Telefonica Europe B.V.

Interim Financial Report

June 30, 2019

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, 2019.

Result

During the period under review, the Company recorded a **profit of EUR 1,224 thousand** (January 1, 2018 - June 30, 2018: EUR 1,520 thousand), which is set out in detail in the enclosed Interim Statement of Income and Expenses.

The financial margin has decreased, from EUR 2,542 thousand on June 30, 2018 to EUR 2,258 thousand on June 30, 2019, mainly due to a lower impact of the one-off expenses associated to the repurchase and cancelation of hybrid securities.

Operational expenses have increased by EUR 111 thousand when compared to the same period of 2018, mainly due to an increase in legal and tax advisory fees.

Financing Activity

During the first half of 2019 the Company entered into the following transactions:

(i) On March 14, 2019, the Company issued **EUR 1,300,000 thousand Undated Deeply Subordinated Guaranteed Fixed Rate Reset Securities** (commonly known as hybrids) 6 years Non-Call and carrying an interest rate of 4.375%.

(ii) On March 15, 2019, the Company **repurchased and cancelled EUR 934,700 thousand across 2 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 is the following:

- 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 in 2018 EUR 145,200 thousand and amount repurchased in 2019 EUR 586,500 thousand, amount outstanding (after March 15, 2019 repurchase) EUR 118,300 thousand. This security was fully amortized on May 7, 2019, please, find further details at item (iii) below.
- 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 in 2018 EUR 158,200 thousand and amount repurchased in 2019 EUR 348,200 thousand, amount outstanding EUR 243,600 thousand.

(iii) On May 7, 2019, the Company called and cancelled in full the total outstanding amount **EUR 118,300 thousand of its Undated Deeply Subordinated Guaranteed Fixed Rate Reset Securities** issued on December 4, 2014 with an annual coupon of 4.20%.

(iv) In the short term, the Company continued with its issuing activity under the 5,000,000,000 **Euro Commercial Paper Programme** and, during the first half of 2019 placed, among several international investors, 25 ECPs for a total notional amount of EUR 1,693,000 thousand. The notional outstanding at June 30, 2019 is EUR 1,234,000 thousand (December 31, 2018: EUR 1,666,060 thousand).

Subsequent events

On July 11, 2019 the Company notified to the lender the **irrevocable voluntary prepayment of EUR 750,000 thousand** from the EUR 1,500,000 thousand Credit Facility Agreement dated November 28, 2016 entered with China Development Bank and consequently reclassified this loan to current liabilities. After this prepayment, that is expected to take place on August 16, 2019, the notional outstanding borrowed under this credit facility will be EUR 750,000 thousand.

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 lent the funds borrowed, to Telefónica, S.A. which guarantees most of the external debt subscribed by the Company. However, from time to time the Company could invest funds in other companies within the Group. In addition, the Company holds cash balances in several financial institutions.

In summary, any substantial credit or liquidity risk would be related to credit risk of Telefónica S.A. and its Group.

Interest rate and Foreign Exchange risk:

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

However, the Company may have a limited foreign exchange risk due to the financial margin earned in several currencies different from Euro (mainly GBP, JPY and USD) and 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 and conditions (tenors and type of interest, whether it may be floating or fixed interest rates). Nevertheless, if that would not be eventually possible, or the management 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 either the Company or 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, and results of operations and/or cash flows.

Funding could be more difficult and costlier 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 the Telefónica Group.

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 Telefónica's business, financial position, cash flows and results of operations and/or the performance of some or all of the Group's financial indicators.

More specifically, the main risks are detailed below, by geography:

Europe: higher financing conditions for both private and public sectors with a negative impact on disposable income in a scenario of financial stress. The trigger for that scenario could be the situation of uncertainty surrounding the sustainability of public finances in Greece, but especially in Italy.

Spain: there are three sources of uncertainty. First, the consequence of the political situation in Catalonia and its impact on the financing conditions of the Spanish economy given the demanding maturity schedule the country is still facing and its remarkable dependence on international macroeconomic scenario and market sentiment. A second source of uncertainty would stem from the economic policies to be implemented from 2019 onwards, given the high level of parliamentary fragmentation. Finally, being one of the most open countries in the world, from a commercial point of view, and almost counting among the 10 countries in the world with the most outflows and inflows of capital, any situation of protectionist backlash can have significant implications.

