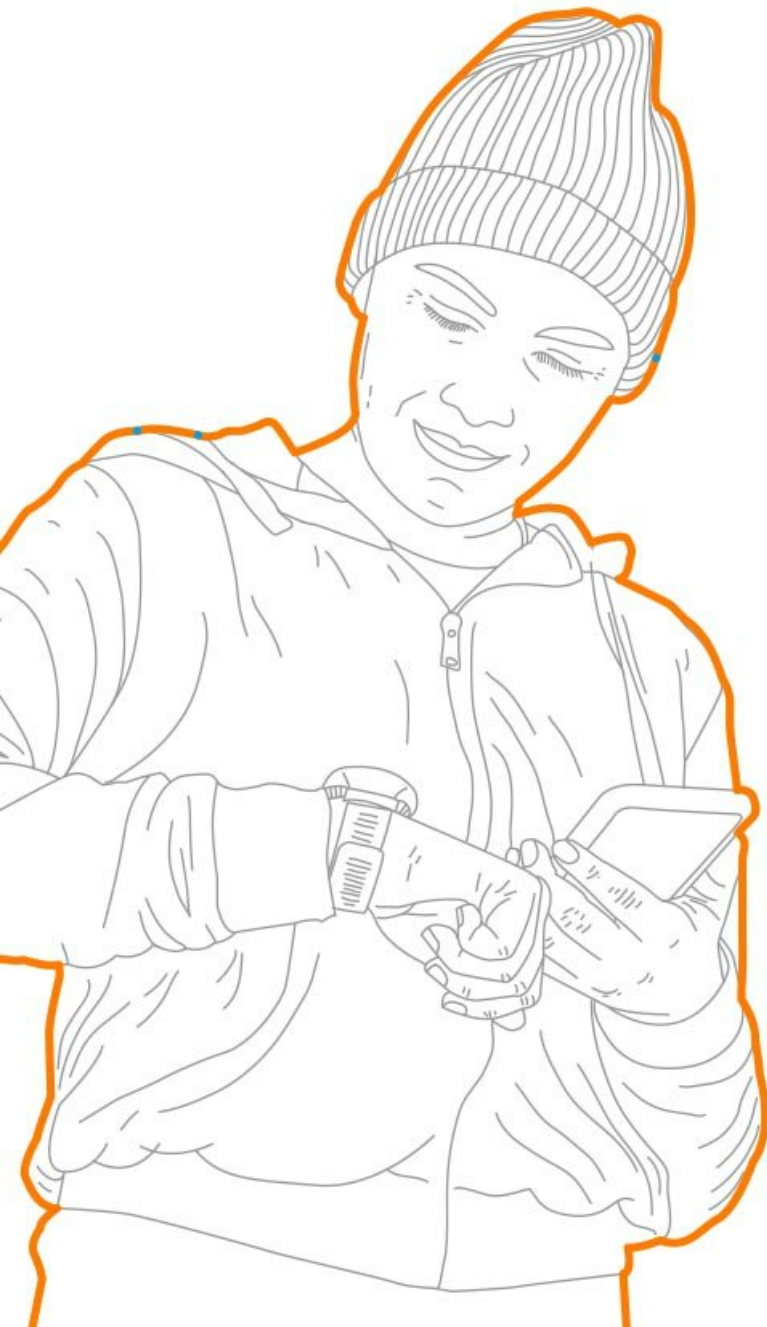

Chapter 5

Other information

- 5.1.** Liquidity and Capital Resources
- 5.2.** Treasury shares
- 5.3.** Events after close
- 5.4.** Average payment period of the Spanish companies
- 5.5.** Glossary of terms



5.1. Liquidity and Capital Resources

Financing

During 2019, Telefónica's financing activity amounted approximately to 8,299 million euros equivalents (excluding the refinancing of euro commercial paper and short term banking loans) and focused on maintaining a solid liquidity position, as well as refinancing and extending the debt maturities (in an environment of low interest rates).

