

Telefónica Emisiones, S.A.
(Sole-Shareholder Company)

Independent auditor's report
Annual accounts for the year ended 31 December 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 Sole Shareholder of Telefónica Emisiones, S.A. (Sole-Shareholder Company)

Report on the annual accounts

Opinión

We have audited the annual accounts of Telefónica Emisiones, S.A. (the Company), which comprise the balance sheet as at 31 December 2020, and the income statement, statement of changes in equity, cash flow statement and related notes for the year then ended.

In our opinion, the accompanying annual accounts present fairly, in all material respects, the equity and financial position of the Company as at 31 December 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 of the notes to the annual accounts), and, in particular, with the accounting principles and criteria included therein.

Basis for opinion

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

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

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

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
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Inter-company loans valuation

The main activity of the Company consists on the issuance of bonds, which are then used to finance Telefónica Group operations through loans to the Sole Shareholder of the Company, Telefónica S.A.

The total amount of short-term and long-term loans to group companies, as disclosed in note 6 of the annual accounts, represents around 99% of total assets of the Company. These loans are valued at amortized cost as described in note 4.1 of the annual accounts, and their value would be adjusted if management identifies objective evidence of actual impairment. The analysis of the valuation of these loans is key for our audit given their relevance and the implicit judgement element in their valuation.

We have conducted audit procedures over the valuation of the short and long-term loans to group companies, specifically including:

- Examination of contracts with the Sole Shareholder and recalculation of amortized costs of the loans, in accordance with said contracts.
- Confirmation of balances at the end of the year with Telefónica, S.A.
- Evaluation of the analysis performed by management over the Sole Shareholder payment capacity, based on available treasury forecasts.

Based on the procedures performed, we have not identified any relevant aspect affecting management conclusions over the valuation of loans to group companies.

Verification of initial accounting record of bonds issuances occurred during the year

As disclosed in note 8, the Company has issued long-term bonds during the current year, guaranteed by its Sole Shareholder, Telefónica, S.A. through four issuances, which are valued at amortized cost as described in note 4.2 of the annual accounts.

Said issuances represent almost the totality of the Company's activity during the year and therefore, the work performed in this area is key to our audit in relation to the evaluation of the risk of material misstatement in the initial accounting record.

We have conducted audit procedures over the initial accounting record of the issuances of bonds during the year, specifically including:

- Understanding of the control environment over the contract process and initial registration of the bonds issued.
- Examination of contracts of the bonds issued during the year to analyze the issuance conditions and initial accounting record.

Based on the procedures performed, we consider that we have obtained sufficient and adequate evidence around the initial accounting record of the issuances of bonds during year ending 2020.

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 evaluate and report on the consistency between 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 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 in the previous paragraph, 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 the applicable regulations.

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

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

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

The audit and control committee of the Sole Shareholder (Telefónica S.A.) is responsible for overseeing the process of preparation and presentation of the annual accounts.

Auditor's responsibilities for the audit of the annual accounts

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

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

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

- Identify and assess the risks of material misstatement of the annual accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Company's directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual accounts, including the disclosures, and whether the annual accounts represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

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

Report on other legal and regulatory requirements

Report to the audit and control committee

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

Appointment period

The Sole Shareholder on 14 July 2020 appointed PricewaterhouseCoopers Auditores, S.L. as auditors for a period of one year, for the year ended 31 December 2020.

Previously, we were appointed by the Sole Shareholder for a period of three years and we have audited the accounts continuously since the year ended 31 December 2017.



Telefónica Emisiones S.A.

Services provided

Services provided to the Company for services other than the audit of the accounts are disclosed in note 12.1 of the annual accounts.

PricewaterhouseCoopers Auditores, S.L. (S0242)

(Original signed in Spanish)

Fernando Torres (22224)

23 February 2021

TELEFÓNICA EMISIONES, S.A.

(Sole Shareholder Company)

Annual Accounts for the year ended
December 31, 2020



2020

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Telefonica

TELEFÓNICA EMISIONES, S.A. (Sole Shareholder Company) Balance sheet as at December 31

(Euros in thousands)

ASSETS	Notes*	2020	2019
NON-CURRENT ASSETS		28,035,344	29,302,605
Non-current investments in Group companies and associates	6 and 11.2	28,035,344	29,302,605
Loans to Group companies and associates		28,035,344	29,302,605
CURRENT ASSETS		3,332,712	5,248,618
Trade and other receivables		77	491
Prepayments to suppliers		77	407
Trade receivables		-	84
Current investments in Group companies and associates	6 and 11.2	3,320,907	5,238,652
Loans to Group companies and associates		3,320,907	5,238,652
Cash and cash equivalents	11.2	11,728	9,475
TOTAL ASSETS		31,368,056	34,551,223

(Euros in thousands)

EQUITY AND LIABILITIES	Notes*	2020	2019
EQUITY		12,567	10,482
CAPITAL AND RESERVES	7	12,567	10,482
Share Capital		62	62
Share capital		62	62
Reserves		10,421	9,427
Legal and by-law reserves		12	12
Other reserves		10,409	9,415
Profit (Loss) for the year		2,084	993
NON-CURRENT LIABILITIES		28,036,167	29,303,894
Non-current debts	8	28,036,167	29,303,894
Bonds and other marketable debt securities		28,036,167	29,303,894
CURRENT LIABILITIES		3,319,322	5,236,847
Current debts	8	3,318,739	5,236,589
Bonds and other marketable debt securities		3,318,739	5,236,589
Current borrowings from Group companies and associates	8, 9 and 11.2	515	147
Trade and other payables		49	20
Other payables	8	49	20
Current corporate income tax payable		19	91
TOTAL EQUITY AND LIABILITIES		31,368,056	34,551,223

* Notes 1 to 15 are an integral part of these Annual Accounts

Telefonica

TELEFÓNICA EMISIONES, S.A. (Sole Shareholder Company) Income statements for the years ended December 31

		(Euros in thousands)	
	Notes*	2.020	2.019
Other operating expenses		(2,014)	(2,606)
Operating expenses	10.1	(2,011)	(2,592)
Taxes other than corporate income tax		(3)	(3)
Losses, impairments and change in provisions		-	(11)
OPERATING PROFIT		(2,014)	(2,606)
Financial income	10.2	1,089,422	1,282,246
At Group companies and associates		1,089,422	1,282,246
Financial expenses	10.3	(1,084,939)	(1,278,363)
Debts with Group companies and associates		-	(1)
Debts with third parties		(1,084,939)	(1,278,362)
Exchange rate differences	10.4	310	50
FINANCIAL RESULTS		4,793	3,933
PROFIT (LOSS) BEFORE TAXES		2,779	1,327
Income tax		(695)	(334)
Income tax	9	(695)	(334)
PROFIT (LOSS) FROM CONTINUING OPERATIONS		2,084	993
PROFIT (LOSS) FOR THE YEAR		2,084	993

* Notes 1 to 15 are an integral part of these Annual Accounts.

