TELEFONICA S A
Form 6-K
February 21, 2019

FORM 6-K
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Report of Foreign Private Issuer

Pursuant to Rule 13a-16 or 15d-16
of the Securities Exchange Act of 1934

For the month of February, 2019

Commission File Number: 001-09531

Telefónica, S.A.
(Translation of registrant's name into English)

Distrito Telefónica, Ronda de la Comunicación s/n,
28050 Madrid, Spain
3491-482 87 00
(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F:

Form 20-F X Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Yes No X

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

Yes No X

Indicate by check mark whether by furnishing the information contained in this Form, the registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934:

Yes No X

If “Yes” is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): N/A

Telefónica, S.A.

TABLE OF CONTENTS

Index

Financial Statements

Telefónica, S.A.
Balance sheet at December 31
Millions of euros

ASSETS	Notes	2018	2017
NON-CURRENT ASSETS		75,034	76,400
Intangible assets	5	20	17
Software		8	8
Other intangible assets		12	9
Property, plant and equipment	6	177	210
Land and buildings		123	126
Plant and other PP&E items		48	48
Property, plant and equipment under construction and prepayments		6	36
Investment property	7	404	389
Land		100	94
Buildings		304	295
Non-current investments in Group companies and associates	8	68,040	69,166
Equity instruments		66,530	67,025
Loans to Group companies and associates		1,503	2,141
Other financial assets		7	—
Financial investments	9	3,415	3,761
Equity instruments		298	340
Derivatives	16	2,421	2,509
Other financial assets	9	696	912
Deferred tax assets	17	2,978	2,857
CURRENT ASSETS		10,810	8,465
Net assets held for sale	8	69	—
Trade and other receivables	10	388	575
Current investments in Group companies and associates	8	4,510	3,460
Loans to Group companies and associates		4,473	3,426
Derivatives	16	8	10
Other financial assets		29	24
Investments	9	1,821	1,557
Loans to companies		972	759
Derivatives	16	842	793
Other financial assets		7	5
Accruals		11	5
Cash and cash equivalents		4,011	2,868
TOTAL ASSETS		85,844	84,865

The accompanying Notes 1 to 23 and Appendices I and II are an integral part of these balance sheets

Financial Statements

Millions of euros			
EQUITY AND LIABILITIES	Notes	2018	2017
EQUITY		20,949	19,865
CAPITAL AND RESERVES		21,497	20,520
Share capital	11	5,192	5,192
Share premium	11	4,538	4,538
Reserves	11	9,439	10,924
Legal & Statutory		1,111	1,066
Other reserves		8,328	9,858
Treasury shares and own equity instruments	11	(686)	(688)
Profit for the year	3	3,014	554
UNREALIZED GAINS (LOSSES) RESERVE	11	(548)	(655)
Available-for-sale financial assets		(49)	42
Hedging instruments		(499)	(697)
NON-CURRENT LIABILITIES		46,371	48,874
Non-current provisions	18	494	459
Non-current borrowings	12	4,408	7,314
Bank borrowings	14	2,033	4,186
Derivatives	16	2,207	2,796
Other debts		168	332
Non-current borrowings from Group companies and associates	15	41,154	40,642
Deferred tax liabilities	17	291	427
Long term deferred revenues		24	32
CURRENT LIABILITIES		18,524	16,126
Current provisions	18	93	123
Current borrowings	12	2,483	1,352
Bonds and other marketable debt securities	13	181	204
Bank borrowings	14	2,094	896
Derivatives	16	208	252
Current borrowings from Group companies and associates	15	15,578	14,101
Trade and other payables	18	362	539
Accruals		8	11
TOTAL EQUITY AND LIABILITIES		85,844	84,865

The accompanying Notes 1 to 23 and Appendices I and II are an integral part of these balance sheets

Financial Statements

Telefónica, S.A.
Income statements for the years ended December 31

Millions of euros	Notes	2018	2017
Revenue	19	4,921	3,715
Rendering of services to Group companies and associates		517	558
Rendering of services to non-group companies		21	35
Dividends from Group companies and associates		4,259	3,027
Interest income on loans to Group companies and associates		124	95
Impairment and gains (losses) on disposal of financial instruments	8	(412)	(1,130)
Impairment losses and other losses		(587)	(1,443)
Gains (losses) on disposal and other gains and losses		175	313
Other operating income	19	68	42
Non-core and other current operating revenue - Group companies and associates		46	26
Non-core and other current operating revenue - non-group companies		22	16
Employees benefits expense	19	(143)	(174)
Wages, salaries and others		(118)	(149)
Social security costs		(25)	(25)
Other operational expense		(316)	(412)
External services - Group companies and associates	19	(102)	(113)
External services - non-group companies	19	(198)	(287)
Taxes other than income tax		(16)	(12)
Depreciation and amortization	5, 6 and 7	(32)	(36)
Gains (losses) on disposal of fixed assets		—	2
OPERATING PROFIT		4,086	2,007
Finance revenue	19	359	411
Finance costs	19	(2,230)	(2,299)
Change in fair value of financial instruments		—	(30)
Gain (loss) on available-for-sale financial assets recognized in the period	9 and 11	—	(30)
Exchange rate gains (losses)	19	49	185
NET FINANCIAL EXPENSE		(1,822)	(1,733)
PROFIT BEFORE TAX	21	2,264	274
Income tax	17	750	280
PROFIT FOR THE YEAR		3,014	554

The accompanying Notes 1 to 23 and Appendices I and II are an integral part of these income statements

Financial Statements

Telefónica, S.A.
Statements of changes in equity for the years ended December 31
A) Statement of recognized income and expense

Millions of euros	Notes	2018	2017
Profit of the period		3,014	554
Total income and expense recognized directly in equity	11	652	(139)
From valuation of available-for-sale financial assets		(91)	2
From cash flow hedges		991	(191)
Income tax impact		(248)	50
Total amounts transferred to income statement	11	(545)	150
From valuation of available-for-sale financial assets		—	30
From cash flow hedges		(727)	161
Income tax impact		182	(41)
TOTAL RECOGNIZED INCOME AND EXPENSE		3,121	565

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

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

Millions of euros	Share capital	Share premium and Reserves	Treasury shares	Profit for the year	Other net equity instruments	Net unrealized gains (losses) reserve	Total
Balance at December 31, 2016	5,038	16,155	(1,480)	24	1,206	(666)	20,277
Total recognized income and expense	—	—	—	554	—	11	565
Transactions with shareholders and owners	—	(2,019)	792	—	—	—	(1,227)
Dividends paid (Note 11)	—	(2,019)	—	—	—	—	(2,019)
Other transactions with shareholders and owners	—	—	792	—	—	—	792
Other movements	154	1,302	—	—	(1,206)	—	250
Appropriation of prior year profit (loss)	—	24	—	(24)	—	—	—
Balance at December 31, 2017	5,192	15,462	(688)	554	—	(655)	19,865
Total recognized income and expense	—	—	—	3,014	—	107	3,121
Transactions with shareholders and owners	—	(2,039)	2	—	—	—	(2,037)
Dividends paid (Note 11)	—	(2,051)	—	—	—	—	(2,051)
Other transactions with shareholders and owners	—	12	2	—	—	—	14
	—	554	—	(554)	—	—	—

Appropriation of prior year profit (loss)							
Balance at December 31, 2018	5,192	13,977	(686)	3,014	—	(548)	20,949

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

Financial Statements

Telefónica, S.A.

