Telefonica Europe B.V.

Interim Financial Report

June 30, 2018

Contents

INTERIM MANAGING DIRECTOR'S REPORT

The management herewith submits the Interim Financial Statements of Telefonica Europe B.V. ("the Company") for the half year ended on June 30, 2018.

Result

During the period under review, the Company recorded a **profit of EUR 1,520 thousand** (January 1, 2017 - June 30, 2017: EUR 1,142 thousand), which is set out in detail in the enclosed Interim Statement of Income and Expenses.

The financial margin has increased, from EUR 1,897 thousand on June 30, 2017 to EUR 2,542 thousand on June 30, 2018, mainly due to: (i) rises of about 6.1% in borrowed and on-lent volumes in average terms and (ii) the early repayment of several Undated Deeply Subordinated Securities and the loans granted with similar terms to the Shareholder.

Operational expenses have increased by EUR 144 thousand when compared to the same period of 2017, mainly due to increases in rating agencies and audit fees.

Financing Activity

During the first half of 2018 the Company entered into the following transactions:

(i) On March 22, 2018, the Company issued **EUR 2,250,000 thousand Undated Deeply Subordinated Guaranteed Fixed Rate Reset Securities** (commonly known as hybrids) in two tranches of EUR 1,250,000 thousand, 5.7 years Non-Call and carrying an interest rate of 3,00% and EUR 1,000,000 thousand, 8.5 years Non-Call carrying and interest rate of 3.875%.

(ii) On March 23, 2018, the Company **repurchased and cancelled EUR 1,287,400 thousand and GBP 428,500 thousand across 5 tranches of its Undated Deeply Subordinated Guaranteed Fixed Rate Reset Securities**. The notional amount repurchased and outstanding (after the cancellation of the notes) per tranche are the following:

- EUR 1,125,000 thousand issued on September 18, 2013 and with a first call date on September 18, 2018 with an annual coupon of 6.50%: amount repurchased EUR 651,700 and amount outstanding EUR 473,300 thousand.
- EUR 850,000 thousand issued on December 4, 2014 and with a first call date on December 4, 2019 with an annual coupon of 4.20%: amount repurchased EUR 145,200 thousand and amount outstanding EUR 704,800 thousand.
- EUR 750,000 thousand issued on March 31, 2014 and with a first call date on March 31, 2020 with an annual coupon of 5.00%: amount repurchased EUR 158,200 thousand and amount outstanding EUR 591,800 thousand.
- EUR 625,000 thousand issued on September 18, 2013 and with a first call date on September 18, 2021 with an annual coupon of 7.625%: amount repurchased EUR 332,300 thousand and amount outstanding EUR 292,700 thousand.
- GBP 600,000 thousand issued on November 26, 2013 and with a first call date on November 26, 2020 with an annual coupon of 6.75%: amount repurchased GBP 428,500 thousand and amount outstanding GBP 171,500 thousand.

(iii) In the short term, the Company continued with its issuing activity under **Euro Commercial Paper Programme** and during the first half of 2018 placed, among several investors, 41 ECPs for a total notional amount of EUR 2,987,893 thousand. The notional outstanding at June 30, 2018 is EUR 1,737,893 thousand (December 31, 2017: EUR 1,850,000 thousand).

Subsequent events

On July 18, 2018, **EUR 750,000 thousand were drawn by the Company** from the EUR 1,500,000 thousand Credit Facility Agreement dated November 28, 2016 entered with China Development Bank. After this disposal the facility was fully drawn.

Future developments

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

Risks and uncertainties

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

Liquidity and credit risk:

As of June, 30 the Company has invested the funds borrowed, in Telefónica, S.A. which guarantees most of the external debt and bonds issued by the Company. However, from time to time the Company could invest the funds in other company within the Group. In addition, the Company holds cash balances in several financial institutions.

In summary, as any substantial credit or liquidity risk would be related to credit risk of Telefónica, S.A., Telefonica Europe B.V. has not control measures by itself as they are according to the Group's liquidity risk management.