TELEFÓNICA EMISIONES, S.A. (Sole Shareholder Company)
Statements of changes in equity for the years ended December 31

A. Statement of recognized income and expense for the year ended December 31

	(Euros in thousands)	
	2020	2019
PROFIT/ LOSS FOR THE YEAR	2,084	993
TOTAL RECOGNIZED INCOME AND EXPENSE	2,084	993

Note: Notes 1 to 15 are an integral part of these Annual Accounts

B. Statement of total changes in equity for the year ended December 31

	(Euros in thousands)			
	Share capital	Reserves	Profit (Loss) for the year	TOTAL
BALANCE AT 1 JANUARY 2019	62	11,373	1,535	12,970
Total recognized income and expense	-	-	993	993
Distribution of results from previous years	-	1,535	(1,535)	-
Other movements	-	(3,481)	-	(3,481)
BALANCE AT 31 DECEMBER 2019	62	9,427	993	10,482
Total recognised income and expenses	-	-	2,084	2,084
Distribution of results from previous years	-	993	(993)	-
Other movements	-	1	-	1
BALANCE AT 31 DECEMBER 2020	62	10,421	2,084	12,567

Note: Notes 1 to 15 are an integral part of these Annual Accounts

Telefonica

TELEFÓNICA EMISIONES, S.A. (Sole Shareholder Company) Cash flow statements for the years ended December 31

	(Euros in thousands)	
	2.020	2.019
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit (Loss) before tax	2,779	1,327
Adjustments to net results:	(4,793)	(3,933)
Financial income	(1,089,422)	(1,282,246)
Financial expenses	1,084,939	1,278,363
Exchange rate differences	(310)	(50)
Change in working capital	518	(400)
Accounts receivable	416	(219)
Trade and other payables	29	(101)
Other current liabilities	73	(80)
Other cash flows from operating activities	3,755	4,639
Interest paid	(1,137,532)	(1,281,113)
Interest received	1,141,752	1,285,834
Receipts/payments of corporate income tax	(327)	538
Other payments/receipts	(138)	(620)
CASH FLOWS FROM OPERATING ACTIVITIES	2,259	1,633
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments on investments	(3,500,000)	(3,598,463)
Group companies and associates	(3,500,000)	(3,598,463)
Proceeds from divestments	5,651,922	3,537,670
Group companies and associates	5,651,922	3,537,670
CASH FLOWS FROM INVESTING ACTIVITIES	2,151,922	(60,793)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from and payments of financial liabilities	(2,151,922)	60,793
Issuances		
Bonds and other marketable debt securities	3,500,000	3,598,463
Repayment and redemption of		
Bonds and other marketable debt securities	(5,651,922)	(3,537,670)
CASH FLOWS FROM FINANCING ACTIVITIES	(2,151,922)	60,793
NET FOREIGN EXCHANGE RATE DIFFERENCE	(6)	3
NET INCREASE / DECREASE IN CASH AND CASH EQUIVALENTS	2,253	1,636
Cash and cash equivalents at January 1	9,475	7,839
Cash and cash equivalents at December 31	11,728	9,475

* Notes 1 to 15 are an integral part of these Annual Accounts

TELEFÓNICA EMISIONES, S.A. (Sole Shareholder Company)
Notes to the Annual Accounts for the years ended December 31, 2020

1. ACTIVITY

Telefónica Emisiones, S.A. (Sole Shareholder Company), hereinafter referred to as the “Company” or “Telefónica Emisiones, S.A.U.”, was incorporated as a public limited company with a sole shareholder (*sociedad anónima unipersonal*) in Spain for an indefinite term on 29 November 2004 under the name “Telefónica Emisiones, S.A.U.”.

Telefónica Emisiones, S.A.U. is a company 100% directly owned by Telefónica, S.A. The corporate purpose of Telefónica Emisiones, S.A.U. entails the issuance of preferential shares and/or other financial debt instruments.

The registered address of Telefónica Emisiones, S.A.U. is Calle Gran Vía, 28 – 28013 Madrid.

2. BASIS OF PRESENTATION OF THE ANNUAL ACCOUNTS

The Annual Accounts were drawn up according to the General Chart of Accounts (*Plan General de Contabilidad*) approved by Royal Decree 1514/2007 of November 16, last amended by Royal Decree 602/2016 of December 2, and the pertinent legislation currently in force on the date these financial statement were drawn up.

The figures shown in these Annual Accounts are presented in thousands of euros unless otherwise indicated.

2.1 True and fair view

These Annual Accounts were obtained on the basis of the Company’s accounting records and were drawn up following the generally accepted accounting principles in Spain as per the pertinent legislation currently in force.

These Annual Accounts offer a true and fair image of the equity, financial situation and financial results of the Company. The cash flow statement has been prepared to present fairly the origin and usage of monetary assets such as cash and cash equivalents.

These Annual Accounts were prepared on February 23, 2021 by the Joint and Several Directors of the Company and are expected to be approved without modification by the Sole Shareholder.

2.2 Comparison of information

According to commercial legislation, figures for 2020 and figures for the previous year are presented for comparison purposes for each item of the Balance sheet, Profit and loss statement, Statement of changes in equity and Statement of cash flows. The notes also include quantitative information from the previous year, unless when an accounting standard establishes that it is unnecessary.

2.3 Critical issues concerning the estimation of uncertainty

As of the closing date of the year, there are no key cases regarding the future or further relevant data regarding estimation of uncertainty associated with an important risk entailing significant changes in the value of assets and liabilities in the next year.

The Company belongs to the Tax Group whose parent company is Telefónica, S.A. The Group estimates the likelihood of recovering the deferred tax assets based on estimates of future earnings. Such recovery depends on the Group's ability to generate taxable earnings over the period for which the deferred tax assets remain deductible. Actual corporate income tax receipts and payments could differ from the estimates made by the Group as a result of changes in tax legislation or unforeseen transactions that could affect tax balances.