Cash flow statements for the years ended December 31

Millions of euros	Notes	2018	2017
A) CASH FLOWS FROM OPERATING ACTIVITIES		2,364	1,424
Profit before tax		2,264	274
Adjustments to profit:		(2,117)	(153)
Depreciation and amortization	5,6 and 7	32	36
Impairment of investments in Group companies and associates	8	587	1,443
Change in long term provisions		—	73
Gains on the sale of financial assets		(175)	(313)
Losses on disposal of property, plant and equipment		—	(3)
Dividends from Group companies and associates	19	(4,259)	(3,027)
Interest income on loans to Group companies and associates	19	(124)	(95)
Net financial expense		1,822	1,733
Change in working capital		(272)	(71)
Trade and other receivables		51	(15)
Other current assets		(134)	(76)
Trade and other payables		(189)	20
Other cash flows from operating activities	21	2,489	1,374
Net interest paid		(1,618)	(1,505)
Dividends received and other		3,518	2,931
Income tax receipts		589	(52)
B) CASH FLOWS (USED IN)/FROM INVESTING ACTIVITIES	21	(64)	(2,829)
Payments on investments		(2,139)	(6,441)
Proceeds from disposals		2,075	3,612
C) CASH FLOWS USED IN FINANCING ACTIVITIES		(1,130)	3,426
Proceeds from financial liabilities	21	918	5,330
Debt issues		9,983	14,687
Repayment and redemption of debt		(9,065)	(9,357)
Dividends paid	21	(2,048)	(1,904)
D) NET FOREIGN EXCHANGE DIFFERENCE		(27)	36
E) NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		1,143	2,057
Cash and cash equivalents at January 1		2,868	811
Cash and cash equivalents at December 31		4,011	2,868

Notes 1 to 23 and Appendices I and II are an integral part of these cash flow statements.

TELEFÓNICA, S.A.

Annual financial statements for the ended December 31, 2018

Note 1. Introduction and general information

Telefónica, S.A. ("Telefónica" or "the Company") is a public limited company incorporated for an indefinite period on April 19, 1924, under the corporate name of Compañía Telefónica Nacional de España, S.A. It adopted its present name in April 1998.

The Company's registered office is at Gran Vía 28, Madrid (Spain) and its Employer Identification Number (CIF) is A-28/015865.

Telefónica's basic corporate purpose, pursuant to Article 4 of its Bylaws, is the provision of all manner of public or private telecommunications services, including ancillary or complementary telecommunications services or related services. All the business activities that constitute this stated corporate purpose may be performed either in Spain or abroad and wholly or partially by the Company, either through shareholdings or equity interests in other companies or legal entities with an identical or a similar corporate purpose.

In keeping with the above, Telefónica is currently the parent company of a group that offers both fix and mobile telecommunications with the aim to turn the challenges of the new digital business into reality and being one of the most important players. The objective of the Telefónica Group is positioning as a Company with an active role in the digital business taking advantage of the opportunities of its size and industrial and strategic alliances.

The Company is taxed under the general tax regime established by the Spanish State, the Spanish Autonomous Communities and local governments, and files consolidated tax returns with most of the Spanish subsidiaries of its Group under the consolidated tax regime applicable to corporate groups.

Note 2. Basis of presentation

a) True and fair view

These financial statements have been prepared from Telefónica, S.A.'s accounting records by the Company's Directors in accordance with the accounting principles and standards contained in the Spanish GAAP in force approved by Royal Decree 1514/2007, on November 16 (PGC 2007), modified by Royal Decree 602/2016, dated December 2, 2016 and other prevailing legislation at the date of these financial statements, to give a true and fair view of the Company's equity, financial position, results of operations and of the cash flows obtained and applied in 2018.

The accompanying financial statements for the year ended December 31, 2018 were prepared by the Company's Board of Directors at its meeting on February 20, 2019 for submission for approval at the General Shareholders' Meeting, which is expected to occur without modification.

The figures in these financial statements are expressed in millions of euros, unless indicated otherwise, and therefore may be rounded. The euro is the Company's functional currency.

b) Comparison of information

In 2018 and 2017 there have not been significant transactions that should be taken into account in order to ensure the comparison of information included in the Annual Financial Statements of both years.

c) Materiality

These financial statements do not include any information or disclosures that, not requiring presentation due to their qualitative significance, have been determined as immaterial or of no relevance pursuant to the concepts of materiality or relevance defined in the PGC 2007 conceptual framework.

d) Use of estimates

The financial statements have been prepared using estimates based on historical experience and other factors considered reasonable under the circumstances. The carrying value of assets and liabilities, which is not readily apparent from other sources, was established on the basis of these estimates. The Company periodically reviews these estimates.

A significant change in the facts and circumstances on which these estimates are based could have an impact on the Company's results and financial position.

Key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the financial statements of the following year are discussed below.

Provisions for impairment of investments in Group companies and associates

Investments in group companies, joint ventures and associates are tested for impairment at each year end to determine whether an impairment loss must be recognized in the income statement or a previously recognized impairment loss be reversed. The decision to recognize an impairment loss (or a reversal) involves estimates of the reasons for the potential impairment (or recovery), as well as the timing and amount. In Note 8.2 it is assessed the impairment of these investments.

There is a significant element of judgment involved in the estimates required to determine recoverable amount and the assumptions regarding the performance of these investments, since the timing and scope of future changes in the business are difficult to predict.

Deferred taxes

The Company assesses the recoverability of deferred tax assets based on estimates of future earnings, and of all the options available to achieve an outcome, it considers the most efficient one in terms of tax within the legal framework the Company is subject to. The ability to recover these taxes depends ultimately on the Company's ability to generate taxable earnings over the period for which the deferred tax assets remain deductible. This analysis is based on the estimated schedule for reversing deferred tax liabilities, as well as estimates of taxable earnings, which are sourced from internal projections and are continuously updated to reflect the latest trends.

The appropriate valuation of tax assets and liabilities depends on a series of factors, including estimates as to the timing and realization of deferred tax assets and the projected tax payment schedule. Actual income tax receipts and payments could differ from the estimates made by the Company as a result of changes in tax legislation, the outcome of ongoing tax proceedings or unforeseen future transactions that could affect tax balances. The information about deferred tax assets and unused tax credits for loss carryforwards, whose effect has been registered when necessary in balance, is included in Note 17.

Note 3. Proposed appropriation of profit

Telefónica, S.A. obtained 3,014 million euros of profit in 2018.

Accordingly, the Company's Board of Directors will submit the following proposed appropriation of 2018 profit for approval at the Shareholders' Meeting:

Millions of euros	
Proposed appropriation:	
Profit for the year	3,014
Distribution to:	
Legal reserve	
Unrestricted reserves	3,014

Note 4. Recognition and measurement accounting policies

As stated in Note 2, the Company's financial statements have been prepared in accordance with the accounting principles and standards contained in the Código de Comercio, which are further developed in the Plan General de Contabilidad currently in force (PGC 2007), as well as any commercial regulation in force at the reporting date.

Accordingly, only the most significant accounting policies used in preparing the accompanying financial statements are set out below, in light of the nature of the Company's activities as a holding.

a) Intangible assets

Intangible assets are stated at acquisition or production cost, less any accumulated amortization or any accumulated impairment losses.

Intangible assets are amortized on a straight-line basis over their useful lives. The most significant items included in this caption are computer software licenses, which are generally amortized on a straight-line basis over three years.

b) Property, plant and equipment and investment property

Property, plant and equipment is stated at cost, net of accumulated depreciation and any accumulated impairment in value.

The Company depreciates its property, plant and equipment once the assets are in full working conditions using the straight-line method based on the assets' estimated useful lives, calculated in accordance with technical studies which are revised periodically based on technological advances and the rate of dismantling, as follows:

Estimated useful life	Years
Buildings	40
Plant and machinery	3 - 25
Other plant or equipment, furniture and office equipment	10
Other items of property, plant and equipment	4 - 10

Investment property is measured and depreciated using the same criteria described for land and buildings for own use.

c) Impairment of non-current assets

Non-current assets are assessed at each reporting date for indicators of impairment. Where such indicators exist, or in the case of assets which are subject to an annual impairment test, the Company estimates the asset's recoverable amount as the higher of its fair value less costs to sell and its value in use. In assessing value in use, the estimated future post-tax cash flows deriving from the use of the asset or its cash generating unit, as applicable, are discounted to their present value, using a post-tax discount rate reflecting current market assessments of the time value of money and the risks specific to the asset, whenever the result obtained is the same that would be obtained by discounting pre-tax cash flows at a pre-tax discount rate.