United Kingdom: the exit process from the European Union following the favorable vote in the June 2016 referendum, which will entail an economic adjustment regardless of the new economic and commercial relationship between the United Kingdom and the rest of Europe in the future. Investment, economic activity and employment would be the main variables affected, as well as volatility in financial markets, which could limit or condition access to capital markets. The situation could worsen depending on the eventual outcome of Brexit, which could lead to an increase in regulatory and legal conflicts in fiscal, commercial, security and employment issues. These changes can be costly and disruptive to business relationships in the affected markets, including those of Telefónica with its suppliers and customers.

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 22, 2019

/s/

Mr. C.D. Maroto Sobrado

/s/

Mrs. M.C. van der Sluijs-Plantz

/s/

Mr. J. Campillo Diaz

/s/

Mr. J.M. Hernández Rabbat

INTERIM BALANCE SHEET
AS AT 30 JUNE 2019
(before appropriation of result)

ASSETS

Unaudited figures (Euros in thousands)

	Note	30/06/2019	31/12/2018
Fixed Assets			
Tangible fixed assets	1	1	1
Financial fixed assets	2	10,437,035	10,196,795
Total Fixed Assets		10,437,036	10,196,796
Current Assets			
Loans receivable	3	1,250,179	1,667,044
Interest receivable		166,093	192,063
Other current assets		1,754	225
Cash at bank	4	6,305	6,168
Total Current Assets		1,424,331	1,865,500
TOTAL ASSETS		**11,861,367**	**12,062,296**

SHAREHOLDER'S EQUITY AND LIABILITIES

	Note	30/06/2019	31/12/2018
Shareholder's Equity	5		
Issued share capital		46	46
Retained earnings		7,490	4,700
Result for the period		1,224	2,790
Total Shareholder´s Equity		8,760	7,536
Long Term Liabilities			
Bonds and loans	6	10,437,054	10,196,703
Current Liabilities			
Short term loans and bonds	7	1,250,179	1,667,044
Interest payable		164,591	190,444
Taxes payable		145	384
Other debts and accrued liabilities		638	185
Total Current Liabilities		1,415,553	1,858,057
TOTAL EQUITY & LIABILITIES		**11,861,367**	**12,062,296**

INTERIM STATEMENT OF INCOME AND EXPENSES
FOR THE PERIOD ENDED 30 JUNE 2019

		Unaudited figures (Euros in thousands)	
	Note	**30/06/2019**	**30/06/18**
Financial Income and Expenses			
Interest Income		263,022	426,597
Interest Expense		(260,764)	(424,053)
Currency Exchange result		(0)	(2)
Net financial result	8	**2,258**	**2,542**
Operational Income and Expenses			
Personnel expenses		(80)	(85)
Administrative expenses		(560)	(444)
Result from ordinary activities before taxation		**1,618**	**2,013**
Taxation	9	(394)	(493)
Result after taxation		**1,224**	**1,520**

NOTES TO THE INTERIM FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2019

General Information and Principal Activities

Telefonica Europe B.V. ("the Company"), having its statutory seat and registered office in Amsterdam, The Netherlands, and registered with the Dutch Chamber of Commerce under number 24263798 is engaged in holding and financing activities for related companies. The offices of the Company are 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, 2019 and December 31, 2018, 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.

At June 30, 2019 and December 31, 2018, the Company does not own, directly or indirectly, any capital stock or other equity interests in any subsidiary.

Basis of Presentation

The interim financial information should be read in conjunction with the Annual Report for the year ended December 31, 2018. The Annual Report and the Interim Financial Report are drawn up in accordance with the provisions of Title 9, Book 2 of the Dutch Civil Code and the firm pronouncements in the Dutch Accounting Standards, as published by the Dutch Accounting Standards Board ('Raad voor de Jaarverslaggeving').

The functional 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 Irish Stock Exchange. The Company has not issued any notes under this programme since 2003. The proceeds of the notes issued are lent o to the parent company or to other related companies within the group of the parent company (Telefónica, S.A.).