The Company's annual accounts for the year ended December 31, 2020 were drawn up using estimates to quantify some of the assets, liabilities, income and expenses recognised therein. These estimates essentially refer to the fair value of certain financial assets and liabilities (see Notes 6 and 8).

While these estimates were made based on the best information available at December 31, 2020 regarding the analysed events, they might need to be changed (increased or decreased) in subsequent years due to the occurrence of potential future events. Any such change would be made prospectively according to applicable legislation, recognising the effects of the changed estimate in the corresponding Profit and loss statement for the future years concerned.

3. APPROPRIATION OF NET RESULTS

The Joint and Several Directors shall submit the following proposed distribution of 2020 profit for approval by the Company's Sole Shareholder:

(Euros in thousands)	2020
Proposed appropriation	
Balance of the Profit and loss statement	2,084
	2,084
Appropriation to:	
Voluntary reserves (other reserves)	2,084
	2,084

4. RECOGNITION AND MEASUREMENT ACCOUNTING POLICIES

The main recognition and measurement accounting policies applied by the Company in drawing up these annual accounts are as follows:

4.1 Financial assets

Classification and measurement

Loans receivable

Granted loans are classified based on maturities, i.e., current loans as loans with a maturity of less than 12 months and non-current loans as having maturities greater than 12 months.

These items are measured initially at fair value in the balance sheet, which, unless there is evidence to the contrary, is the transaction price, which is equivalent to the fair value of the consideration transferred plus directly attributable transaction costs. After initial recognition, these financial assets are measured at amortised cost using the effective interest rate method.

Impairment of financial assets

The Company adjusts the carrying amount of financial assets against the profit and loss statement when there is objective evidence of actual impairment.

To determine impairment loss, the Company assesses the potential loss of individual assets as well as groups of assets with similar risk characteristics.

Cancellation

Financial assets are fully or partially derecognised when the contractual rights to related cash flows have expired or when the Company has assigned the rights to receive the effective flows of the asset to the third party, transferring nearly all risks and rewards associated with the asset.

Interest

Interests are recognised as earnings in the Profit and loss statement. Interests must be recognised using the effective interest rate method from the moment of the referred concession of the credits.

For this purpose, attending to the maturity and separately, the amount of the explicit interest accrued and unpaid is recorded as current assets.

Explicit interests are the interests obtained when applying the contractual interest rate of the financial instrument.

4.2 Financial liabilities

Classification and measurement

Accounts payable

They include financial liabilities created by issuing obligations, and are classified based on maturities, i.e., current debts as debts with a maturity of less than 12 months and non-current debts as having maturities greater than 12 months.

They are measured initially at fair value in the balance sheet, which, unless there is evidence to the contrary, is the transaction price, which is equivalent to the fair value of the consideration transferred plus directly attributable transaction costs. After initial recognition, these financial liabilities are measured at amortised cost using the effective interest rate method.

Cancellation

The Company derecognises a financial liability when the corresponding obligation is settled, cancelled or matures.

When there is an exchange of debt instruments, so long as they have substantially different conditions, the original financial liability is derecognised and the arising new financial liability is recognised. Likewise, a substantial modification in the current conditions of a financial liability is recorded.

The difference between carrying value of the financial liability or the derecognised part thereof, and the consideration paid, including the attributable transaction costs, and including any asset assigned other than the assumed cash or liability, is recognised in the Profit and loss statement for the year in which it takes place.

When there is an exchange of debt instruments that have no substantially different conditions, the original financial liability is not derecognised from the balance sheet, recording the amount of commissions paid as an adjustment of its carrying amount. The new amortised cost of the financial liability is determined by applying the effective interest rate, which is equal to the carrying amount of the financial liability on the modification date with the cash flows payable according to the new conditions.

In this regard, contractual conditions are considered to be substantially different when the lender has also granted the initial loan and the current value of the cash flows of the new financial liability, including net commissions, differs by at least 10% of the current value of the cash flows pending payment of the original financial liability, after updating both to the effective interest rate of the initial liability.

Interest

Interest is recognised as expenses in the Profit and loss statement. Interest must be recognised using the effective interest rate method from the issuance date of the liabilities to which it relates.

For this purpose, attending to the maturity and separately, the amount of the explicit interest accrued and unpaid is recorded as current liability.

Explicit interests are the interests obtained when applying the contractual interest rate of the financial instrument.

4.3 Cash and cash equivalents

This heading includes the floating balance of the account maintained with Group company Telfisa Global, B.V. and current account held at BBVA (in local and foreign currencies) meeting all the following requirements:

- They are readily convertible to cash.
- At the time of its acquisition, its maturity did not exceed three months.
- The risk of change in value is insignificant and
- They are part of the Company's standard cash management strategy.

4.4 Corporate income tax

The Company is subject to consolidated taxation for corporate income tax with its Sole Shareholder.

Corporate income tax expense for the year is calculated as the sum of current tax resulting from applying the corresponding tax rate to taxable profit for the year, less any applicable rebates and tax credits, taking into account changes during the year in recognised deferred tax assets and liabilities. The corresponding tax expense is recognised in the profit and loss statement, except when it relates to transactions recognised directly in equity, in which case the corresponding tax expense is likewise recognised in equity and in business combinations in which it is recorded with a charge or credit to goodwill.

Deferred income tax is recognised on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts. The tax base of an asset or liability is the amount attributed to it for tax purposes.

The tax effect of temporary differences is included in "Deferred tax assets" or "Deferred tax liabilities" on the balance sheet, as applicable.

Deferred tax liabilities are recognised for all temporary differences, save for the exceptions contemplated by the corresponding tax legislation in force.

The Company recognises deferred tax assets for all deductible temporary differences, unused tax credits and unused tax loss carry forwards, to the extent that it is probable that the Tax Group will have future taxable profit available against which these assets may be utilised, save for the exceptions contemplated by the corresponding tax legislation in force.

At each financial year end, the Company assesses the deferred tax assets recognised and those that have not yet been recognised. Based on this analysis, the Company derecognises the asset recognised previously if it is no longer probable that it will be recovered, or it recognises any deferred tax asset that had not been recognised previously, provided that it is probable that the Tax Group will have future taxable profit available against which these assets may be utilised.

Deferred tax assets and liabilities are measured at the tax rate expected to be applied to the period in which they reverse, as required by enacted tax laws and in the manner in which it reasonably expects to recover the asset's carrying value or settle the liability.

Deferred tax assets and liabilities are not discounted and are classified as non-current assets or non-current liabilities.