Telefónica bases the calculation of impairment on the business plans of the various companies approved by the Board of Directors' of Telefónica, S.A. to which the assets are allocated. The projected cash flows, based on strategic business plans, cover a period of five years not including the present year when the analysis is calculated. Starting with the sixth year, an expected constant growth rate is applied.

d) Financial assets and liabilities

Financial investments

All regular way purchases and sales of financial assets are recognized on the trade date, i.e. the date that the Company commits to purchase or sell the asset.

"Investments in group companies, joint ventures and associates" are classified into a category of the same name and are shown at cost less any impairment loss (see Note 4.c). Group companies are those over which the Company exercises control, either by exercising effective control or by virtue of agreements with the other shareholders. Joint ventures are companies which are jointly controlled with third parties. Associates are companies in which there is significant influence, but not control or joint control with third parties. Telefónica assesses the existence of significant influence not only in terms of percentage ownership but also in qualitative terms such as presence on the board of directors, involvement in decision-making, the exchange of management personnel, and access to technical information.

Financial investments which the Company intends to hold for an unspecified period of time and could be sold at any time to meet specific liquidity requirements or in response to interest rate movements and which have not been included in the other categories of financial assets defined in the PGC 2007 are classified as available-for-sale. These investments are recorded under "Non-current assets," unless it is probable and feasible that they will be sold within 12 months.

Derivative financial instruments and hedge accounting

When Telefónica chooses not to apply hedge accounting criteria but economic hedging, gains or losses resulting from changes in the fair value of derivatives are taken directly to the income statement.

e) Revenue and expenses

Revenue and expenses are recognized on the income statement based on an accruals basis; i.e. when the goods or services represented by them take place, regardless of when actual payment or collection occurs.

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

f) Related party transactions

In mergers and spin-offs of businesses involving the parent company and its direct or indirect subsidiary, in cases of non-monetary contributions of businesses between Group companies, and in cases of dividends, the contributed assets are valued, in general, at their pre-transaction carrying amount in the individual financial statements, given that the Telefónica Group does not prepare its consolidated financial statements in accordance with the Standards on Preparing Consolidated Financial Statements (Spanish "NOFCAC").

In these same operations, companies may also opt to use the consolidated values under International Financial Reporting Standards (IFRS) as adopted by the European Union, providing that the consolidated figures do not differ from those obtained under the NOFCAC. Lastly, the Company may also opt to use the values resulting from a reconciliation to the NOFCAC. Any accounting difference is recognized in reserves.

g) Financial guarantees

The Company has provided guarantees to a number of subsidiaries to secure their transactions with third parties (see Note 20.a). Where financial guarantees provided have a counter-guarantee on the Company's balance sheet, the value of the counter-guarantee is estimated to be equal to the guarantee given, with no additional liability recognized as a result.

Guarantees provided for which there is no item on the Company's balance sheet acting as a counter-guarantee are initially measured at fair value which, unless there is evidence to the contrary, is the same as the premium received plus the present value of any premiums receivable. After initial recognition, these are subsequently measured at the higher of:

i) The amount resulting from the application of the rules for measuring provisions and contingencies.

ii) The amount initially recognized less, when applicable, any amounts take to the income statement corresponding to accrued income.

h) Consolidated data

As required under prevailing legislation, the Company has prepared separate consolidated annual financial statements, drawn up in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

The balances of the main headings of the Telefónica Group's consolidated financial statements for 2018 and 2017 are as follows:

Millions of euros

Item	2018	2017
Total assets	114,047	115,066
Equity:		
Attributable to equity holders of the parent	17,947	16,920
Attributable to minority interests	9,033	9,698
Revenue from operations	48,693	52,008
Profit for the year:		
Attributable to equity holders of the parent	3,331	3,132
Attributable to minority interests	619	246

Note 5. Intangible assets

The movements in the items composing intangible assets and the related accumulated amortization in 2018 and 2017 are as follows:

2018

Millions of euros	Opening balance	Additions and allowances	Disposals	Transfers	Closing balance
INTANGIBLE ASSETS, GROSS	236	10	(1)	3	248
Software	146	3	—	4	153
Other intangible assets	90	7	(1)	(1)	95
ACCUMULATED AMORTIZATION	(219)	(10)	1	—	(228)
Software	(138)	(7)	—	—	(145)
Other intangible assets	(81)	(3)	1	—	(83)
NET CARRYING AMOUNT	17	—	—	3	20

2017

Millions of euros	Opening balance	Additions and allowances	Disposals	Transfers	Closing balance
INTANGIBLE ASSETS, GROSS	230	4	—	2	236
Software	140	2	—	4	146
Other intangible assets	90	2	—	(2)	90
ACCUMULATED AMORTIZATION	(207)	(12)	—	—	(219)
Software	(131)	(7)	—	—	(138)
Other intangible assets	(76)	(5)	—	—	(81)
NET CARRYING AMOUNT	23	(8)	—	2	17

At December 31, 2018 and 2017 commitments to acquire intangible assets are 0.9 and 0.5 million euros, respectively.

At December 31, 2018 and 2017, the Company had 189 million euros and 182 million euros, respectively, of fully amortized intangible assets.

After the merger of Terra Networks, S.A. with Telefónica, S.A., in 2006 the Company registered a goodwill, which was amortized on an annual basis until the entry into force of PGC 2007. As of December 31, 2007 that asset had a net carrying amount of 33.9 million euros. Subsequently, Telefónica, S.A. tested for impairment that asset every year, which did not disclose any need to recognise a write-down. The Company has set aside 1.6 million euros annually (5% of the net carrying amount of the asset) of its net profit to a non-distributable reserve for goodwill amortization. The balance of this reserve at December 31, 2015 was 12 million euros.

After the publication of Royal Decree 602/2016, on December, 2, 2016, modifying certain aspects in PGC 2007 such as the indefinite useful life of goodwill, among others, which was was made definite again, the Company amortized the aforementioned goodwill in a retrospective way as it had not been amortized since PGC 2007 entered into force. Since December 31, 2017 these assets are fully amortized.

Note 6. Property, plant and equipment

The movements in the items composing property, plant and equipment and the related accumulated depreciation in 2018 and 2017 are as follows:

2018

Millions of euros	Opening balance	Additions and allowances	Disposals	Transfers	Closing balance
PROPERTY, PLANT AND EQUIPMENT, GROSS	588	7	—	(31)	564
Land and buildings	223	3	—	(5)	221
Plant and other PP&E items	329	4	—	4	337
Property, plant and equipment under construction and prepayments	36	—	—	(30)	6
ACCUMULATED DEPRECIATION	(378)	(9)	—	—	(387)
Buildings	(97)	(1)	—	—	(98)
Plant and other PP&E items	(281)	(8)	—	—	(289)
NET CARRYING AMOUNT	210	(2)	—	(31)	177

2017

Millions of euros	Opening balance	Additions and allowances	Disposals	Transfers	Closing balance
PROPERTY, PLANT AND EQUIPMENT, GROSS	569	22	(1)	(2)	588
Land and buildings	223	—	(1)	1	223
Plant and other PP&E items	325	1	—	3	329
Property, plant and equipment under construction and prepayments	21	21	—	(6)	36
ACCUMULATED DEPRECIATION	(364)	(14)	—	—	(378)
Buildings	(92)	(5)	—	—	(97)
Plant and other PP&E items	(272)	(9)	—	—	(281)
NET CARRYING AMOUNT	205	8	(1)	(2)	210

Firm commitments to acquire property, plant and equipment at December 31, 2018 and 2017 amounted to 0.5 million euros and 2 million euros, respectively. At December 31, 2018 and 2017, the Company had 241 and 225 million euros, respectively, of fully depreciated items of property, plant and equipment.

