

- *Argentina*: 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 especially in a context of narrower room for maneuver. Further, the worsening inflation outlook as a result of the exchange rate split and the unsustainable price containment measures that have been adopted, threaten Telefónica's profitability. In particular, the Decree of Need and Urgency (DNU) launched by the government in the third quarter of 2020, declared the Information and Communications Technology sector services as essential public services and, among other measures, suspended any price increase from July 31, 2020 to December 31, 2020. As a consequence, any potential increase in the sector's tariff prices must have the prior approval of the Secretary of Commerce (Ministry of Finance), increasing the number of administrative and political obstacles that must be overcome to successfully operate our business and which could have an adverse impact on revenue growth and margin evolution of Telefónica's businesses in such country.
- *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.

Unexpected and uncertain events, such as the emergence of the COVID-19 (coronavirus) pandemic, significantly affect our operations.

The COVID-19 pandemic and future similar events may significantly affect our operations. Such events may cause delays in the supply chain, due to problems in factories or logistics services, affect employees or third parties with whom the Group works during contagion or quarantine periods, and affect global and regional economic growth. During the COVID-19 pandemic, economic growth has been adversely affected by various adverse impacts on supply (global value chains disruptions, lockdowns and immobilization of productive resources) and demand (deterioration of confidence and expectations, negative income and wealth effects) derived from a substantial deterioration in the financial markets, unprecedented drops in commodity prices, sudden slowdown in commercial activity and strong restrictions on transportation. The final impact of COVID-19 on the Group's business is difficult to

predict due to the uncertainty surrounding the duration of the pandemic and the ability of the economy of the countries where the Group operates, to recover.

According to prevailing economic estimates, we are facing a pandemic whose economic effects are expected to be the largest drop in global GDP in recent decades. Despite continuing to estimate a deep recession for 2020, global growth expectations have been revised slightly upwards (+0.9 p.p. to -3.5% International Monetary Fund), as the recovery observed in the third quarter of 2020 in countries for which information is available shows generally better than expected growth.

In Spain, the decrease in GDP reached 22.2% (in cumulative terms) during the first half of the year 2020 (second quarter -17.8%), which led to 1,359,700 people losing their jobs between March and May. However, the gradual lifting of restrictions on mobility and limitations on non-essential activities, has allowed the Spanish economy to restart its activity and GDP grew 16.4% in the third quarter of 2020, the greatest variation in real terms of its historical series. However, the new measures adopted in the last quarter of 2020 to contain the advance of the pandemic have slowed GDP growth to +0.4%, which resulted in an annual contraction of 11% in 2020.

This contraction has occurred despite the magnitude of the fiscal packages announced by the national government of Spain, composed of both direct spending (3.5% of GDP) and liquidity guarantees (14.2% of GDP), whose aim is to maintain the productive structure and which, given the volume, raises concerns about debt sustainability in the medium and long term.

With regards to the risks arising from the impact of the pandemic on Latin American countries (mainly Argentina, Brazil, Chile, Colombia and Peru), the main concern is the possibility of another lost decade due to the deterioration of the region's per capita GDP and the consequent setbacks in terms of poverty and social progress. A second focus of uncertainty is related to fiscal sustainability. The significant deterioration experienced by sovereign metrics during the pandemic introduces a non-negligible probability of a credit quality cutback, with the consequent increase in the cost of external financing which may negatively affect foreign exchange performance.

Group management estimates that the negative impact of the pandemic on Group's revenues in 2020 was approximately 1,905 million euros, while the impact on OIBDA (excluding goodwill impairment) was approximately 977 million euros.

Additionally, the COVID-19 crisis has contributed to the depreciation of the main Latin American currencies against the euro. The change in the exchange rates of the main currencies of the countries in which the Group operates against the euro is shown below:

	Variation of closing exchange rate (12/31/2020 vs 12/31/2019)	Variation of average exchange rate (2020 vs 2019)
Brazilian real	(29.0%)	(24.1%)
Pound sterling	(5.2%)	(1.3%)
New peruvian sol	(16.2%)	(6.1%)
Argentine peso	(34.8%)	(34.8%)
Chilean peso	(3.6%)	(12.9%)
Colombian peso	(12.6%)	(12.6%)
Mexican peso	(13.3%)	(11.5%)

The exchange rate figures evolution has led to goodwill impairment losses. The results of the impairment tests are included in the risk "The Group has and in the future could experience impairment of goodwill, deferred tax assets or other assets".