4.5 Income and expense

Earnings and expenses are registered on an accrual basis.

4.6 Transactions in foreign currency

The Company's functional and presentation currency is the euro. Transactions expressed in foreign currencies are converted into national currency at the prevailing exchange rate on the transaction date and are adjusted at year end to reflect the prevailing exchange rates at that date.

Monetary assets and liabilities in foreign currencies are translated at the valid exchange rate on the balance sheet date. All exchange rate differences (whether gains or losses) arising from translation as well as those resulting on settlement of balance sheet items are recognised in the profit and loss statement in the period in which they occur.

4.7 Classification of current and non-current assets and liabilities

Assets and liabilities are classified in the balance sheet as current and non-current. For this purpose, assets and liabilities are classified as current when they are linked to the normal operating cycle of the Company, and are expected to be sold, consumed, made or settled in the course thereof; they differ from the previous ones and their maturity, disposal or execution is expected to take place within one year; they are kept for the purpose of trading or as cash and equivalent, whose use is not restricted to a period over one year.

4.8 Related-party transactions

Related-party transactions are measured as described in the recognition and measurement accounting policies described above.

4.9 Measurement standards under the International Financial Reporting Standards (IFRS)

The Company has issued securities admitted for trading in a regulated market by an EU Member State and only publishes individual annual accounts. Had the International Financial Reporting Standards adopted by the European Union been applied, there would have been no significant differences in either Equity or the Profit and loss statement.

5. MAIN RISKS ASSOCIATED WITH THE ACTIVITY AND RISK MANAGEMENT POLICY

(i) Concentration of income, liquidity and other financial risks

Nearly all the Company's income presently comes from the same customer (Telefónica, S.A.). Therefore, the Company's ability to honour its obligations with third parties is closely related to the financial situation of Telefónica S.A. and its ability to honour the loan contracts signed with the Company.

The terms and conditions of the financial investments maintained with Telefónica, S.A., which represent virtually all the financial assets of the Company, are similar to the terms and conditions of the financial liabilities (mainly issued bonds) subscribed by the Company. Therefore, interest rate, exchange rate and liquidity risks are substantially mitigated. For this reason, the Company presently holds no financial derivatives.

(ii) Credit risk from investing in bonds and other marketable securities issued by the Company

The bonds issued by the Company that are currently in circulation have an unconditional and irrevocable guarantee from Telefónica, S.A. and the credit risk for investing in bonds issued by the Company is therefore similar to investing directly in Telefónica, S.A.

(iii) Worsening of the financial markets

The current conditions or worsening of the financial markets could limit the Company's finance capacity and, as a result, the Company's ability to continue its activities, i.e., securing financing in capital markets to subsequently loan them to the Telefónica Group.

Likewise, financing may become complex and costly when facing a significant deterioration in the conditions of international or local financial markets because of, for instance, monetary policies fixed by central banks because of not only possible interest rate hikes but also balance reductions, increased economic and political uncertainties, oil price instability or possible impaired solvency or operational behaviour of the Telefónica Group.

The occurrence of any of the aforementioned risks could have negative effects on the Company's capacity and costs to secure financing to furnish the Telefónica Group. This in turn could adversely affect the businesses, financial situation, operating income and/or cash flows of the Company and the Telefónica Group.

6. FINANCIAL ASSETS

The breakdown of financial assets at December 31, 2020 and 2019 is as follows:

(Euros in thousands)	2020	2019
Non-current financial assets	28,035,344	29,302,605
Loans and receivables		
Loans to Group companies and associates (Note 6.1)	28,035,344	29,302,605
Current financial assets	3,320,984	5,239,143
Loans to Group companies and associates (Note 6.1)	3.320.907	5.238.652
Prepayments to suppliers	77	407
Trade receivables	-	84

In 2020, the Company conferred new funding to Telefónica, S.A. amounting to **€3,500,000** thousand (loans in euros) (in 2019, it conferred new funding to Telefónica, S.A. amounting to €3,598,463 thousand loans in euros and US dollars) and received funds from debt repayments (of the same debtor) of **€5,651,922** thousand (in 2019 it received funds from debt repayments of €3,537,670 thousand).

6.1 Credits to companies

The balance of this heading corresponds to loans granted to Telefónica, S.A. from 2006 to 2020, broken down as follows:

(Euros in thousands)

Loan number	Signed on	Maturity date	Annual interest rate	Payment frequency	2020 Non-current assets	2020 Current assets	2019 Non-current assets	2019 Current assets
4	02/02/2006	02/02/2026	5.375%	Annual	555,766	27,227	586,165	28,720
9	20/06/2006	20/06/2036	7.045%	Semi-annual	1,619,408	3,668	1,768,543	3,993
13	31/01/2007	30/12/2021	Euribor 6m + 0.830%	Semi-annual	-	55,000	55,000	1
31	10/12/2009	09/12/2022	5.289%	Annual	723,660	2,307	763,176	2,434
36	26/04/2010	27/04/2020	5.134%	Semi-annual	-	-	-	1,257,830
38	08/10/2010	08/10/2029	5.445%	Annual	444,456	5,581	468,765	5,889
41	16/02/2011	16/02/2021	5.462%	Semi-annual	-	1,247,299	1,334,472	27,388
47	12/03/2012	12/03/2020	5.597%	Annual	-	-	-	859,061
51	19/10/2012	20/01/2020	4.710%	Annual	-	-	-	1,253,292
53	14/12/2012	14/12/2022	3.450%	Annual	138,699	227	138,022	226
54	22/01/2013	23/01/2023	3.987%	Annual	1,498,571	56,036	1,497,799	56,036
55	27/03/2013	26/03/2021	3.961%	Annual	-	897,412	992,862	30,386
57	29/04/2013	27/04/2023	4.570%	Semi-annual	610,572	4,967	666,648	5,426
59	23/10/2013	23/10/2020	2.595%	Annual	-	-	-	208,266
62	27/05/2014	29/05/2022	2.242%	Annual	1,014,333	14,041	1,248,375	17,186
65	17/10/2014	17/10/2029	2.932%	Annual	797,823	4,869	797,561	4,869
67	21/07/2015	21/07/2022	Euribor 6m + 0.83%	Semi-annual	66,939	145	66,900	144
68	14/09/2015	14/09/2021	1.477%	Annual	-	761,691	998,961	4,370
70	13/04/2016	13/04/2022	0.750%	Annual	1,109,253	6,108	1,398,254	7,692
71	13/04/2016	13/04/2026	1.460%	Annual	1,347,253	14,299	1,346,717	14,299
72	17/10/2016	17/10/2020	0.318%	Annual	-	-	-	1,250,177
73	17/10/2016	17/10/2031	1.930%	Annual	747,363	2,994	747,114	2,994
74	28/12/2016	28/12/2051	4.000%	Annual	149,976	49	149,964	49
75	17/01/2017	17/01/2025	1.528%	Annual	1,247,844	18,359	1,247,293	18,359
76	17/01/2017	17/10/2028	2.318%	Annual	498,705	2,394	498,533	2,394