Interest rate and Foreign Exchange risk:

Currently, the Company lends money to the shareholder denominated in the same currency although from time to time the Company may lend money to other companies within the Group. At present, such loans are denominated in the same currency as the funds it raises on the capital markets. Therefore, currently the Company implements a natural hedge. Consequently, foreign exchange fluctuation in exchange rates may have a limited impact on its financial result.

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

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

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

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

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 new technologies, the renewal of licenses or the expansion of the Telefónica Group's business in countries where it operates, may require a substantial amount of financing.

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 for the Company in the event of a significant deterioration of conditions in the international or local financial markets due to monetary policies set by central banks, including increases in interest rates and/or balance sheet reductions, and oil price instability, or if there is an eventual deterioration in the solvency or operating performance of Telefónica.

Worsening of the economic and political environment could negatively affect Telefonica's Group 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 or even uncertainties in this regard, including exchange-rate or sovereign-risk fluctuations, may adversely affect the company's business, financial position, cash flows and results of operations and/or the performance of the Group's financial indicators.

Economic conditions may adversely affect the level of demand of existing and prospective customers, as they may no longer deem critical the services offered by the Group.

Macroeconomic perspectives in Europe continued to improve in the first half of 2018, although the growing trade tensions that are materializing throughout 2018 could pose a risk to economic growth and global stability. Returning to Europe, political uncertainty decreased after the results of the general elections in some European countries, Italy being the one in which uncertainty remains due to the lack of political commitment with a reformist agenda. Second, economic activity and financial stability in Europe could be affected by the monetary normalization that the European Central Bank is expected to continue implementing and, by the developments related to the agreement reached in relation to the exit of the Greek economy from the bailout programme and how this country will continue managing the banking and the economy restructuring process which is still in process. Furthermore, the planned exit of the United Kingdom from the European Union following the outcome of the referendum held in 2016, will result in economic adjustments regardless of the nature of the new trade and investment relationships between the United Kingdom and the rest of Europe in the future. In the meantime, there is uncertainty regarding investment, economic activity, employment and financial market volatility. Finally, another possible source of uncertainty given Telefónica's exposure, could come from Catalonia's political situation and its impact on the Spanish economy. Although recent developments are contributing to reduce the uncertainty, if political tensions re-emerge or intensify, there could be a negative impact both on financing conditions and on the current positive Spanish macroeconomic scenario.

The worsening of the financial position of the Telefónica Group, if any of the above-mentioned risks is finally materialized could affect the capacity of the shareholder (Telefónica, S.A.) to meet its financial obligations towards the Company.

Signing of the interim financial statements

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

Amsterdam, July 24, 2018

/s/ Mr. C.D. Maroto Sobrado	/s/ Mrs. M.C. van der Sluijs-Plantz
/s/ Mr. J. Campillo Díaz	/s/ Mr. J.M. Hernández Rabbat

INTERIM BALANCE SHEET
AS AT 30 JUNE 2018
(before appropriation of result)

ASSETS

Unaudited figures (Euros in thousands)

	Note	30/06/2018	31/12/2017
Fixed Assets			
Tangible fixed assets	1	1	2
Financial fixed assets	2	9.897.469	9.385.213
Total Fixed Assets		9.897.470	9.385.215
Current Assets			
Loans receivable	3	1.739.468	1.851.368
Interest receivable		162.001	201.120
Other current assets		1.894	1.019
Cash at bank	4	6.269	5.638
Total Current Assets		1.909.632	2.059.145
TOTAL ASSETS		**11.807.102**	**11.444.360**

SHAREHOLDER'S EQUITY AND LIABILITIES

	Note	30/06/2018	31/12/2017
Shareholder's Equity	5		
Issued share capital		46	46
Retained earnings		7.022	4.700
Result for the period		1.520	2.322
Total Shareholder´s Equity		8.588	7.068
Long Term Liabilities			
Bonds and loans	6	9.897.322	9.385.428
Current Liabilities			
Short term loans and bonds	7	1.739.468	1.851.368
Interest payable		160.777	199.670
Taxes payable		334	375
Other debts and accrued liabilities		613	451
Total Current Liabilities		1.901.192	2.051.864
TOTAL EQUITY & LIABILITIES		**11.807.102**	**11.444.360**