Telefónica, S.A. has taken on insurance policies with appropriate limits to cover the potential risks which could affect its property, plant and equipment.

“Property, plant and equipment” includes the net carrying amount of the land and buildings occupied by Telefónica, S.A. at its Distrito Telefónica headquarters, amounting to 68 and 69 million euros at 2018 and 2017 year-ends, respectively. It also includes the net carrying amount of the remaining assets in this site (mainly property, plant and equipment items) of 10 and 20 million euros at December 31, 2018 and 2017, respectively.

During 2018 a new parking for employees located in the Distrito Telefónica complex has been completed. The 78% of its area has been estimated to be rented to other Group Companies. The remaining area, 22% of the total, has been included as Additions of Land and Buildings in the 2018 chart of movements.
The land and buildings rented to other Group Companies have been included as "Investment properties" in Note 7.

Note 7. Investment properties

The movements in the items composing investment properties in 2018 and 2017 and the related accumulated depreciation are as follows:

2018

Millions of euros	Opening balance	Additions and allowances	Disposals	Transfers	Closing balance
INVESTMENT PROPERTIES, GROSS	495	—	—	28	523
Land	94	—	—	6	100
Buildings	401	—	—	22	423
ACCUMULATED DEPRECIATION	(106)	(13)	—	—	(119)
Buildings	(106)	(13)	—	—	(119)
NET CARRYING AMOUNT	389	(13)	—	28	404

2017

Millions of euros	Opening balance	Additions and allowances	Disposals	Transfers	Closing balance
INVESTMENT PROPERTIES, GROSS	495	—	—	—	495
Land	94	—	—	—	94
Buildings	401	—	—	—	401
ACCUMULATED DEPRECIATION	(96)	(10)	—	—	(106)
Buildings	(96)	(10)	—	—	(106)
NET CARRYING AMOUNT	399	(10)	—	—	389

“Investment properties” mainly includes the value of land and buildings leased by Telefónica, S.A. to other Group companies at Distrito Telefónica, headquarters in Madrid and the building of its head offices in Barcelona, known as “Diagonal 00”.

After the opening of the new parking mentioned in the previous note, the value of the area rented to other Group companies that was registered under the "Property, plant and equipment under construction" caption in 2017 has been transferred to final assets (amounting to 22 million euros) and has started its amortization. Moreover, the 78% of the value of the land where the parking is located has been transferred to investment properties in 2018 amounting to 6 million euros.

In 2018, the Company has buildings with a total area of 356,171 square meters leased to several Telefónica Group companies, equivalent to an occupancy rate of 90.29% of the buildings it has earmarked for lease. In 2017, it had a total of 310,389 square meters leased, equivalent to an occupancy rate of 91.22% of the buildings earmarked for lease. Total income from leased buildings in 2018 (see Note 19.1.a.) amounted to 43 million euros (45 million euros in 2017). Future minimum rentals receivable under non-cancellable leases are as follows:

	2018	2017
Millions of euros	Future minimum recoveries	Future minimum recoveries
Up to one year	40	40
Between two and five years	2	1
Over 5 years	1	—
Total	43	41

The most significant lease contracts held with subsidiaries occupying Distrito Telefónica have been renewed in 2018 for a non-cancellable period of 12 months. The numbers also include non-cancellable lease revenues from Diagonal 00, whose contracts have an expiration date in December 2019.

The main operating leases in which Telefónica, S.A. acts as lessee and there is no sub-lease are described in Note 19.5.

Financial Statements

Note 8. Investments in group companies and associates

8.1. The movements in the items composing investments in Group companies and associates in 2018 and 2017 are as follows:

2018

Millions of euros	Opening balance	Additions	Disposals	Transfers	Exchange losses	Dividends	Net investment hedges	Closing balance	Fair value
Equity instruments (Net) (1)	67,025	113	(209)	(69)	—	(281)	(49)	66,530	122,108
Equity instruments (Cost)	92,717	700	(209)	(69)	—	(281)	(49)	92,809	
Impairment losses	(25,692)	(587)	—	—	—	—	—	(26,279)	
Loans to Group companies and associates	2,141	73	(186)	(550)	25	—	—	1,503	1,492
Other financial assets	—	7	—	—	—	—	—	7	7
Total non-current investment in Group companies and associates	69,166	193	(395)	(619)	25	(281)	(49)	68,040	123,600
Loans to Group companies and associates	3,426	4,845	(4,326)	550	(22)	—	—	4,473	3,967
Derivatives	10	8	(10)	—	—	—	—	8	8
Other financial assets	24	29	(24)	—	—	—	—	29	29
Total current investments in Group companies and associates	3,460	4,882	(4,360)	550	(22)	—	—	4,510	4,004

(1) Fair value at December 31, 2018 of Group companies and associates quoted in an active market (Telefônica Brasil, S.A.) was calculated taking the listing of the investments on the last day of the year; the rest of the shareholdings are stated at the value of discounted cash flows based on those entities' business plans.

2017

Millions of euros	Opening balance	Additions	Disposals	Transfers	Exchange losses	Dividends	Net investment hedges	Closing balance	Fair value
Equity instruments (Net) (1)	65,249	2,864	(965)	(22)	—	—	(101)	67,025	122,904
Equity instruments (Cost)	91,178	4,307	(980)	(1,687)	—	—	(101)	92,717	
Impairment losses	(25,929)	(1,443)	15	1,665	—	—	—	(25,692)	
Loans to Group companies and	2,950	44	(361)	(406)	(86)	—	—	2,141	2,172

associates									
Other financial assets	12	5	—	(17)	—	—	—	—	—
Total non-current investment in Group companies and associates	68,211	2,913	(1,326)	(445)	(86)	—	(101)	69,166	125,076
Loans to Group companies and associates	3,167	3,750	(3,856)	406	(41)	—	—	3,426	3,020
Derivatives	30	10	(30)	—	—	—	—	10	10
Other financial assets	30	9	(32)	17	—	—	—	24	24
Total current investments in Group companies and associates	3,227	3,769	(3,918)	423	(41)	—	—	3,460	3,054

(1) Fair value at December 31, 2017 of Group companies and associates quoted in an active market (Telefônica Brasil, S.A.) was calculated taking the listing of the investments on the last day of the year; the rest of the shareholdings are stated at the value of discounted cash flows based on those entities’ business plans.

The most significant transactions occurred in 2018 and 2017 as well as their accounting impacts are described below:
2018
On July 13 2018, a new company named Reginatorium Participaciones, S.L.U. was incorporated by Telefónica, S.A. On July 26, 2018 Telefónica made a non-monetary contribution to this new subsidiary equivalent to the net carrying value of its stake in Telxius Telecom, S.A. ("Telxius") corresponding to 60% of Telxius' share capital.
On July 27, 2018 the company was renamed Pontel Participaciones, S.L. ("Pontel") and on the same date, Telefónica sold 16.65% of it to the Pontegadea Group amounting to 378,8 million euros (a valuation of 15.2 euros per share of Telxius). An investment of 16.65% in Pontel is equivalent to a 9.99% indirect ownership in Telxius. The transaction has generated a revenue of 175 million euros in the profit and loss account of 2018.
On November 8, 2018 Telefónica reached an agreement with Catalana Occidente Group for the sale of its total stake in Seguros de Vida y Pensiones Antares, S.A., the insurance company in Spain, amounting to 161 million euros. As of December 31, 2018 the net carrying value of the investment has been transferred to "Long Term assets held for sale" totaling 69 million euros and shown as Transfers in the 2018 chart of movements. The closing of this transaction has taken place on February 14, 2019 after the pertinent regulatory authorizations were obtained.