Loan number	Signed on	Maturity date	Annual interest rate	Payment frequency	2020 Non-current assets	2020 Current assets	2019 Non-current assets	2019 Current assets
78	08/03/2017	08/03/2027	4.103%	Semi-annual	1,219,448	15,801	1,331,650	17,258
79	08/03/2017	08/03/2047	5.213%	Semi-annual	1,617,564	26,750	1,766,784	29,218
80	17/03/2017	17/10/2028	2.318%	Annual	199,263	958	199,172	955
81	18/04/2017	18/04/2037	4.900%	Annual	162,241	5,641	177,199	6,162
82	28/04/2017	08/03/2047	5.0164%	Semi-annual	416,607	6,620	455,269	7,242
83	12/09/2017	12/01/2028	1.715%	Annual	1,246,911	20,884	1,246,450	20,884
84	22/01/2018	22/01/2027	1.447%	Annual	997,730	13,715	997,343	13,715
85	06/03/2018	06/03/2048	4.895%	Semi-annual	1,010,436	15,980	1,103,380	17,455
86	06/03/2018	06/03/2038	4.665%	Semi-annual	606,513	9,139	662,356	9,982
87	11/09/2018	11/09/2025	1.495%	Annual	997,730	4,584	997,240	4,584
88	05/02/2019	05/02/2024	1.069%	Annual	997,906	9,751	997,220	9,748
89	01/03/2019	01/03/2049	5.520%	Semi-annual	1,010,538	18,793	1,104,073	20,528
90	12/03/2019	12/03/2029	1.788%	Annual	996,825	14,503	996,434	14,503
91	01/07/2019	01/07/2039	1.957%	Annual	497,062	4,937	496,911	4,937
92	03/02/2020	03/02/2030	0.664%	Annual	996,535	6,137	-	-
93	21/05/2020	21/08/2027	1.201%	Annual	1,246,554	9,270	-	-
94	21/05/2020	21/05/2032	1.807%	Annual	747,160	8,375	-	-
95	13/07/2020	13/07/2040	1.864%	Annual	497,700	4,396	-	-
					28,035,344	3,320,907	29,302,605	5,238,652

The fair value of the loans granted to Telefónica, S.A. was €36,007,868 thousand at December 31, 2020 and €38,333,281 thousand at December 31, 2019.

The calculation of the fair value for investments in group companies and associates of the Company has required, for each currency, the estimation of a credit spread curve using the prices of the Telefónica Group's bonds and credit derivatives (where pertinent).

The maturities of the **non-current assets** included in this category at December 31, 2020 and 2019 are as follows:

(Euros in thousands)	2020	2019
Between 1 and 2 years	3,052,884	3,381,295
Between 2 and 3 years	2,109,143	3,614,727
Between 3 and 4 years	997,906	2,164,447
Between 4 and 5 years	2,245,574	997,220
Beyond 5 years	19,629,837	19,144,916
TOTAL NON-CURRENT ASSETS	28,035,344	29,302,605

7. EQUITY

7.1 Share Capital

The share capital at December 31, 2020 comprised 62,000 shares, each with a nominal value of 1 euro. Telefónica, S.A. is the Sole Shareholder of the Company.

Telefónica Emisiones, S.A.U. is registered as a Sole Shareholder Company in the Companies Registry, where the identity of the Sole Shareholder is on record.

7.2 Reserves

According to the Spanish Corporate Enterprises Act, the legal reserve, as long as it does not exceed the limit of 20% against the share capital, cannot be distributed to the Sole Shareholder and may only be allocated, when there are no further reserves available, to offset losses.

The reserve can also be used to increase share capital in the part exceeding 10% of the already increased share capital amount.

The legal reserve is fully funded. The remaining reserves are available reserves.

8. FINANCIAL LIABILITIES

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

(Expressed in thousands of euros)	Note	2020	2019
Non-current financial liabilities		28,036,167	29,303,894
Accounts payable		28,036,167	29,303,894
Non-current debts: Bonds and other marketable debt securities	8.1	28,036,167	29,303,894
Current financial liabilities		3,319,303	5,236,756
Current debts: Bonds and other marketable debt securities	8.1	3,318,739	5,236,589
Current borrowings to Group companies and associates	8.2	515	147
Other payables		49	20

In 2020, the Company issued bonds with long-term maturities guaranteed by Telefónica, S.A. for a total of **€3,500,000** thousand (issuances in euros) (in 2019, the total amount was €3,598,463 thousand) and repaid bonds for a total of **€5,651,922** thousand (in 2019 the total was €3,537,670 thousand).

8.1 Bonds and other marketable debt securities

Non-current and current debts show the different issuances of bonds that the Company placed between 2006 to 2020 in Euros, US Dollars, Pounds Sterling and Swiss Francs. The bonds issuances are guaranteed by Telefónica, S.A. and listed on the stock exchanges of Dublin, New York, Zurich and Taipei. The breakdown is as follows:

(Euros in thousands)