As at June 30, 2019, the EMTN Debt Issuance Programme includes:

Euro Notes due 2033	EUR	500,000,000

Global bonds

On September 21, 2000, Telefonica Europe B.V. issued notes 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, 2019 there is only one outstanding note under the programme (USD 1,250 million maturing on 2030).

Euro Commercial Paper Programme (ECP 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, 2019 is EUR 1,234 million and is composed by ECPs issued in Euros. In the balance sheet the outstanding ECP issues are stated at their discounted notional amounts and were accounted for EUR 1,235 million at half year end.

JPY Dual Currency Loan

The Company borrowed JPY 15,000 million in three loans from a Japanese investor with a 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. On March 22, 2018, the Company issued two additional tranches of perpetual hybrid securities of EUR 1,250,000 thousand and EUR 1,000,000 thousand. The last issuance of hybrid securities took place on March 14, 2019, when the Company issued a new tranche of perpetual hybrid securities for EUR 1,300,000 thousand.

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 of perpetual hybrid securities. On September 18, 2018, coinciding with the first call date, the Company cancelled EUR 473,300 thousand of the EUR 1,125,000 thousand issued on September 18, 2013 and with a first call date on September

18, 2018 carrying an annual coupon of 6.50% (ISIN: XS0972570351). After this cancelation no amount is due from this hybrid securities, since the Company had already repurchased and cancelled EUR 651,700 thousand in a partial repurchase executed on March 23, 2018.

On March 15, 2019 the company repurchased and cancelled EUR 934,700 thousand of perpetual hybrid securities. The notional amounts repurchased (and cancelled) and premium paid for each of the tranches are the following:

Expressed in Thousands

ISIN	Description	Repurchase Notional amount	Premium	Total amount paid*
XS1148359356	EUR 850,000,000 4,2% perpetual (non-call 5 years) Hybrid Securities	EUR 586,500	EUR 17,818	EUR 604,318
XS1050460739	EUR 750,000,000 5% perpetual (non-call 6 years) Hybrid Securities	EUR 348,200	EUR 17,142	EUR 365,342
Total Euro denominated Hybrid securities		**EUR 934,700**	**EUR 34,960**	**EUR 969,660**

*Excluding accrued coupons.

On May 7, 2019, the Company called (following a special purchase event) and cancelled EUR 118,300 thousand of the EUR 850,000 thousand perpetual hybrid securities issued on December 4, 2014 that were originally issued with a first call date on December 4, 2019 and carried an annual coupon of 4.2% (ISIN: XS1148359356). After this cancelation no amount is due from this hybrid securities, since the Company had already repurchased and cancelled EUR 145,200 thousand in a partial repurchase executed last year (on March 23, 2018) and EUR 586,500 thousand in another partial repurchase executed this year (on March 15, 2019).

The perpetual hybrid securities outstanding at June 30, 2019, amounting to a total notional outstanding equivalent to EUR 7,282,667 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 Irish Stock Exchange.

The main terms of the tranches issued and currently outstanding are the following:

i. 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, 2019 is EUR 292,700 thousand;

ii. 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, 2019 is GBP 171,500 thousand;

iii. 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, 2019 is EUR 243,600 thousand;

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

v. 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);

vi. 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);

vii. 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);

viii. 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) and

ix. EUR 1,300,000 thousand issued on March 14, 2019 and with a first call on March 14, 2025 with an annual coupon of 4.375% (ISIN: XS1933828433).

The annual coupon included for all the securities is until the first call date. After that, they will be reset depending on the swap rates as disclosed in each security listed documentation.

EUR 1,500 million Facility Agreement

A new facility agreement of EUR 1,500,000 thousand 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 (as from February 15, 2020 until August 16, 2024) contemplates semi-annual principal repayment instalments coinciding with the interest payment dates. The proceeds of the facility agreement are on lent to the parent company for the ultimate purpose of financing the Group's procurement of telecommunications equipment and related services.