INTERIM STATEMENT OF INCOME AND EXPENSES
FOR THE PERIOD ENDED 30 JUNE 2018

Unaudited figures (Euros in thousands)

	Note	01/01/2018-30/06/2018	01/01/17-30/06/17
Financial Income and Expenses			
Interest Income		426.597	240.478
Interest Expense		(424.053)	(238.576)
Currency Exchange result		(2)	(5)
Net financial result	8	2.542	1.897
Operational Income and Expenses			
Personnel expenses		(85)	(88)
Administrative expenses		(444)	(297)
Result from ordinary activities before taxation		2.013	1.512
Taxation	9	(493)	(370)
Result after taxation		**1.520**	**1.142**

NOTES TO THE INTERIM FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2018

General Information and Principal Activities

Telefónica Europe B.V. ("the Company"), having its statutory seat and registered office in Amsterdam, The Netherlands, is engaged in holding and financing activities for related companies. The main office of the Company is located in Zuidplein 112, 1077XV, Amsterdam (The Netherlands). The Company was incorporated on October 31, 1996.

The authorized share capital of the Company consists of 100 shares with a par value of EUR 460 each (EUR 46,000). On June 30, 2018 and December 31, 2017, the issued capital of the Company consists of 100 shares, which have been fully paid and which represent a total paid up capital in the amount of EUR 46,000.

Group Affiliation

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

Basis of Presentation

The interim financial information should be read in conjunction with the Annual Report for the year ended December 31, 2017. The Annual Report and the Interim Financial Report were prepared in accordance with Title 9, Book 2, of the Dutch Civil Code.

The functional currency as well as the reporting currency of Telefonica Europe B.V, is the Euro (€). These financial statements are presented in Euro.

Comparison with prior period

In line with more common practice in The Netherlands the balance sheet of last year end is taken up as the comparative balance sheet, rather than the balance sheet as at the interim date of the previous year.

Euro Medium Term Note Debt Programme

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

As at June 30, 2018, the EMTN Debt Issuance Programme includes:

Euro Notes due 2033	EUR	500,000,000

Global bonds

On September 21, 2000, Telefónica Europe B.V. issued notes with an application to be listed on the Luxembourg Stock Exchange for the notional amounts and coupons of USD 1,250,000,000 7.35% and EUR 1,000,000,000 6.125% due and repaid in 2005, USD 2,500,000,000 7.75% due and repaid 2010 and USD 1,250,000,000 8.25% due 2030. These bonds are irrevocably guaranteed by the parent company.

As at June 30, 2018 there is only one outstanding note under the programme (USD 1,250 million maturing on 2030).

Euro Commercial Paper Programme

On June 29, 2000, the Company entered into a Euro Commercial Paper Programme with a maximum aggregate principal amount of EUR 2,000 million or its equivalent in alternative currencies. The Programme was updated in May 2005 and in May 2012, when its maximum aggregate principal amount outstanding was raised from EUR 2,000 million to EUR 3,000 million or its equivalent in alternative currencies. On April 22, 2016 the limit of the Programme was increased from EUR 3,000 million to EUR 5,000 million or its equivalent in alternative currencies.

The Euro Commercial Paper issues are unconditionally and irrevocably guaranteed by the parent company. Notes may have any denomination, subject to compliance with any applicable legal and regulatory requirements. The minimum denominations are EUR 500,000, USD 500,000, JPY 100,000,000, and GBP 100,000. The tenor of the notes shall be not less than one nor more than 365 days.

The notional outstanding amount as at June 30, 2018 is EUR 1,738 million and is composed by ECPs issued in Euros and USD. In the balance sheet the outstanding ECP issues are stated at their discounted notional amounts and were accounted for EUR 1,739 million at half year end.

JPY Dual Currency Loan

The Company borrowed a total of JPY 15,000 million in three loans (of JPY 5,000 million each) from a Japanese investor with maturity on July 2037. Under this agreement interests are payable in USD on a semi-annual basis at a fix annual rate of 4.75%.