Issuance	Issue date	Maturity date	Annual interest rate	Frequency payment	2020 Non-current liabilities	2020 Current liabilities	2019 Non-current liabilities	2019 Current liabilities
EMTN 4	02/02/2006	02/02/2026	5.375%	Annual	555,757	27,227	586,153	28,720
SHELF C	20/06/2006	20/06/2036	7.045%	Semi-annual	1,618,920	3,509	1,768,037	3,834
EMTN 9	31/01/2007	30/12/2021	Euribor 6m + 0.830%	Semi-annual	-	55,000	54,999	1
EMTN 21	10/12/2009	09/12/2022	5.289%	Annual	723,322	2,307	762,868	2,434
SHELF L	26/04/2010	27/04/2020	5.134%	Semi-annual	-	-	-	1,257,714
EMTN 25	08/10/2010	08/10/2029	5.445%	Annual	444,268	5,581	468,602	5,889
SHELF N	16/02/2011	16/02/2021	5.462%	Semi-annual	-	1,247,267	1,334,446	27,360
EMTN 30	12/03/2012	12/03/2020	5.597%	Annual	-	-	-	859,087
EMTN 34 Tr1	19/10/2012	20/01/2020	4.710%	Annual	-	-	-	1,253,282
EMTN 36	14/12/2012	14/12/2022	3.450%	Annual	138,714	227	138,038	226
EMTN 37	22/01/2013	23/01/2023	3.987%	Annual	1,498,632	56,047	1,497,889	56,036
EMTN 38	27/03/2013	26/03/2021	3.961%	Annual	-	897,416	992,862	30,386
SHELF P	29/04/2013	27/04/2023	4.570%	Semi-annual	610,645	4,967	666,719	5,426
EMTN 40	23/10/2013	23/10/2020	2.595%	Annual	-	-	-	208,272
EMTN 43	27/05/2014	27/05/2022	2.242%	Annual	1,014,378	13,593	1,248,472	16,738
EMTN 44	17/10/2014	17/10/2029	2.932%	Annual	797,895	4,820	797,640	4,820
EMTN 46	21/07/2015	21/07/2022	Euribor 6m + 0.83%	Semi-annual	66,948	145	66,914	144
EMTN 47	14/09/2015	14/09/2021	1.477%	Annual	-	761,728	999,079	4,370
EMTN 49	13/04/2016	13/04/2022	0.750%	Annual	1,109,288	5,953	1,398,337	7,537
EMTN 50	13/04/2016	13/04/2026	1.460%	Annual	1,347,371	14,148	1,346,856	14,148
EMTN 51	17/10/2016	17/10/2020	0.318%	Annual	-	-	-	1,250,171
EMTN 52	17/10/2016	17/10/2031	1.930%	Annual	747,432	2,974	747.188	2.974

Issuance	Issue date	Maturity date	Interest rate	Frequency	2020 Non-current liabilities	2020 Current liabilities	2019 Non-current liabilities	2019 Current liabilities
EMTN 53	28/12/2016	28/12/2051	4.000%	Annual	149,972	49	149,958	49
EMTN 54	17/01/2017	17/01/2025	1.528%	Annual	1,247,875	18,210	1,247,332	18,210
EMTN 55 Tr1	17/01/2017	17/10/2028	2.318%	Annual	498,747	2,382	498,579	2,382
SHELF R	08/03/2017	08/03/2027	4.103%	Semi-annual	1,219,469	15,746	1,331,703	17,203
SHELF S Tr1	08/03/2017	08/03/2047	5.213%	Semi-annual	1,617,610	26,675	1,766,878	29,143
EMTN 55 Tr2	17/03/2017	17/10/2028	2.318%	Annual	199,227	953	199,127	953
EMTN 57	18/04/2017	18/04/2037	4.900%	Annual	162,141	5,614	177,086	6,133
SHELF S Tr2	28/04/2017	08/03/2047	5.213%	Semi-annual	416,539	6,669	455,206	7,286
EMTN 58	12/09/2017	12/01/2028	1.715%	Annual	1,246,952	20,733	1,246,497	20,733
EMTN 59	22/01/2018	22/01/2027	1.447%	Annual	997,772	13,598	997,390	13,598
SHELF T	06/03/2018	06/03/2048	4.895%	Semi-annual	1,011,410	15,932	1,104,732	17,406
SHELF U	06/03/2018	06/03/2038	4.665%	Semi-annual	605,499	9,109	661,349	9,952
EMTN 60	11/09/2018	11/09/2025	1.495%	Annual	997,771	4,546	997,289	4,546
EMTN 61	05/02/2019	05/02/2024	1.069%	Annual	997,943	9,639	997,269	9,636
SHELF V	01/03/2019	01/03/2049	5.520%	Semi-annual	1,011,603	18,747	1,104,954	20,482
EMTN 62	12/03/2019	12/03/2029	1.788%	Annual	996,875	14,402	996,490	14,402
EMTN 63	01/07/2019	01/07/2039	1.957%	Annual	497,104	4,906	496,956	4,906
EMTN 64	03/02/2020	03/02/2030	0.664%	Annual	996,590	6,023	-	-
EMTN 65	21/05/2020	21/08/2027	1.201%	Annual	1,246,584	9,213	-	-
EMTN 66	21/05/2020	21/05/2032	1.807%	Annual	747,174	8,317	-	-
EMTN 67	13/07/2020	13/07/2040	1.864%	Annual	497,740	4,367	-	-
					28,036,167	3,318,739	29,303,894	5,236,589

The fair value of the bonds that the Company issued was €35,975,987 thousand at December 31, 2020 and €38,295,117 thousand at December 31, 2019.

The calculation of the fair value for the Company's financial debt instruments has required an estimated credit spread curve for each currency using the listed prices of the bonds and credit derivatives; the same ones used for financial assets (see Note 6).

The maturities of the **non-current liabilities** in this category at December 31, 2020 and 2019 are:

(Euros in thousands)	2020	2019
Between 1 and 2 years	3,052,650	3,381,386
Between 2 and 3 years	2,109,277	3,614,629
Between 3 and 4 years	997,943	2,164,608
Between 4 and 5 years	2,245,646	997,269
Beyond 5 years	19,630,651	19,146,002
TOTAL NON-CURRENT LIABILITIES	28,036,167	29,303,894

8.2 Current borrowings to Group companies and associates

This heading shows current payables to Telefónica S.A., in its capacity as parent of the tax group to which the Company belongs, amounting to €515 thousand (€147 thousand in 2019).

9. TAX SITUATION

Under the tax regulations currently in force, tax returns may not be considered final until they have either been inspected by tax authorities or until the four-year inspection period has expired. The Company has the four recent years open for inspection insofar as all applicable taxes.

The Company's Joint and Several Directors and their tax advisors consider that, in the event of a tax inspection, no significant tax contingencies would arise as a result of varying interpretations of the tax legislation applicable to the Company's transactions.

The reconciliation between accounting profit and the corporate income tax base for 2020 and 2019 is as follows:

(Euros in thousands)	2020	2019
Accounting profit (loss) before taxes	2,779	1,327
Permanent differences	-	(4,632)
Temporary differences	-	-
Tax results	2,779	(3,305)
Current tax payable/receivable	(695)	(826)
Other impacts	-	1,160
Corporate income tax	695	334

The permanent difference is due to the application of Article 11 of the Corporate Income Tax Act, as a result of incorrectly accrued interest in previous years (see Note 7.2). Other impacts show the tax effect of this adjustment, the sum of the two being the net impact on corporate income tax.