The first drawdown, of EUR 750,000 thousand, took place on January 24, 2017. The second, and last drawdown, of EUR 750,000 thousand, took place on July 18, 2018. After this second disposal the facility (which is not revolving) was fully drawn.

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

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

Foreign currencies

Assets and liabilities denominated in foreign currencies are translated into the presentation currency at exchange rates prevailing at the Balance Sheet date. Any resulting exchange differences are recorded in the Statement of Income and Expenses.

Revenues and expenses in the year under review, which are denominated in foreign currencies, are translated into the reporting currency at exchange rates in effect on the transaction date.

Accounting policies in respect of the Balance Sheet

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

At its initial recognition in the Balance Sheet, long term receivables from related companies are measured at its fair value, which is the transaction price plus the transaction costs that are directly attributable to the issue of the financial asset.

Subsequently, long term receivables from related companies are carried at amortized 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 loans are derecognized or impaired, as well as through the amortization process.

Transactions with related parties

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.

Currently the Company doesn't have any subsidiary. All legal entities that can be controlled, jointly controlled or significantly influenced would be 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

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, or indications that a debtor or issuer will enter bankruptcy.

The Company considers evidence of impairment for receivables at both a specific and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired, together with receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against receivables. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Current loans receivables and other payables

As from its initial recognition current loans receivables and payables are carried at amortized cost using the effective interest rate method, except where otherwise stated in these notes.

Interest receivables and interest payables

The Company accrues interest income and expenses in the balance sheet current assets or current liabilities, as it is applicable, when such interests are receivable/due according to the terms and conditions of the instruments subscribed. Following an interest payment, the accrual of interest is derecognized (in the same amount) in balance sheet.

Cash at banks

Cash at banks represent cash in 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 is carried at nominal value.

Bonds and loans

At its initially recognition in the Balance Sheet, bonds and loans are measured at its fair value, which is the price of the transaction minus the transaction costs that are directly attributable to the issue of the financial liability.

Subsequently, bonds and loans are carried at amortized cost using the effective interest rate method, except where otherwise stated in these notes. Gains and losses are recognized in the Statement of Income and Expense when the liabilities are derecognized as well as through the amortization process.

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 income and expenses

Interest income and expense are recognized in profit or loss using the effective interest rate method. The effective interest rate includes 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.

Costs and revenues are recognized 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 recognized under the correspondent caption of financial assets or financial liabilities.

Operational Income and expense 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.

The Company has entered into an Advance Pricing Agreement with the Tax Authorities. This Agreement, that expires on December 31, 2019, establishes that the Company will pay taxes according to a minimum applicable margin applied to the funds borrowed to Telefónica, S.A. or any other affiliate of Telefónica, S.A.

Accounting policies in respect of 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 are set out in detail below:

i. Liquidity and credit risk

Liquidity and credit risk management is implemented according to the Telefonica Group policies. As of June 30, 2019 the Company has invested the funds borrowed, in Telefónica, S.A. which guarantees most of the external debt subscribed by the Company. However, from time to time the Company could also 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. and its Group.

As of 30 June, 2019 Telefónica, S.A. and Telefónica Europe, B.V. have been granted the same company credit ratings. These ratings are the following:

- Moody's Investors Services: Baa3 for the long term rating and P-3 for the short term rating. Outlook stable and last review November 7, 2016.
- Fitch Ratings: BBB for the long term rating and F-3 for the short term rating. Outlook stable and last review September 5, 2016.
- Standard and Poor's: BBB for the long term rating and A-2 for the short term rating. Outlook stable and last review May 26, 2016.

ii. Interest rate and Foreign Exchange risk

Currently, the Company lends money to Telefónica S.A. although, from time to time, the Company may also lend money to other companies within the Telefonica Group. At present, all loans granted 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 have a limited impact on its financial result.

However, the Company may have a limited foreign exchange risk due to the financial margin earned in several currencies different from Euro (mainly US Dollar and British Pound) and also due to some cash positions held in foreign currencies (US Dollar and British Pound).

Currently, the Company's policy is to hedge any interest rate exposure coming from funding raised by investing on similar terms and conditions (tenors and type of interest, whether it may be floating or fixed interest rates). Nevertheless, if that would not eventually be possible, or the management 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 may decide not to hedge it.