2017
On February 10, 2017 Telefónica and Taurus Bidco S.à.r.l. (hereinafter “KKR”, an entity managed by Kohlberg Kravis Roberts & Co. L.P.) reached an agreement for the sale of up to 40% of the share capital of Telxius Telecom, S.A. in exchange for an aggregate amount of 1,275 million euros (12.75 euros per share).
The agreement envisaged a sale of 62 million shares of Telxius Telecom, S.A. (representing 24.8% of its share capital) for an amount of 790.5 million euros as well as a call option over additional 38 million shares (representing 15.2% of its total share capital) for a minimum price of 484.5 million euros.
On October 24, 2017, Telefónica announced that, after obtaining all the relevant regulatory approvals, it has transferred to KKR 62 million shares of Telxius with a profit of 191 million euros. On December 13, 2017 KKR exercised the call option foreseen in the agreement over 38 million shares of Telxius Telecom, S.A. in exchange for 484.5 million euros resulting in an income on the "Gain on disposals" caption of the 2017 income statement amounting to 120 million euros.
The Group is carrying out a simplification process of corporate structure and pursuant to this process several mergers by absorption have been completed in 2017. The net book value of the absorbed companies has been accounted for in the surviving company as an increase in its investment cost. Therefore the cost and the impairment provision of the absorbed investments have been reversed. This movement is shown as "Tranfers" in 2017 chart of movements.
The merger transactions affecting 2017 investments were the following:

- In September 2017 Telefónica Latinoamérica Holding, S.L. carried out a merge by absorption of Telefónica Datacorp, S.A. and Ecuador Cellular Holding, S.L., which were both direct subsidiaries of Telefónica, S.A.
- On the same date, Telefónica Digital Holding, S.L.U. was merged and absorbed by Telefónica Digital España, S.L.U., and after this transaction the latter company becomes a direct affiliate of Telefónica, S.A.
- In November, 2017 Telefónica Móviles Argentina Holding, S.A. was merged to Telefónica Móviles Argentina, S.A. After this transaction the Company increased its direct ownership from 21.1% to 73.2%.

- In December 2017, Telefónica International Wholesale Services II, S.L. carried out a merge by absorption of Telefónica International Wholesale Services, S.L., which was a direct affiliate of Telefónica, S.A.

Other movements

In 2018 the column “Dividends” includes distributions of reserves made by Telxius Telecom, S.A. amounting to 217 million euros and by Pontel Participaciones, S.L. amounting to 64 million euros.

Movement in “Transfers” in “Loans to Group Companies and Associates” both 2018 and 2017 includes the reclassification between long-term and current loans in accordance with the loan maturity schedule as well as the accrued interests rendered by those loans, outstanding at year end.

The transfers in the caption of “Impairment losses” in 2017 corresponded to the reversal of the negative carrying amount of certain investments from the non-current provisions caption (see Note 18) amounting to -22 million euros.

In 2018 and 2017, Telefónica, S.A. bought and sold the following shareholdings:

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

Millions of euros

Companies	2018	2017
Telefónica Latinoamérica Holding, S.L.	—	3,838
Telefónica Digital España, S.L.U.	194	—
Telefónica Digital Holding, S.L.U. (absorbed by Telefónica Digital España, S.L.U.)	—	220
Telefónica Móviles México, S.A. de C.V.	460	129
Lotca Servicios Integrales, S.L.	—	85
Telefónica Ingeniería de Seguridad, S.A.U.	32	—
Other companies	14	35
Total Group companies and associates	700	4,307

2018

On January 11, 2018, with the aim of achieving a positive equity figure, Telefónica Digital España, S.L.U. has made a capital increase of 194 million euros fully subscribed and paid by the Company.

On March 22, 2018 Telefónica Móviles México S.A. de C.V. has completed a capital increase of 4,000 million Mexican pesos, equivalent to 176 million euros. On December 17, 2018 an additional capital increase of 6,550 million Mexican pesos, equivalent to 284 million euros was launched. Both transactions have been fully subscribed and paid by Telefónica, S.A.

On July 17, 2018, the Company has decided to capitalize a credit granted to its subsidiary Telefónica Ingeniería de Seguridad, S.A.U. amounting to 26.4 million euros. In addition, on December 27, 2018 a capital increase was made by the subsidiary totaling 5.2 million euros, fully subscribed and paid by Telefónica, S.A.

2017

On January 26, 2017 Telefónica Latinoamérica Holding, S.L. made a capital increase totaling 747 million euros fully subscribed and paid by Telefónica, S.A. Additionally, on December 21, 2017, Telefónica Latinoamérica

Holding, S.L. increased its share capital in 3,091 million euros. The transaction was been fully subscribed and paid by the Company.

On January 12, 2017, with the aim of achieving a positive equity figure, Telefónica Digital Holding, S.L.U. (absorbed by Telefónica Digital España, S.L.U.) made a capital increase of 220 million euros fully subscribed and paid by the Company.

On January 12, 2017 Telefónica Móviles México, S.A. de C.V. completed a capital increase of 3,000 million Mexican pesos, equivalent to 129 million euros. The transaction was fully subscribed and paid by Telefónica, S.A.

On May 4, 2017 the Company decided to capitalize the credits granted in previous years to Lotca Servicios Integrales, S.L. amounting to 85 million euros.

b) Disposals of investments and capital decreases:

Millions of euros

Companies	2018	2017
Telxius Telecom, S.A.	—	960
Pontel Participaciones, S.L.	204	—
Others	5	20
Total Group companies and associates	209	980

2018

The disposal of Pontel Participaciones, S.L. reflects the sale of shares to the Pontegadea Group, as fully described at the beginning of this note.

2017

The disposal of Telxius Telecom, S.A. refers to the sale of shares to KKR, as fully described at the beginning of this note.

8.2. Assessment of impairment of investments in group companies, joint ventures and associates

At each year end, the Company re-estimates the future cash flows derived from its investments in Group companies and associates. The estimate is based on the expected cash flows to be received from each subsidiary in its functional currency, discounted using the appropriate rate, net of the liabilities associated with each investment (mainly net debt), considering the percentage of ownership in each subsidiary and translated to euros at the official closing rate of each currency at December 31. Moreover, and only for the companies where discounted cash flow analysis is not available, due to the specific nature of their businesses, the impairment is calculated by comparing their Equity figure as of the end of the period and the net book value of those investments.

As a result of these estimations and the effect of the net investment hedge in 2018, an impairment provision of 587 million euros was recognized (write down of 1,443 million euros in 2017). This amount derives mainly from the following companies:

a. a write down of 1,038 million euros for Telefônica Brasil, S.A. (write down amounting to 510 million euros in 2017) and 243 million euros for Sao Paulo Telecomunicaçoes, Ltda (113 million euros in 2017);
b. a write down reversal, net of hedges, of 4,062 million euros for Telefónica Europe, plc (an impairment of 460 million euros, net of hedges, was registered in 2017);

c. write down of 2 million euros for Telefónica Contenidos, S.A.U. (177 million euros in 2017);
d. write down of 219 million euros for Telefónica Digital España, S.L.U. (141 million euros in 2017) and
e. a write down by 1,075 million euros for Telefónica México, S.A. de C.V. (write down reversal by 96 million euros in 2017);
f. In 2017 no write down was recorded for the investment of Telefónica Latinoamérica Holding, S.L.U. In 2018 an impairment of 1,962 million euros has been recorded. The write down is mainly originated by the write down of Telefônica Brasil, S.A. as indicated in section a).