The main financing transactions carried out in the bond market in 2019 are as follows:

Item	Date	Maturity Date	Nominal (millions)		Currency of issuance	Coupon
			Currency	Euros		
Telefónica Emisiones, S.A.U.						
EMTN Bond	02/05/2019	02/05/2024	1,000	1,000	EUR	1.069%
SHELF Bond	03/01/2019	03/01/2049	1,250	1,113	USD	5.520%
EMTN Bond	03/12/2019	03/12/2029	1,000	1,000	EUR	1.788%
EMTN Bond	07/01/2019	07/01/2039	500	500	EUR	1.957%
Telefónica del Perú, S.A.A.						
Bond	04/10/2019	04/10/2027	1,700	457	PEN	7.375%
Colombia Telecomunicaciones S.A E.S.P.						
Bond	05/29/2019	05/29/2024	347,590	94	COP	6.650%
Bond	05/29/2019	05/29/2029	152,410	41	COP	IPC + 3.390%

The main financing transactions carried out in the bank market in 2019 are as follows:

- On August 14, 2019, Telefónica, S.A. drew down 200 million euros of its bilateral loan signed on July 11, 2019 and maturing in 2026.
- On November 29, 2019, Telxius Telecom, S.A.U. signed and drew down 150 million euros of its bilateral loan maturing in 2021.

Availability of funds

As of December 31, 2019, Telefónica's liquidity, amounting to 22,838 million euros, includes: undrawn committed credit facilities arranged with banks for an amount of 13,679 million euros (of which 12,789 million euros maturing in more than 12 months); and cash equivalents and certain current financial assets.

Additional information on sources of liquidity and undrawn lines of credit available to the Company, on liquidity risk management, on the Company's debt levels, and on capital management is provided in Notes 17, 18 and 19 to the consolidated financial statements.

Contractual commitments

Note 23 to the consolidated financial statements provides information on firm commitments giving rise to future cash outflows and associated with purchases and services received in relation to the Company's principal activity, and any

operating leases for buildings and assets related to the Company's activity, primarily.

Credit risk management

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

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

- statistical and expert models for customer acquisition that are used to forecast and to manage the customer expected probability of default.
- decision tools allowing the implementation of tailored credit strategies by product, channel, geography and type of customer.

- continuous monitoring of the payment behavior and solvency of the customer portfolio.
- internal and external collection processes designed to increase recovery through differentiated actions by debt age and customer profile.
- ongoing controls over the credit risk exposure.

The customer credit risk management strategy is embedded in the day-to-day operational processes guiding both the product and services available for the different customer profile and the management practices all through the customer life-cycle.

Credit rating

At December 31, 2019, Telefónica, S.A.'s long-term issuer default rating is "BBB stable outlook" from Fitch, "Baa3 stable outlook" from Moody's and "BBB stable outlook" from Standard & Poor's. During 2019, there have not been changes in the long-term credit ratings by any of the three agencies. Last changes in the credit ratings took place in 2016 when Moody's downgraded the rating to "Baa3 stable" from "Baa2 negative" on November 7, 2016, Fitch downgraded the rating to "BBB stable" from "BBB+ stable" on September 5, 2016 and Standard and Poor's revised the outlook to "stable" from "positive" on May 17, 2016.

In 2019, among the measures taken to protect the credit rating, it is noteworthy an intensive financing activity, taking advantage of historical low refinancing rates to extend average debt life, together with the maintenance of an appropriate level of liquidity and an active portfolio management through the agreements reached for the sale of its Centroamerican assets (Telefónica Móviles Guatemala, Telefónica Móviles El Salvador, Telefónica de Costa Rica, Telefónica Móviles Panamá and Telefónica Cellular de Nicaragua), the agreement reached for the sale of a portfolio of 11 Data Centers and the agreements for sale of mobile telecommunications towers of Telefónica Brazil, Telefónica Ecuador and Telefónica Colombia. Finally, the company approved in November the implementation of an action plan, which will serve as a catalyst for the company's transformation. This plan consists of five strategic decisions: A focus on key markets of Spain, Brazil, the UK and Germany; the creation of Telefónica Tech; the creation of Telefónica Infra; operational spin-off of Hispanoamérica; and the redefinition of the corporate centre.