1. Tangible Fixed Assets

The tangible fixed assets are comprised as follows:

Unaudited figures (Euros in thousands)

	30/06/2019	31/12/2018
Tangible fixed assets	1	1

The movement in the tangible fixed assets is as follows:

Unaudited figures (Euros in thousands)

	30/06/2019	31/12/2018
Carrying value		
Balance January 1	94	93
Additions	-	1
Balance	**94**	**94**
Accumulated depreciation		
Balance January 1	(93)	(91)
Change for the period	-	(2)
Balance	**(93)**	**(93)**
Net book value	**1**	**1**

2. Financial fixed assets

Unaudited figures (Euros in thousands)

	30/06/2019	31/12/2018
Long term receivables from related companies	10,437,035	10,196,795
Financial Fixed assets	**10,437,035**	**10,196,795**

The movement in the financial fixed assets is as follows:

Unaudited figures (Euros in thousands)

	30/06/2019	31/12/2018
Balance January 1	10,196,795	9,385,213
Deferred Commissions amortization	4,580	13,190
Repayments	(1,053,000)	(2,251,548)
New Loans	1,292,450	2,986,626
Foreign Exchange result	10,940	63,314
Reclassification to short term	(15,000)	-
Balance	**10,437,035**	**10,196,795**

The fair value for the long term receivables from the related companies are not substantially different to the fair value of the long term bonds and loans (disclosed at in note 6), since the terms and conditions of these long term receivables are almost equal to the terms and conditions of the bonds and loans issued.

The calculation of the fair value for the long term receivables from the related companies has been calculated by applying level 2 (of the hierarchy disclosed in note 6) after discounting the cash flows of the loans using an estimated credit spread curve for each applicable currency.

3. Loans receivable

The loans receivable comprises short-term loans due by the shareholder (granted by means of loan agreement dated May 10, 2012) and other related companies (if any) and amounted **EUR 1,250,179 thousand** on June 30, 2019 (EUR 1,667,044 thousand on December 31, 2018).

Unaudited figures (Euros in thousands)

	30/06/2019	31/12/2018
Short Term Loans to Telefónica, S.A.	1,250,179	1,667,044
Total loans receivable	**1,250,179**	**1,667,044**

The fair value of the short term loans to Telefónica does not substantially differ from the book value. Given the short term nature, the impact of the discount is not significant.

4. Cash at bank

The cash at bank is freely disposable. The balances on June 30, 2019 and December 31, 2018 are comprised as follows:

Unaudited figures (Euros in thousands)

	30/06/2019	31/12/2018
Current bank account balances	**6,305**	**6,168**

5. Shareholder's equity

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

Unaudited figures (Euros in thousands)

	Issued share capital	Retained earnings	Result for the period	Total Shareholder's Equity
Balance as at January 1, 2018	46	4,700	2,322	7,068
Allocation of result	-	2,322	(2,322)	-
Result for the period	-	-	2,790	2,790
Dividend payment	-	(2,322)	-	(2,322)
Balance as at December 31, 2018	**46**	**4,700**	**2,790**	**7,536**
Balance as at January 1, 2019	46	4,700	2,790	7,536
Allocation of result	-	2,790	(2,790)	-
Result for the period	-	-	1,224	1,224
Dividend payment	-	-	-	-
Balance as at June 30, 2019	**46**	**7,490**	**1,224**	**8,760**

6. Bonds and loans

The long term bonds and loans balance is the following:

Unaudited figures (Euros in thousands)

	30/06/2019	31/12/2018
Long term bonds and loans	**10,437,054**	**10,196,703**

The movement in long term liabilities is as follows:

Unaudited figures (Euros in thousands)

	30/06/2019	31/12/2018
Balance January 1	10,196,703	9,385,428
Prepaid Commissions amortization	4,889	12,827
Repayments	(1,053,000)	(2,251,548)
New loans	1,292,520	2,986,681
Foreign Exchange result	10,942	63,315
Reclassification to short term	(15,000)	-
Balance	**10,437,054**	**10,196,703**

The fair value of the long term loans and bonds subscribed by the Company at June 30, 2019 totals **EUR 11,660,641 thousand** (EUR 10,626,074 thousand at December 31, 2018)

The Company calculates the fair value of the long term loans and bonds using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

- Level 1: Inputs that are quoted market prices (unadjusted) in active markets for either: (i) the instruments issued by the Company or (ii) identical instruments to those issued by the company.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using:

quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

- Level 3: Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments but for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The Company has calculated the fair value for the bonds issued by applying level 1 of the above hierarchy. The bonds fair value has been calculated using the half-year market price published at the stock exchange where the bonds admitted for trading.