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

Brazil has faced a complex macro-economic scenario in 2018. Several adverse effects have caused, on the one hand, a growth rate lower than its target (1.4% versus target of 2% at the beginning of the year) and on the other hand, an exchange rate depreciation of the Brazilian Real by 17% and a 30 basic points (b.p.) increase in the country risk. For 2019, the macroeconomic scenario envisages a slight growth in the Gross Domestic Product (GDP) up to 2.5% and in domestic consumption. The Operating Income before Depreciation and Amortization (OIBDA) margin for Brazil is 42%, within the range of analysts' long-term forecasts (between 37% and 43%). Over the term of the strategic plan, the operator will invest a percentage in line with the investment needs identified by analysts (18%). The perpetuity growth rate is in line with the Brazilian Central Bank’s medium-term inflation target (4%, within a range of ±1.5 p.p.) and is aligned with the analyst consensus for the Strategic Plan horizon (below 4.5%) yet below the forecast nominal GDP growth rate (which oscillates around 6.5%).

Mexican economy in 2018 has grown around 2%, 1 b.p. below the average growth rate since 2010. Uncertainty arising from the presidential and parliament elections in July as well as the lack of agreement regarding the new Mexico, United States and Canada commercial treaty are the answers for the under performance of the economy. The Mexican peso versus US dollar exchange rate reflects this uncertainty: Its quotation for the most part of the year has been historically high, preventing inflation rate from dropping and allowing an improvement domestic rent for Mexican families. Interest rate increase in the United States has a harmful effect in Mexico as the investment in the country becomes less profitable from investors' point of view. In the mid term, the key is the government commitment to structural changes in-force several years ago, specially related to the efficiency in the oil sector, tax administration and public sector. In this context, the WACC has increased to 10.6% (9.6% in 2017). Mexican economy is estimated to accelerate during the strategic plan horizon with an inflation rate below 4% from 2019. However, the cell phone market is expected to decrease due to a strong competition with AMX who has a 72% market share in 2018, 5 b.p. bigger than the previous year. AMX and AT&T are using aggressive commercial campaigns aimed to reduce prepaid cell phone tariffs to a minimum price within the region. Telefónica Móviles México has not launched new price promotions for this segment since the beginning of 2018. As a consequence of these two reasons the revenues of Telefónica Móviles México have been reduced in 2018.

With respect to the United Kingdom, domestic consumption was shown a more dynamic trend (growing above 1%) thanks to the improvement in the families' rent. Their income has been benefited from the increase in salaries, the drop of the inflation rate and the positive behaviour of the labour market, with an unemployment rate at its lowest. On the other hand, if the expectation of a more favourable end of the BrExit process is finally confirmed, the stability of the pound sterling exchange rate will extend the positive scenario to the following years ahead. The Strategic Plan includes a hypothesis of soft BrExit in the net results of the company. O2 UK is estimating to keep their market share of revenues based on the quality of services, adapting the range of products to the customer demands and improvement in B2B and IoT (Internet of Things). The increase in the OIBDA figure is achieved through an efficiency plan to keep the growth in expenses below the inflation rate, network sharing scheme with Vodafone and spectrum optimum usage). The long-term OIBDA margin is in line with analysts' forecasts over a three-year horizon, 26%. Regarding the ratio of CapEx over revenues, over the term of the strategic plan, the valuations consider the opinions of analysts with regard to investment needs (around 12%).

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

8.4. Transactions protected for tax purposes

The transaction carried out in 2018 that qualify for special tax treatment, as defined in Articles 76 and 87, as applicable, of Chapter VII of Title VII of Legislative Royal Decree 27/2014 of November 27 approving the Spanish Corporate Income Tax Law, is described in the following paragraph. Transactions qualified for special tax treatment carried out in prior years are disclosed in the financial statements for those years.

On September 26, 2018, Telefónica Digital España, S.L.U., the sole stockholder of Synergic Partners, S.L. approved the merger by absorption of the latter and the transfer en bloc of its assets and liabilities to Telefónica Digital España, S.L.U. which also acquires all its rights and obligations by universal succession. The merger was filed in the Madrid Companies Register on November 6, 2018.

8.5. The breakdown and maturity of loans to Group companies and associates in 2018 and 2017 are follows:

2018

Millions of euros

Company	2019	2020	2021	2022	2023	2024 and subsequent years	Final balance, current and non-current
Telefónica Móviles España, S.A.U.	756	—	—	—	—	—	756
Telefónica Móviles México, S.A. de C.V.	—	860	—	—	—	—	860
Telfisa Global, B.V.	700	—	—	—	—	—	700
Telefónica de España, S.A.U.	2,352	—	—	—	—	—	2,352
Telxius Telecom, S.A.	—	—	—	280	—	280	560
Telefônica de Brasil, S.A.	258	—	—	—	—	—	258
Telefónica Latinoamérica Holding, S.L.U.	89	—	—	—	—	8	97
Other companies	318	—	35	—	16	24	393
Total	4,473	860	35	280	16	312	5,976

Financial Statements

2017
Millions of euros

Company	2018	2019	2020	2021	2022	2023 and subsequent years	Final balance, current and non-current
Telefónica Móviles España, S.A.U.	861	—	—	—	—	—	861
Telefónica Móviles México, S.A. de C.V.	—	773	—	—	—	—	773
Telefónica de Contenidos, S.A.U.	733	—	—	—	—	—	733
Telefónica de España, S.A.U.	987	550	—	—	—	—	1,537
Telxius Telecom, S.A.	—	—	—	140	280	280	700
Telefónica Latinoamérica Holding, S.L.U.	484	—	—	—	—	8	492
Other companies	361	23	52	—	15	20	471
Total	3,426	1,346	52	140	295	308	5,567

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

- The financing extended to Telefónica Móviles España, S.A.U. in 2018 includes dividends distributed and unpaid in December 2018 amounting to 552 million euros. The loan of 400 million euros outstanding in 2017 has been cancelled at maturity date.

Moreover, 204 million euros of taxes are receivable from this subsidiary for its tax expense declared in the consolidated tax return (155 million euros in 2017).

- At December 31, 2018 and 2017, the account receivable with Telefónica Móviles México, S.A. de C.V. amounts to 11,697 million Mexican pesos, equivalent to 520 and 496 million euros, respectively. This asset is recognised as non-current pursuant to the expected collection date at the reporting date. At December 31, 2018, accrued interest receivable totals 340 million euros (277 million euros in 2017), which forms part of the non-current balance receivable.
- In December 2018, Telfisa Global, B.V. has distributed dividends totaling 700 million euros which are unpaid as of the date of these financial statements.
- The 2018 balance of Telefónica de España, S.A.U. consists of:

a 550 million euros credit facility granted and drawn down in full in November 2014 and maturing in 2019.
dividends distributed and unpaid in December 2018 amounting to 1,574 million euros.

Additionally, there is also a balance of 227 million euros comprising tax receivables from the subsidiary for its tax expense declared in the consolidated tax return (323 million euros in 2017) and accrued interest of 1 million euros.

- On May 27, 2016, with the aim of enabling the necessary funds for restructuring the infrastructure business line of the Group as described at the beginning of this note, the Company granted its subsidiary, Telxius Telecom, S.A. with a credit of 280 million euros at a fix interest rate and maturity in 2022, a credit of 280 million euros at a fix interest rate and maturity in 2026 and a credit of 140 million euros and an interest rate referred to euribor maturing 2021. This last credit has been cancelled prior to its maturity in 2018.

- The balance totaling 258 million euros shown in 2018 with Telefônica Brasil, S.A. entirely corresponds to dividends agreed by the subsidiary and unpaid at year end.
- The balance of unpaid dividends from Telefónica Latinoamérica Holding, S.L.U. in 2017 amounting to 391 million euros has been collected in 2018.

Moreover, 97 million euros of taxes are receivable from this subsidiary for its tax expense declared in the consolidated tax return (101 million euros in 2017).

The Company has also extended 589 million euros (686 million euros in 2017) of loans in connection with the taxation of Telefónica, S.A. as the head of the tax group pursuant to the consolidated tax regime applicable to corporate groups (see Note 17). The most significant amounts have already been disclosed through this note. All these amounts fall due in the short term.