Dividend policy

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

On March 29, 2017 the Board of Directors of Telefónica, S.A. decided to define the corresponding payment periods of the dividends. Therefore, from there on, the dividend payment in the second quarter will take place in June, and the dividend payment in the fourth quarter will take place in December, in both cases on or before the third Friday of the corresponding month.

In February 2018, Telefónica announced the dividend policy for the year 2018: 0.40 euros per share in cash, in December 2018 (0.20 euros per share) and in June 2019 (0.20 euros per share). According to this, the Annual General Meeting held in 2018, approved a dividend distribution in cash charged to Unrestricted Reserves, by means of a payment of a fixed gross amount of 0.40 euros during 2018 payable in two tranches, 0.20 euros per share on June 15, 2018 and 0.20 euros per share on December 20, 2018.

In February 2019, Telefónica announced the dividend policy for the year 2019: 0.40 euros per share in cash, in December 2019 (0.20 euros per share) and in June 2020 (0.20 euros per share). According to this, the Annual General Meeting held in 2019, approved a dividend distribution in cash charged to Unrestricted Reserves, by means of a payment of a fixed gross amount of 0.40 euros during 2019 payable in two tranches, 0.20 euros per share on June 20, 2019 and 0.20 euros per share on December 19, 2019.

5.2. Treasury shares

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

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

- undertaking treasury share acquisitions approved by the Board of Directors or pursuant to General Shareholders' Meeting resolutions.
- honoring previous legitimate commitments assumed.
- covering requirements for shares to allocate to employees and management under stock option plans.
- other purposes in accordance with prevailing legislation. In the past, treasury shares purchased on the stock market were exchanged for other shares-securities (as in the case of preferred capital securities), swapped for stakes in other companies (e.g. the share exchange with KPN) acquired to reduce the number of shares in circulation (by redeeming the shares acquired), thereby boosting earnings per share.

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

For more information see Note 17.h) "Treasury share instruments" of the Consolidated Annual Accounts for the year ended 31 December 2019.

5.3. Events after the reporting period

Information concerning events after the reporting period is provided in Note 31 of the Consolidated Annual Accounts for the year ended 31 December 2019.

5.4. Average payment period of the Spanish companies

Information concerning average payment period of the Spanish companies is provided in Note 22, "*Information on average payment period to suppliers. Third additional provision, "Information requirement" of Law 15/2010 of July 5.*" of the Consolidated Annual Accounts for the year ended 31 December 2019.

5.5. Glossary of terms

Below are definitions of certain technical terms used in this Annual Report:

"**5G**", is a technology under development, succeeding the mobile technology called 4G. The aim is to make the navigation experience and Internet downloads more agile.

"**Access**" refers to a connection to any of the telecommunications services offered by Telefónica. A single fixed customer may contract for multiple services, and Telefónica believes that it is more useful to count the number of accesses a customer has contracted for, than to merely count the number of its customers. For example, a customer that has fixed line telephony service and broadband service is counted as two accesses rather than as one customer.

"**ARPU**" is total service revenues divided by average number of accesses divided by the number of months.

"**AWS**" or Amazon Web Services refers to a service platform in the Cloud offering data base storage, content delivery and other functionalities that can help your business to grow. It is also more secure than a physical server.

"**B2B**" or Business to Business is the business segment.

"**B2C**" or Business to Customer is the residential segment.

"**Bundles**" refers to a combination of products that combine fixed services (wirelines, broadband and television) and mobile services.

"**Churn**" is the percentage of disconnections over the average customer base in a given period.

"**Cloud computing**" is a service, whereby shared resources, software and information are provided to computers and other devices as a utility over a network (typically, the Internet).

"**Commercial activity**" includes the addition of new lines, replacement of handsets, migrations and disconnections.

"**Convergent**" refers to the offer of more than a single service for a single price.

"**Data ARPU**" is data revenues divided by average number of accesses divided by the number of months.

"**Data revenues**" include revenues from mobile data services such as mobile connectivity and mobile Internet, premium messaging, downloading ringtones and logos, mobile mail and SMS/MMS.

"**Data traffic**" includes all traffic from Internet access, messaging (SMS, MMS) and connectivity services over Telefónica's network.

"**Fixed telephony accesses**" includes public switched telephone network (PSTN) lines (including public use telephony), integrated services digital network (ISDN) lines and circuits, "fixed wireless" and Voice over IP accesses.