The fair value of the Loans subscribed by the Company has been calculated by applying level 2 of the above hierarchy, after discounting the cash flows of the Loans using an estimated credit spread curve for each applicable currency.

7. Short term loans and bonds

As at June 30, 2019, the loans and bonds payable comprises the amount due under the Company's EUR 5,000,000 thousand Euro Commercial Paper Program and the first repayment quote of the CDB Facility. The balance on June 30, 2019 totals **EUR 1,250,179 thousand** (EUR 1,667,044 thousand at December 31, 2018).

Unaudited figures (Euros in thousands)

	30/06/2019	31/12/2018
EUR 5,000,000,000 ST European Commercial Paper Programme	1,235,179	1,667,044
EUR Facility, EUR 1,500,000,000, 3 moths Euribor + 0.70%	15,000	-
Balance	**1,250,179**	**1,667,044**

The fair value of the short term bonds and loans does not substantially defer from the book value. Given the short term nature of the loans and bonds, the impact of discount is not relevant.

8. Net Financial Result

The Net Financial Result is comprised as follows:

Unaudited figures (Euros in thousands)

	30/06/2019	30/06/2018
Interest income	263,022	426,597
Interest expense	(260,764)	(424,053)
Currency exchange result	-	(2)
Net Financial Result	**2,258**	**2,542**

Interest income fully derives from related companies as all loans receivable have been granted to related companies. During both years it also includes a one-off impact to P&L for the repurchase and cancellation of hybrid securities that took place on March 15, 2019 and March 23, 2018.

9. Administrative expenses

At June 30, 2019 the administrative expenses total EUR 640 thousand (EUR 529 thousand at June 30, 2018). The increase in administrative expenses at June 30, 2019 (when compared to the same period of the prior year) is mainly due to the increase in legal and tax advisory fees.

Unaudited figures (Euros in thousands)

	30/06/2019	30/06/2018
Administrative expenses	(640)	(529)
Total	**(640)**	**(529)**

10. Taxation

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

Unaudited figures (Euros in thousands)

	30/06/2019	30/06/2018
Corporate income tax 2019	394	-
Corporate income tax 2018	-	493
Total	**394**	**493**

The Company is subject to Dutch taxation and tax calculations are made in accordance with an Advance Pricing Agreement signed with the Dutch Tax Authorities, which entered into effect on January 1, 2005, as amended in February 2006, in October 2010 and in September 2015.

The main features of this agreement are the establishment of a minimum financial margin for the transactions registered between Telefónica, S.A. and the Company as well as a capped yearly amount of operational expenses.

OTHER INFORMATION

Board of directors

The Company's board of directors consists of 4 directors (2018: 4), who received a total remuneration of EUR 10 thousand.

Auditor's report

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

Subsequent events

On July 11, 2019 the Company notified the lender that it would proceed with the **irrevocable voluntary**

prepayment of EUR 750,000 thousand on the EUR 1,500,000 thousand Credit Facility Agreement dated November 28, 2016 entered with China Development Bank and consequently reclassified this loan to current liabilities. After this prepayment, that is expected to take place on August 16, 2019, the notional outstanding amount borrowed under this credit facility will be EUR 750,000 thousand.

Average number of employees

During the period under review the Company employed on average 3 persons, one of them working part-time, (2018: 2).

Amsterdam, July 22, 2019

/s/

Mr. C.D. Maroto Sobrado

/s/

Mrs. M.C. van der Sluijs-Plantz

/s/

Mr. J. Campillo Diaz

/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, 2019, 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 22, 2019

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