The Company files consolidated tax returns for corporate income tax within Tax Group No. 24/90, whose parent company is Telefónica, S.A., with Tax ID (CIF) No. A28015865.

In 2020, the Company paid a total of €180 thousand (to Telefónica, S.A.) on account of 2020 corporate income tax and paid a total of €147 thousand in respect of 2019 corporate income tax.

As a result of the advanced payments made for 2020 corporate income tax in the present year between the Company and Telefónica, S.A., as the parent company of the tax group, the amount payable in consolidated taxes amounts to €515 thousand.

10. INCOME AND EXPENSES

10.1 External services

(Euros in thousands)	2020	2019
Independent professional services	511	754
Other services	1,499	1,837
Bank services and similar	1	1
TOTAL EXTERNAL SERVICES	2,011	2,592

“Independent professional services” includes the fees paid to the tax certification agent for bonds issued by the Company and auditing fees, while “Other services” primarily shows expenses incurred from services rendered by: (i) credit rating agencies, (ii) commissions for listing bonds on the New York Stock Exchange, (iii) payment agent for Company debt issuance programmes, and (iv) fees for outsourced accounting and reporting services.

10.2 Financial income

“Financial income” with Group companies and associates mainly includes income from credits granted to Telefónica, S.A.

10.3 Financial expense

“Financial expense” with third parties include expenses incurred during the respective years corresponding to valid obligations.

10.4 Foreign Exchange rate differences

The breakdown of **assets and liabilities denominated in foreign currency** at December 31 is as follows:

2020 (Euros in thousands)	Swiss Francs	US Dollars	Pounds Sterling	Total
Assets				
Credits to companies	138,926	9,627,985	1,758,997	11,525,908
Liabilities				
Bonds and other marketable debt securities	138,941	9,631,979	1,758,462	11,529,382
2019 (Expressed in thousands of euros)	Swiss Francs	US Dollars	Pounds Sterling	Total
Assets				
Credits to companies	346,514	11,772,856	2,714,210	14,833,580
Liabilities				
Bonds and other marketable debt securities	346,536	11,773,049	2,713,753	14,833,338

The breakdown of **foreign currency transactions** is as follows:

2020 (Euros in thousands)	Swiss Francs	US Dollars	Pounds Sterling	Total
Interest income	9,488	573,181	103,583	686,252
Interest expenses	9,465	572,478	103,477	685,420
2019 (Euros in thousands)	Swiss Francs	US Dollars	Pounds Sterling	Total
Interest income	10,095	637,966	140,206	788,267
Interest expenses	10,071	642,187	140,123	792,381

The breakdown of foreign **exchange rate differences on financial instruments recognized in the Profit and loss statement** is as follows:

(Euros in thousands)	2020	2019
Credits to companies		
Transactions settled in the year	(46,774)	(14,658)
Transactions pending settlement at year end	1,027,854	(372,239)
	981,080	(386,897)
Accounts payable		
Transactions settled in the year	47,401	14,659
Transactions pending settlement at year end	(1,028,171)	372,289
	(980,770)	386,948

Positive and negative foreign exchange differences are generated by the various issuances and loans issued in a foreign currency and are measured at year end at the exchange rate prevailing on that date.

11. RELATED-PARTY TRANSACTIONS

11.1 Related parties

The related parties with whom the Company carried out transactions in 2020 at arm's length, including the nature of the relationship, are as follows:

	Nature of the relationship
Telefónica, S.A.	Group parent
Telfisa Global, B.V.	Group company
Telefónica Europe, B.V.	Group company

11.2 Balances

Balances kept with related parties are as follows:

(Euros in thousands)	Group parent 2020	Other group companies 2020	Group parent 2019	Other group companies 2019
Non-current credits (Note 6)	28,035,344	-	29,302,605	-
Current credits (Note 6)	3,320,907	-	5,238,652	-
Cash and cash equivalents	-	11,728	-	9,475
Current debts (Note 8)	515	-	147	-

11.3 Transactions

Transactions with related parties are as follows:

(Euros in thousands)	Group parent 2020	Other group companies 2020	Group parent 2019	Other group companies 2019
Financial income – Interest (Note 10.2)	1,089,422	1	1,277,599	4
Exchange rate differences (Note 10.4)	(980,764)	(6)	386,942	6

12. OTHER INFORMATION

12.1 Independent auditors' fees

PriceWaterhouseCoopers Auditores, S.L., statutory auditor of Telefónica Emisiones, S.A.U., received total fees for the financial year 2020 audit of €25 thousand.

PriceWaterhouseCoopers Auditores, S.L., statutory auditor of Telefónica Emisiones, S.A.U., received total fees of €121 thousand in 2019, as consideration for annual account auditing services and other services related to issuing comfort letters. The firm Ernst & Young, S.L. also provided services related to issuing comfort letters for €60 thousand.

12.2 Board of Directors

In 2020, the Company's Joint and Several Directors no received remuneration of any sort from the Company. The Company granted no advances, loans or credits whatsoever and assumed no obligations in respect of pensions, retirement plans or insurance payments for the Joint and Several Directors.

Pursuant to articles 229 and 230 of the Corporate Enterprises Act, the Joint and Several Directors did not disclose any conflict of interest with the Company.

12.3 Information on the environment

At 31 December 2020 and 2019, there were no significant assets dedicated to protecting and improving the environment, and no relevant expenses of this nature were incurred during the year. Additionally, during the years ending on December 31, 2020 and 2019, no subsidies or grants of an environmentally related nature were received.

The Company's Joint Administrators consider the environmental risks that could arise from the Company's activities as minimum and, in any case, appropriately covered, and consider that no additional liabilities will arise in relation to such risks.

12.4 Information on average payment period to suppliers. Third additional provision. “Duty to disclose” as prescribed in Spanish Law 15/2010 of July 5.

Pursuant to the cited law, the following declaration is hereby made regarding the Company:

	2020	2019
	Days	Days
Average supplier payment period	35.2	14
Ratio of paid transactions	35.2	14
Ratio of outstanding transactions	-	-
	Thousands of euros	Thousands of euros
Total payments made in the year	1,104	1,497
Total payments outstanding	-	-

Telefónica Emisiones, S.A.U. has adapted its internal processes and payment terms policies to Spanish Law 15/2010 (amended by Law 31/2014) and Royal Decree-law 4/2013, which in turn modify Law 3/2004, establishing measures to combat late payment in commercial transactions. Accordingly, the terms of contract of suppliers in the year 2020 included payment terms equal to or less than 60 days, depending on the terms agreed by the parties.