"**FTRs**" or "Fixed termination rates" is an established fixed network tariff that applies when a customer makes a call to someone in a network operated by another operator.

"**FTTH**" or "Fiber to Home" is the installation and use of optical fiber from a central point directly to individual buildings such as apartment buildings and businesses to provide high-speed Internet access.

"**FTTx**" is a generic term for any broadband network architecture that uses optical fiber to replace all or part of the metal local loop.

"**FWA**" is a fixed broad band service using Fixed Wireless technology (fixed telephony service using mobile technology).

"**Gross adds**" is the number of new accesses in a certain period.

"**HDTV**" or high definition TV has at least twice the resolution of standard definition television (SDTV), allowing it to show much more detail than an analog television or digital versatile disc (DVD).

"**Interconnection revenues**" means revenues received from other operators which use Telefónica's networks to connect to or finish their calls and SMS or to connect to their customers.

"**Internet and data accesses**" ("**Fixed broadband accesses**" or "**FBB accesses**") include broadband accesses (including retail asymmetrical digital subscriber line (ADSL), very high bit-rate digital subscriber line (VDSL), satellite, fiber optic and circuits over 2 Mbps), narrowband accesses (Internet service through the PSTN lines) and the remaining non-broadband final customer circuits. Internet and data accesses also include "Naked ADSL", which allows customers to subscribe for a broadband connection without a monthly fixed line fee.

"**IPTV**" or Internet Protocol Television refers to distribution systems for television subscription signals or video using broadband connections over the IP protocol.

"**ISDN**" or Integrated Services Digital Network is a format commonly used for transmitting information through a digital high speed connection.

"**ISP**" is Internet Service Provider.

"**Local loop**" means the physical circuit connecting the network termination point at the subscriber's premises to the main distribution frame or equivalent facility in the fixed public telephone network.

"**LTE**" or Long-Term Evolution is a 4G mobile access technology.

"**M2M**", or machine to machine, refers to technologies that allow both mobile and wired systems to communicate with other devices with the same capability.

"**Market share**" is the percentage ratio of the number of final accesses over the existing total market in an operating area.

"**Mobile accesses**" include accesses to the mobile network for voice and/or data services (including connectivity). Mobile accesses are categorized into contract and pre-pay accesses.

"**Mobile broadband**" includes Mobile Internet (Internet access from devices also used to make voice calls such as smartphones), and Mobile Connectivity (Internet access from devices that complement fixed broadband, such as PC Cards/dongles, which enable large amounts of data to be downloaded on the move).

"**MTR**" or mobile termination rate is an established mobile network tariff that applies when a customer makes a call to someone in a network operated by another operator.

"**MVNO**" or mobile virtual network operator is a mobile operator that provides mobile services through another mobile operator. An MVNO pays a determined tariff to such mobile network operator for using the infrastructure to facilitate coverage to their customers.

"**Net adds/Net loss**" is the difference between the customer base in a certain period compared to a different period.

"**OTT services**" or over the top services means services provided through the Internet (such as television and video streaming).

"**Pay TV**" includes cable TV, direct to home satellite TV (DTH) and IPTV.

"**p.p.**" means percentage points.

"**PSTN**" is Public Switched Telephone Network.

"**Revenues**" means net sales and revenues from rendering of services.

"**Service revenues**" are total revenues minus mobile handset sales. Service revenues are mainly related to telecommunication services, especially voice- and data revenues (SMS and data traffic download and upload revenues) consumed by Telefónica's customers.

"**SIM**" means subscriber identity module, a removable intelligent card used in mobile handsets, USB modems, etc. to identify the user in the network.

"**UBB**" or ultra-broad band is the fiber-to-the-premise broadband which is capable of giving a minimum downlink speed of 100 mbps and a minimum uplink speed of 50 mbps.

"**Voice traffic**" means voice minutes used by Telefónica's customers over a given period, both outbound and inbound.

"**VoIP**" means voice over Internet protocol.

"**Wholesale accesses**" means accesses Telefónica provides to other companies, who then sell services over such accesses to their residential and corporate clients.