The Group has and in the future could experience impairment of goodwill, deferred tax assets or other assets.

In accordance with current accounting standards, the Telefónica Group reviews on an annual basis, or more frequently when the circumstances require it, the need to introduce changes to the book value of its goodwill (which as of December 31, 2020, represented 16.2% of the Group's total assets), deferred tax assets (which as of December 31, 2020, represented 6.1% of the Group's total assets) or other assets, such as intangible assets (which represented 10.9% of the Group's total assets as of December 31, 2020), and property, plant and equipment (which represented 22.6% of the Group's total assets as of December 31, 2020). In the case of goodwill, the potential loss of value is determined by the analysis of the recoverable value of the cash-generating unit (or group of cash-generating units) to which the goodwill is allocated to at the time it is originated. By way of example, in 2020 impairment losses in the goodwill and other assets of Telefónica Argentina were recognized for a total of 894 million euros. In 2019, impairment losses in the goodwill allocated to Telefónica Argentina were recognized for a total of 206 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 2020, deferred tax assets corresponding to the tax Group in Spain amounting to 101 million euros were derecognized.

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, 2020, the Group's gross financial debt amounted to 50,420 million euros (52,364 million euros as of December 31, 2019), and the Group's net financial debt amounted to 35,228 million euros (37,744 million euros as of December 31, 2019). As of December 31, 2020, the average maturity of the debt was 10.79 years (10.50 years as of December 31, 2019), 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, 2020, the Group's gross financial debt scheduled to mature in 2021 amounted to 8,123 million euros, and gross financial debt scheduled to mature in 2022 amounted to 4,243 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, 2020. As of December 31, 2020, the Telefónica Group had undrawn committed credit facilities arranged with banks for an amount of 13,354 million euros (12,466 million euros of which were due to expire in more than 12 months). As of December 31, 2020, 6.6% of the aggregate undrawn amount under credit lines was scheduled to expire prior to December 31, 2021.

In addition, given the interrelation between economic growth and financial stability, the materialization of any of the economic, political and exchange rate risks referred to above could adversely impact the availability and cost of

Telefónica's financing and its liquidity strategy. This in turn could have a negative effect on the Group's business, financial condition, results of operations and/or cash flows.

Finally, any downgrade in the Group's credit ratings may lead to an increase in the Group's borrowing costs and could also limit its ability to access credit markets.

The Group's financial condition and results of operations may be adversely affected if it does not effectively manage its exposure to 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.

In nominal terms, as of December 31, 2020, 75.2% 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. To illustrate the sensitivity of financial expenses to variations in short-term interest rates as of December 31, 2020: (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 100 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 97 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.

Exchange rate risk arises primarily from: (i) Telefónica's international presence, through its investments and businesses in countries that use currencies other than the euro (primarily in Latin America and the United Kingdom); (ii) debt denominated in currencies other than that of the country where the business is conducted or the home country of the company incurring such debt; and (iii) trade receivables or payables in a foreign currency to the currency of the company with which the transaction was registered. According to the Group's calculations, the impact on results, and specifically on net exchange differences, due to a 10% depreciation of Latin American currencies against the U.S. dollar and a 10% depreciation of the rest of the currencies to which the Group is most exposed (mainly the pound sterling) against the euro would result in exchange gains of 55 million euros for the year ended December 31, 2020. These calculations have been made assuming a constant currency position with an impact on profit or loss for the year ended December 31, 2020, taking into account derivative instruments in place.

During 2020, Telefónica Brazil represented 23.6% (28.2% in 2019), Telefónica United Kingdom represented 15.3% (14.0% in 2019), Telefónica Hispam represented 7.3% (13.4% in 2019) of the OIBDA of the Telefónica Group.