Disposals of current loans to group companies and associates includes the cancellation of balances receivable from subsidiaries on account of their membership of Telefónica, S.A.'s tax group totaling 686 million euros (446 million euros in 2017).

Total accrued interest receivable at December 31, 2018 and 2017 included under "Current loans to group companies and associates" amount to 2 million euros.

8.6. Other financial assets with Group companies and associates

This includes rights to collect amounts from other Group companies related to share-based payment plans involving Telefónica, S.A. shares offered by subsidiaries to their employees.

Invoices of share plans that were already vested and are outstanding at year end are shown as other current financial assets. Amounts derived from the new share plan scheme launched in 2018 with a maturity date in 2020 are included as other non-current financial assets (see Note 19.3).

Financial Statements

Note 9. Financial investments

9.1. The breakdown of “Financial investments” at December 31, 2018 and 2017 is as follows:

2018

	Assets at fair value				Measurement hierarchy			Assets at amortized cost					
Millions of euros	Available-for-sale financial assets	Financial assets held for trading	Hedges	Subtotal assets at fair value	Level 1: quoted prices	Level 2: Estimates based on other directly observable market inputs	Level 3: Estimates not based on observable market data	Loans and receivables	Other financial assets	Subtotal assets at amortized cost	Fair value	Total carrying amount	Total fair value
Non-current financial investments	298	826	1,595	2,719	298	2,421	—	—	696	696	696	3,415	3,415
Equity instruments	298	—	—	298	298	—	—	—	—	—	—	298	298
Derivatives (Note 16)	—	826	1,595	2,421	—	2,421	—	—	—	—	—	2,421	2,421
Loans to third parties and other financial assets	—	—	—	—	—	—	—	—	696	696	696	696	696
Current financial investments	—	322	520	842	—	842	—	972	7	979	980	1,821	1,822
Loans to third parties and other financial assets	—	—	—	—	—	—	—	972	7	979	980	979	980
Derivatives (Note 16)	—	322	520	842	—	842	—	—	—	—	—	842	842
Total financial investments	298	1,148	2,115	3,561	298	3,263	—	972	703	1,675	1,676	5,236	5,237

2017

Millions of euros	Assets at fair value				Measurement hierarchy			Assets at amortized cost					
	Available-for-sale financial assets	Financial assets held for trading	Hedges	Subtotal assets at fair value	Level 1: quoted prices	Level 2: Estimates based on other directly observable market inputs	Level 3: Estimates not based on observable market data	Loans and receivables	Other financial assets	Subtotal assets at amortized cost	Fair value	Total carrying amount	Total fair value
Non-current financial investments	340	1,087	1,422	2,849	340	2,509	—	—	912	912	902	3,761	3,751
Equity instruments	340	—	—	340	340	—	—	—	—	—	—	340	340
Derivatives (Note 16)	—	1,087	1,422	2,509	—	2,509	—	—	—	—	—	2,509	2,509
Loans to third parties and other financial assets	—	—	—	—	—	—	—	—	912	912	902	912	902
Current financial investments	—	132	661	793	—	793	—	759	5	764	764	1,557	1,557
Loans to third parties and other financial assets	—	—	—	—	—	—	—	759	5	764	764	764	764
Derivatives (Note 16)	—	132	661	793	—	793	—	—	—	—	—	793	793
Total financial investments	340	1,219	2,083	3,642	340	3,302	—	759	917	1,676	1,666	5,318	5,308

Derivatives are measured using the valuation techniques and models normally used in the market, based on money-market curves and volatility prices available in the market. Additionally, on this valuation, the credit valuation adjustment or CVA net for counterparty (CVA + DVA), which is the methodology used to measure the credit risk of the counterparties and of Telefónica itself is calculated to adjust the fair value determination of the derivatives. This adjustment reflects the possibility of insolvency or deterioration of the credit quality of the counterparty and Telefónica.

9.2 Held-for-trading financial assets and hedges

These two categories include the fair value of outstanding derivative financial instruments at December 31, 2018 and 2017 (see Note 16).

9.3 Available-for-sale financial assets.

This category mainly includes the fair value of investments in listed companies (equity instruments) over which the Company does not have significant control or influence. The movement of items composing this category at December 31, 2018 and 2017 are as follows:

December 31, 2018

Millions of euros	Opening balance	Additions	Disposals	Other movements	Fair value adjustments	Closing balance
Banco Bilbao Vizcaya Argentaria, S.A.	313	—	—	—	(108)	205
Promotora de Informaciones, S.A. (PRISA)	27	49	—	—	17	93
Total	340	49	—	—	(91)	298

December 31, 2017

Millions of euros	Opening balance	Additions	Disposals	Other movements	Fair value adjustments	Closing balance
Banco Bilbao Vizcaya Argentaria, S.A.	283	—	—	—	30	313
Promotora de Informaciones, S.A. (PRISA)	56	—	(30)	—	1	27
Total	339	—	(30)	—	31	340

In accordance with the change introduced in 2017 by the article 21 of Income Tax Law 27/2014 with respect to the non-deductible nature of the net losses generated by the sale of some investments with certain characteristics, the Company is not accruing the tax impacts of the fair value adjustments in its available-for-sale investments.

Banco Bilbao Vizcaya Argentaria, S.A.

The impacts shown in the column “Fair value adjustments” on both years include the fair value adjustment of Banco Bilbao Vizcaya Argentaria, S.A. (BBVA). These impacts are registered in the Equity of the Company (Note 11.2.).

At December 31, 2018 Telefónica, S.A.'s investment in BBVA represents 0.66% of that company's share capital.

Promotora de Informaciones, S.A. (Prisa)

On February 16, 2018 the company launches a capital increase. Telefónica subscribed and acquired 42.2 million new shares and the rest of the preferred subscription rights were sold. The net amount of the transaction is reflected as Additions in the 2018 chart of movements.

In 2017 a write down of the investment in Prisa amounting to 30 million euros was recorded under the "Losses on available-for-sale investments" caption. In 2018 no additional impairments for this stake have been recorded.

9.4 Other financial assets and loans to third parties

The breakdown of investments included in this category at December 31, 2018 and 2017 is as follows:

Millions of euros	2018	2017
Other non-current financial assets:		
Deposits related to investment properties	9	10
Collateral guarantees	687	902
Other current financial assets:		
Loans to third parties	972	759
Other current financial assets	7	5
Total	1,675	1,676

Collaterals included in both years under the caption “Other non-current financial assets” are classified in accordance with the maturity of the underlying derivative instruments which they relate to.

In relation with these collateral contracts, there is an additional guarantee of 120,000 bonds issued by Telefónica Emisiones, S.A.U. deposited in a securities account owned by Telefónica, S.A. with a notional of 105 million euros.

9.4.1 Loans to third parties

In 2018 Telefónica, S.A. has set up bank deposit contracts with a maturity period between 3 and 12 months totaling 972 million euros (700 million euros in 2017).

Additionally, in 2017 this caption also included third party option premium which were due and still unpaid at year-end amounting to 57 million euros. In 2018 no amounts have been recognized under this caption.

Outstanding interest revenues amount to 0.2 million euros in 2018 (2 million euros in 2017), are registered as other current financial assets.

Note 10. Trade and other receivables

The breakdown of “Trade and other receivables” at December 31, 2018 and 2017 is as follows:

Millions of euros	2018	2017
Trade receivables	13	1
Trade receivables from Group companies and associates	193	263
Other receivables	2	—
Employee benefits receivable	1	1
Tax receivables (Note 17)	179	310
Total	388	575

“Trade receivables from Group companies and associates” mainly includes amounts receivable from subsidiaries for the impact of the rights to use the Telefónica brand and the monthly office rental fees (see Note 7).