12.5 Contracts executed with the Sole Shareholder

The characteristics of the contracts entered into with the Sole Shareholder, Telefónica, S.A. are detailed below, indicating the execution date and a brief description of the purpose, characteristics and obligations of the parties therein:

Contract	Execution date	Purpose	Characteristics
Framework Financing Agreement	04/29/2005	Granting loans to the Sole Shareholder	The Company will grant loans under this Framework Agreement

12.6 Average number of employees

The Company had no employees at the closing dates of 2020 and 2019.

13. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

Telefónica, S.A. guarantees the financial debt issued by Telefónica Emisiones, S.A.U. on capital markets. The credit risk of the issuances is therefore similar to investing directly in Telefónica, S.A.

The terms and conditions of the financial assets held with Telefónica, S.A. are substantially similar to those for the financial liabilities, and therefore substantially cover interest rate, exchange rate and liquidity risks.

14. EVENTS AFTER THE CLOSING DATE

The following Company-related relevant events occurred between the 2020 closing date and the date on which these Annual Accounts were drawn up:

- On February 16, 2021, the Company redeemed a bond issuance of US\$ 1,500 million upon maturity. These bonds, paying a semi-annual coupon of 5.462%, were issued on February 16, 2011 under the Company's Shelf programme.

15. ADDITIONAL NOTE FOR ENGLISH TRANSLATION

These Annual Accounts were originally prepared in Spanish and were authorized for issue by the Company's Joint and Several Directors in the meeting held on February 23, 2021. In the event of a discrepancy, the Spanish-language version prevails.

MANAGEMENT REPORT FOR THE YEAR ENDED 31 DECEMBER 2020

2020 Summary

In 2020, the Company continued to carry out the activities inherent in its corporate purpose. The most significant events duly reflected in the 2020 Profit and loss statement are:

- Operating losses of €2,014 thousand (€2,606 thousand in the previous year), with the most relevant item generated by expenses incurred with credit rating agencies.
- Positive financial income of €4,793 thousand (€3,933 thousand in the previous year) came from interests and commissions accrued by the loans granted to Telefónica, S.A.
- The combination of the two results above added to the expense for corporate income tax of €695 thousand (€334 thousand in the previous year) results in a **profit from ordinary activity of €2,084 thousand** (€993 thousand in the previous year).

The financing operations carried out in 2020 entailed issuing a **total of €3,500 million in debt instruments** within the framework of Telefónica Emisiones, S.A.U.'s debt issuance programme guaranteed by Telefónica, S.A.: EMTN Debt Issuance Programme totalling €40 billion.

2021 Targets

The Company is expected to continue its line of activity in the future, executing financial transactions for the purpose of securing financing for the Telefónica Group. In 2021, the Company shall actively monitor the international capital markets so as to issue bonds (or any other financial instrument it deems appropriate) if the market conditions are right and if these meet the Company's financing requirements.

Capital structure

Telefónica Emisiones, S.A. is a Sole Shareholder Company with a share capital comprising 62,000 ordinary shares with a par value of 1 euro each. The Company's share capital is fully subscribed and paid up. Its Sole Shareholder is Telefónica, S.A., a company legally established in Spain, with its registered office at Gran Vía 28, 28013 – Madrid.

Company administration

As in the previous year, the Company has two Joint and Several Directors who receive no remuneration for the discharge of their duties:

- (i) Carlos David Maroto Sobrado and
- (ii) Francisco Javier Ariza Garrote

Treasury shares

As in 2019, the Company made no purchases or other transactions with own shares in the period.

Research and development activities

Telefónica Emisiones, S.A.U. did not engage in any research and development activities in 2020.

Average supplier payment period

In 2020, the average supplier payment period for commercial transactions was less than 60 days.

Likewise, and pursuant to Spanish Law 15/2010 (amended by Law 31/2014) and Royal Decree-Law 4/2013, which in turn amend Law 3/2004, establishing measures to combat defaults in commercial transactions, in 2020 the Company entered into no agreements with commercial suppliers with average payment periods in excess of 60 days.

Financial instruments and risk management policy

See Note 5 of the Annual Accounts.

Related-party transactions

The Company grants long-term financing to its shareholder, Telefónica, S.A. and holds asset balances with related companies.

Shareholder remuneration

As in the previous year, the Company paid no dividends in 2020.

The Company's joint and several directors intend to propose to the Sole Shareholder that the 2020 earnings be charged to voluntary reserves.



TELEFÓNICA EMISIONES, S.A.,
(Sole Shareholder Company)

Annual Corporate Governance Report

Since the Company is a Sole Shareholder Company and its sole shareholder is the listed company Telefónica, S.A., please refer to the Annual Corporate Governance Report of Telefónica, S.A. by virtue of Article 9.4 of Order ECC/461/2013 of 20 March, which sets out the content and structure of the annual corporate governance report, annual report on remuneration and other reporting instruments for listed companies, banks and other entities that issue securities admitted to trading on official securities markets.

Events after the reporting period

The following Company-related relevant events occurred between the 2020 closing date and the date on which these Annual Accounts were drawn up:

- On February 16, 2021, the Company redeemed a bond issuance of US\$ 1,500 million upon maturity. These bonds, paying a semi-annual coupon of 5.462%, were issued on February 16, 2011 under the Company's Shelf programme.



TELEFÓNICA EMISIONES, S.A.,
(Sole Shareholder Company)

SIGNATURE VALIDATION

At their meeting on February 23, 2021, the Joint and Several Directors of Telefónica Emisiones, S.A. (Sole Shareholder Company) authorised the issuance of these Annual Accounts, comprising the Balance sheet, Profit and loss statement, Statement of changes in equity, Cash flow statement and Notes for 2020, all of which form an integral part of this document.

These Annual Accounts and Management Report have been endorsed on all the pages. This document serves as a signature for all the documents comprising the Annual Accounts and Management Report.

Carlos David Maroto Sobrado

Joint and Several Director of

Telefónica Emisiones, S.A. (Sole Shareholder Company)

Francisco Javier Ariza Garrote

Joint and Several Director of

Telefónica Emisiones, S.A. (Sole Shareholder Company)