Perpetual Hybrid Bonds in EUR and in GBP

On September 18, 2013, the Company issued two tranches of perpetual hybrid securities of EUR 1,125,000 thousand and EUR 625,000 thousand respectively. A third issue of GBP 600,000 thousand was completed on November 26, 2013. On March 31, 2014 the Company issued two tranches of perpetual hybrid securities of EUR 750,000 thousand and EUR 1,000,000 thousand. On December 4, 2014 the Company issued a new tranche of perpetual hybrid securities for EUR 850,000 thousand. On September 15, 2016, the Company issued a new tranche of perpetual hybrid securities for EUR 1,000,000 thousand. On December 7, 2017, the Company issued a new tranche of EUR 1,000,000 thousand of perpetual hybrid securities. The last issuance of hybrid securities took place on March 22, 2018, when the Company issued two additional tranches of perpetual hybrid securities of EUR 1,250,000 thousand and EUR 1,000,000 thousand.

All perpetual hybrid securities were outstanding at June 30, 2018, amounting to a total notional outstanding equivalent to EUR 7,512,440 thousand (foreign exchange rate for GBP hybrid security is the closing rate as of June 30). All perpetual hybrid securities issued by the Company are listed for trading on the London Stock Exchange.

On March 23, 2018 the company repurchased and cancelled EUR 1,287,400 thousand and GBP 428,500 thousand (equivalent to EUR 490,848 thousand) across four Euro denominated and one British Sterling denominated hybrid securities.

The main terms of the tranches issued are the following:

i. EUR 1,125,000 thousand issued on September 18, 2013 and with a first call date on September 18, 2018 with an annual coupon of 6.50% (ISIN: XS0972570351). The notional outstanding amount as of June 30, 2018 is EUR 473,300 thousands;

ii. EUR 625,000 thousand issued on September 18, 2013 and with a first call date on September 18, 2021 with an annual coupon of 7.625% (ISIN: XS0972588643). The notional outstanding amount as of June 30, 2018 is EUR 292,700 thousands;

iii. GBP 600,000 thousand issued on November 26, 2013 and with a first call date on November 26, 2020 with an annual coupon of 6.75% (ISIN: XS0997326441). The notional outstanding amount as of June 30, 2018 is GBP 171,500 thousands;

iv. EUR 750,000 thousand issued on March 31, 2014 and with a first call date on March 31, 2020 with an annual coupon of 5.00% (ISIN: XS1050460739). The notional outstanding amount as of June 30, 2018 is EUR 591,800 thousands;

v. EUR 1,000,000 thousand issued on March 31, 2014 and with a first call date on Mach 31, 2024 with an annual coupon of 5.875% (ISIN: XS1050461034);

vi. EUR 850,000 thousand issued on December 4, 2014 and with a first call date on December 4, 2019 with an annual coupon of 4.20% (ISIN: XS1148359356). The notional outstanding amount as of June 30, 2018 is EUR 704,800 thousands;

vii. EUR 1,000,000 thousand issued on September 15, 2016 and with a first call date on March 15, 2022 with an annual coupon of 3.75% (ISIN: XS1490960942);

viii. EUR 1,000,000 thousand issued on December 7, 2017 and with a first call on June 7, 2023 with an annual coupon of 2.625% (ISIN: XS1731823255);

ix. EUR 1,250,000 thousand issued on March 22, 2018 and with a first call on December 4, 2023 with an annual coupon of 3.000% (ISIN: XS1795406575) and

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

EUR 1,500 million Facility Agreement

A facility agreement of EUR 1,500 million with an international financial institution (China Development Bank) and guaranteed by Telefónica, S.A. was entered into November 28, 2016. The facility matures on November 28, 2024 and a drawdown of EUR 750,000 thousand was done at January 24, 2017. The proceeds of the facility agreement are to be on lent to the parent company for the ultimate purpose of financing the Group's procurement of telecommunications equipment and related services.

Investments of the Company

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

Cash flow statement

No cash flow statement is presented in this interim financial report, as the Company's cash flows are included in the consolidated cash flow statement in the financial statements of the ultimate parent company Telefónica, S.A. This exemption is provided in DAS 360.104.

ACCOUNTING POLICIES

General

These interim financial statements have been prepared in accordance with Title 9, book 2 of The Netherlands Civil Code.

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

Foreign currencies

Transactions in foreign currencies are stated in the financial statements at the exchange rate of the functional currency on the transaction date.