In 2020, 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 6.5 percentage points and 8.0 percentage points, respectively, mainly due to the depreciation of the Brazilian real (3.1 percentage points and 2.2 percentage points, respectively, in 2019). Furthermore, translation differences in 2020 had a negative impact on the Group's equity of 5,801 million euros (negative impact of 95 million euros in 2019).

The Telefónica Group uses a variety of strategies to manage this risk including, among others, the use of financial derivatives, which are also exposed to risk, including counterparty risk. The Group's risk management strategies may be ineffective, which could adversely affect the Group's business, financial condition, results of operations and/or cash flows. If the Group does not effectively manage its exposure to foreign currency exchange rates or interest rates, it may adversely affect its business, financial condition, results of operations and/or cash flows.

Legal and Compliance Risks.

Telefónica and Telefónica Group companies are party to lawsuits, antitrust, tax claims and other legal proceedings.

Telefónica and Telefónica Group companies operate in highly regulated sectors and are and may in the future be party to lawsuits, tax claims, antitrust and other legal proceedings in the ordinary course of their businesses, the outcome of which is unpredictable.

The Telefónica Group is subject to regular reviews, tests and audits by tax authorities regarding taxes in the jurisdictions in which it operates and is a party and may be a party to certain judicial tax proceedings. In particular, the Telefónica Group is currently party to certain litigation in Peru concerning 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.

With respect to the latter, as of December 31, 2020, Telefónica Brazil maintained provisions for tax contingencies amounting to 282 million euros, and provisions for regulatory contingencies amounting to 189 million euros. Although the Group considers its tax estimates to be reasonable, if a tax authority disagrees, the Group could face additional tax liability, including interest and penalties. There can be no guarantee that the payment of such additional amounts will not have a significant adverse effect on the Group's business, results of operations, financial condition and/or cash flows.

An adverse outcome or settlement in these or other proceedings, present or future, could result in significant costs and may have a material adverse effect on the Group's business, financial condition, results of operations and/or cash flows.

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.

In this sense, due to the nature of its activities, the Telefónica Group is increasingly exposed to this risk, which increases the likelihood of occurrence. In particular, it is worth noting the continuous interaction with officials and public administrations in several areas, including the institutional and regulatory fronts (as the Telefónica Group carries out a regulated activity in different jurisdictions), the operational front (in the deployment of its network, the Telefónica Group is subject to obtaining multiple activity permits) and the commercial front (the Telefónica Group provides services directly and indirectly to public administrations). Moreover, Telefónica is a multinational group subject to the authority of different regulators and compliance with various regulations, which may be domestic or extraterritorial in scope, civil or criminal, and which may lead to overlapping authority in certain cases. Therefore, it is very difficult to quantify the possible impact of any breach, bearing in mind that such quantification must consider not only the economic amount of sanctions, but also the potential negative impact on the business, reputation and/or brand, or the ability to contract with public administrations.

Additionally, the Telefónica Group's operations may be subject to, or otherwise affected by, economic sanctions programs and other forms of trade restrictions ("sanctions") including those administered by the United Nations, the European Union 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 above mentioned applicable anti-corruption laws and sanctions regulations, there can be no assurance that such policies and procedures

will be sufficient or that the Group's employees, directors, officers, partners, agents and service providers will not take actions in violation of the Group's policies and procedures (or, otherwise in violation of the relevant anti-corruption laws and sanctions regulations) for which the Group, its subsidiaries or they may be ultimately held responsible. In this regard, the Group is currently cooperating with governmental authorities (and, where appropriate, conducting the relevant internal investigations) regarding requests for information potentially related, directly or indirectly to possible violations of applicable anti-corruption laws. Telefónica believes that, considering the size of the Group, any potential penalty as a result of matters relating to those specific information requests would not materially affect the Group's financial condition.

Notwithstanding the above, violations of anti-corruption laws and sanctions regulations could lead not only to financial penalties, but also to exclusion from government contracts, licenses and authorizations revocation, 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 2020 Consolidated Management Report of Telefónica, S.