Monetary assets and liabilities in foreign currencies are converted to the closing rate of the functional currency on the balance sheet date. The translation differences resulting from settlement and conversion are credited or charged to the income statement.

Tangible fixed assets

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

Furniture and office equipment: 3 to 5 years

Long term receivables from related companies

Long term receivables from related companies are carried at amortised cost using the effective interest rate method, except where otherwise stated in these notes. Gains and losses are recognised in the income statement when the loans are derecognized or impaired, as well as through the amortisation process.

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

All legal entities that can be controlled, jointly controlled or significantly influenced are considered to be a related party. Also entities which can control the Company are considered to be a related party. In addition, statutory directors, other key management of the Company or the ultimate parent company and close relatives are regarded as related parties.

Impairment of financial assets

The carrying amount of financial assets is adjusted against the income statement when there is objective evidence of actual impairment.

On each balance sheet date, the company assesses whether there are any indicators that a fixed asset may be subject to impairment.

Current loans receivables and other payables

Current loans receivables and payables are carried at amortised cost using the effective interest rate method, except where otherwise stated in these notes.

Bonds and loans

Bonds and loans are carried at amortised cost using the effective interest rate method, except where otherwise stated in these notes. Gains and losses are recognized in the income statement when the liabilities are derecognised as well as through the amortisation process.

Cash at banks and in hand

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

Estimates

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

Accounting policies in respect of result determination

Interest incomes and expenses

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

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

Operating expenses

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

Taxation

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

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

Financial Instruments

General

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

i. Liquidity and credit risk

As of June, 30 the Company has invested the funds borrowed, in Telefónica, S.A. which guarantees most of the external debt and bonds issued by the Company. However, from time to time the Company could invest the funds in other companies within the Group. In addition, the Company holds cash balances in several financial institutions.

In summary, as any substantial credit or liquidity risk would be related to credit risk of Telefónica, S.A., Telefonica Europe B.V. has not control measures by itself as they are according to the Group's liquidity risk management.

ii. Interest rate and Foreign Exchange risk

Currently, the Company lends money to the shareholder denominated in the same currency although from time to time the Company may lend money to other companies within the Group. At present, such loans are denominated in the same currency as the funds it raises on the capital markets. Therefore, currently the Company implements a natural hedge. Consequently, foreign exchange fluctuation in exchange rates may have a limited impact on its financial result.

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

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

1. Tangible Fixed Assets

The tangible fixed assets are comprised as follows:

Unaudited figures (Euros in thousands)	30/06/2018	31/12/2017
Tangible fixed assets	1	2

The movement in the tangible fixed assets is as follows:

Unaudited figures (Euros in thousands)	01/01/2018-30/06/2018	01/01/2017-31/12/2017
Carrying value		
Balance January 1	93	93
Balance	94	93
Accumulated depreciation		
Balance January 1	(91)	(89)
Change for the period	(2)	(2)
Balance	(93)	(91)
Net book value	**1**	**2**

2. Financial fixed assets

Unaudited figures (Euros in thousands)	30/06/2018	31/12/2017
Long term receivables from related companies	9.897.469	9.385.213
Financial Fixed assets	**9.897.469**	**9.385.213**

Long term receivables from related companies

The long term receivables from related companies represent loans to the shareholder and total EUR 9,897,469 thousand at June 30, 2018 (EUR 9,385,213 thousand at December 31, 2017).

The movement in the financial fixed assets is as follows:

Unaudited figures (Euros in thousands)

	01/01/2018-30/06/2018	01/01/2017-31/12/2017
Balance January 1	9.385.213	7.815.176
Deferred Commissions amortization	10.022	8.701
Repayments	(1.778.248)	-
New Loans	2.236.625	1.739.899
Foreign Exchange result	43.857	(178.563)
Balance	**9.897.469**	**9.385.213**

3. Loans receivable

The loans receivable comprise short term loans due by the shareholder and other related companies and amounted **EUR 1,739,468 thousand** at June 30, 2018 (EUR 1,851,368 thousand at December 31, 2017).

Euros in thousands

	30/06/2018	31/12/2017
Short Term Loans to Telefónica, S.A. (Agreement May 10, 2012)	1.739.468	1.851.368
Total loans receivable	**1.739.468**	**1.851.368**

4. Cash at bank

The cash at bank balances on June 30, 2018 and December 31, 2017 are comprised as follows:

Unaudited figures (Euros in thousands)

	30/06/2018	31/12/2017
Current bank account balances	**6.269**	**5.638**

5. Shareholder's equity

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

Euros in thousands

	Issued share capital	Retained earnings	Result for the period	Total Shareholders Equity
Balance as at January 1, 2017	46	4.700	2.032	6.778
Allocation of result	-	2.032	(2.032)	-
Result for the period	-	-	2.322	2.322
Dividend payment		(2.032)	-	(2.032)
Balance as at December 31, 2017	**46**	**4.700**	**2.322**	**7.068**
Balance as at January 1, 2018	46	4.700	2.322	7.068
Allocation of result	-	2.322	(2.322)	-
Result for the period	-	-	1.520	1.520
Dividend payment		-	-	-
Balance as at June 30, 2018	**46**	**7.022**	**1.520**	**8.588**

6. Bonds and loans

The long term bonds and loans balance is the following:

Unaudited figures (Euros in thousands)

	30/06/2018	31/12/2017
Long term bonds and loans	**9.897.322**	**9.385.428**

The movement in long term liabilities is as follows:

Unaudited figures (Euros in thousands)

	30/06/2018	31/12/2017
Balance January 1	9.385.428	7.815.219
Prepaid Commissions amortization	9.698	8.275
Repayments	(1.778.248)	-
New loans	2.236.586	1.740.500
Foreign Exchange result	43.858	(178.566)
Balance	**9.897.322**	**9.385.428**

7. Short term loans and bonds

The loans receivable include short term credit facilities (with third parties and related companies) and the outstanding under the Company's European Commercial Paper Program. The balance at June 30, 2018 totals **EUR** *1,739,*468 **thousand** (EUR ***1,851,368*** thousand at 31 December 31, 2017).

8. Net Financial Result

The Net Financial Result is comprised as follows:

Unaudited figures (Euros in thousands)

	01/01/2018-30/06/2018	01/01/2017-30/06/2017
Interest income	426.597	240.478
Interest expense	(424.053)	(238.576)
Currency exchange result	(2)	(5)
Net Financial Result	**2.542**	**1.897**

9. Taxation

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

Unaudited figures (Euros in thousands)

	01/01/2018-30/06/2018	01/01/2017-30/06/2017
Corporate income tax 2018	493	-
Corporate income tax 2017	-	370
Total	**493**	**370**

The effective and applicable tax rates do not differ significantly from those of previous fiscal year. The applicable tax rate for the current interim financial statements is 25% (2017: 25%) and the effective tax rate is 24.5% (2017: 24.5%)

OTHER INFORMATION

Board of directors

The Company's board of directors consists of 4 directors, who served without remuneration (2017: 4).

Auditor's report

This Interim Financial Report has not been audited by the external independent auditors of the Company.

Subsequent events

No material subsequent events affecting this interim report have occurred until the date of the interim financial statements.

Average number of employees

During the period under review the Company employed on average 2 persons (2017: 2).

Amsterdam, July 24, 2018

/s/ Mr. C.D. Maroto Sobrado	/s/ Mrs. M.C. van der Sluijs-Plantz
/s/ Mr. J. Campillo Díaz	/s/ Mr. J.M. Hernández Rabbat

Telefonica Europe B.V.

RESPONSIBILITY STATEMENT FOR THE INTERIM FINANCIAL REPORT

The members of the Telefónica Europe, B.V. Board of Directors hereby declare that, to the best of their knowledge, the interim financial statements for the half-year ended June 30, 2018, are prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of Telefónica Europe, B.V., and the management report includes a fair review of the development and performance of the business and the position of Telefónica Europe, B.V. and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that Telefónica Europe, B.V. faces.

Amsterdam, July 24, 2018

/s/
Mr. C.D. Maroto Sobrado

/s/
Mrs. M.C. van der Sluijs-Plantz

/s/
Mr. J. Campillo Díaz

/s/
Mr. J.M. Hernández Rabbat