“Trade receivables” and “Trade receivables from Group companies and associates” in 2018 and 2017 include balances in foreign currency equivalent to 86 million and 100 million euros, respectively.

In 2018 and 2017 these amounts relate to receivables in US dollars and Venezuelan bolivars. The balance in Venezuelan bolivars arose in 2017 by the change in the brand fee contract, which is being invoiced in that currency since March 31, 2017.

These balances give rise to exchange rate losses in the income statement of 4 million euros in 2018 (15 million euros of exchange rate losses in 2017).

Note 11. Equity
11.1 Capital and reserves
a) Share capital
2018
At December 31, 2018 Telefónica, S.A.´s share capital amounted to 5,192,131,686 euros and consisted of 5,192,131,686 fully paid ordinary shares of a single series, par value of 1 euro, all recorded by the book-entry system and traded on the Spanish electronic trading system ("Continuous Market"), where they form part of the "Ibex 35" Index, on the four Spanish Stock Exchanges (Madrid, Barcelona, Valencia and Bilbao) and listed on the London and Buenos Aires Stock Exchanges, and on the New York and Lima Stock Exchanges, through American Depositary Shares ('ADSs').
2017
On September 20, 2017, the public deed evidencing the conversion of bonds, share capital increase and amortization of bonds was registered, on which were issued 154,326,696 new ordinary shares, of a nominal value of 1 euro each, within the framework of the conversion of the bonds mandatorily convertible into shares of Telefónica, S.A. that were issued by its wholly owned subsidiary, Telefónica Participaciones, S.A.U. on September 24, 2014, guaranteed by Telefónica, S.A. As a result of the aforementioned conversion and the referred capital increase, the share capital of Telefónica, S.A. was set at 5,192,131,686 euros, divided into 5,192,131,686 ordinary shares of the same class and series, with a nominal value of 1 euro each of them.
At December 31, 2017, Telefónica, S.A.´s share capital amounted to 5,192,131,686 euros and consisted of 5,192,131,686 fully paid ordinary shares of a single series, par value of 1 euro.

Authorizations by Shareholders' Meeting
With respect to share capital-related authorizations, on June 12, 2015, authorization was given at the Annual Shareholders' Meeting of Telefónica, S.A. for the Board of Directors, at its discretion and in accordance with the Company's needs, to increase the Company's capital, once or several times, within a maximum five years period from that date, up to a maximum nominal increase of 2,469,208,757 euros, equivalent to half of Telefónica, S.A.'s share capital at that date, by issuing and placing new shares, with or without a share premium, and, in all cases, in exchange for cash, expressly considering the possibility that the new shares may not be fully subscribed. The Board of Directors was also empowered to exclude, partially or fully, pre-emptive subscription rights under the terms of article 506 of the Spanish Corporate Enterprises Act. However, the power to exclude pre-emptive rights is limited to 20% of the Company's share capital on the date of adoption of this resolution. Pursuant to the aforementioned authorizations, as of December 31, 2018, the Board of Directors may increase the share capital up to the maximum nominal amount of 2,469,208,757 euros.
In addition, at the June 9, 2017 Shareholders' Meeting of Telefónica, S.A., authorization was given for the Board of Directors to issue debentures, bonds, promissory notes and other fixed-income securities and hybrid instruments, including preferred shares, in all cases be they simple, tradable, and/or convertible and/or granting the holders thereof a share in the earnings of the company, as well as warrants, with the power to exclude the pre-emptive rights of shareholders. The issuance of the aforementioned securities may be conducted at one or several times, at any time, within a maximum five-year period from that date. These securities may be in the form of debentures, bonds, promissory notes or any other kind of fixed-income security, or debt instruments of similar category or hybrid instruments in any legally admitted form (including yet not restricted to preferred shares), plain or, in the case of debentures, bonds and hybrid instruments convertible into shares of the Company and/or exchangeable for shares of any of the Group companies, or any other company and/or giving the holders thereof a share in the earnings of the Company. This delegation also includes warrants or other similar securities that might give the right to directly or indirectly subscribe or acquire shares, whether newly issued or outstanding, and which may be paid for by physical delivery or by offset. The aggregated amount of the

issuance(s) of securities approved under this delegation of powers may not exceed the sum of 25,000 million euros or the equivalent in another currency at any time. For promissory notes, the outstanding balance of promissory notes issued under this authorization will be calculated for the purpose of the aforementioned limit. Likewise, for the sake of the aforementioned limit, in the case of warrants, the sum of the premiums and exercise prices of the warrants for each issuance approved under this delegation shall be taken into account.

Furthermore, on June 8, 2018, shareholders voted to authorize the acquisition by the Board of Directors of Telefónica, S.A. treasury shares, up to the limits and pursuant to the terms and conditions established at the Shareholders' Meeting, within a maximum five-year period from that date. However, it specified that in no circumstances could the par value of the shares acquired, added to that of the treasury shares already held by Telefónica, S.A. and by any of its controlled subsidiaries, exceed the maximum legal percentage at any time (currently 10% of Telefónica, S.A.'s share capital).

At December 31, 2018 and 2017, Telefónica, S.A. held the following treasury shares:

		Euros per share			
	Number of shares	Acquisition price	Trading price	Market value (1)	%
Treasury shares at 12/31/18	65,496,120	10.48	7.34	481	1.26145 %
Treasury shares at 12/31/17	65,687,859	10.48	8.13	534	1.26514 %

(1) Millions of euros

The movement in treasury shares of Telefónica, S.A. during the years 2018 and 2017 is as follows:

	Number of shares
Treasury shares at 12/31/16	141,229,134
Employee share option plan (see Note 19.3)	(3,518,795)
Other movements	(72,022,480)
Treasury shares at 12/31/17	65,687,859
Employee share option plan	(191,739)
Treasury shares at 12/31/18	65,496,120

Acquisitions

There have been no acquisitions of treasury shares in 2018 and 2017.

Share redemption and disposals

In 2018 and 2017 there have been no share redemption or disposals of treasury shares.

Employee share option plan

Treasury shares sold, including share plans redemptions, in 2018 and 2017 amount to 2 million euros and 37 million euros, respectively.

On September 30, 2018 the second phase of the "Performance and Investment Plan 2014-2019" ("PIP 2014-2019") as well as the second phase of the "Talent for the future Share Plan" (TFSP2) ended. No share have been delivered to Telefónica Group executives or managers (see Note 19).

On July 31, 2017 the third phase of the Global Employee Share Plan ("the GESP") matured and 3,187,055 treasury shares were delivered to Group employees who met the established requirements.

On September 30, 2017 the first phase of the “Performance and Investment Plan 2014-2019” (“PIP 2014-2019”) and the first phase of the "Talent for the Future Share Plan" (TFSP1) ended. No shares were delivered to Telefónica Group executives or managers (see Note 19).

Other movements

On March 14, 2017 Telefónica entered into a swap agreement with Koninklijke KPN NV (hereinafter, KPN) to deliver 72 million of its treasury shares in exchange for 178.5 million shares of its subsidiary Telefónica Deutschland Holding AG, representing 6.0% of the share capital of the latter. On the same date, this stake was sold at the same price to Telefónica Germany Holdings, GmbH so that, at 2017 year end, Telefónica, S.A. has no direct participation in Telefónica Deutschland Holding AG and the transfer of the stake has not had impact in the income statement.

The Company also has a derivative instrument, to be settled by offset, on a nominal value equivalent to 21.7 million of Telefónica shares in 2018 (35.2 million of Telefónica shares in 2017), recognized in both years under “Current interest-bearing debt” in the accompanying balance sheet.

b) Legal reserve

According to the text of the Corporate Enterprises Act, companies must transfer 10% of profit for the year to a legal reserve until this reserve reaches at least 20% of share capital. The legal reserve can be used to increase capital by the amount exceeding 10% of the increased share capital amount. Except for this purpose, until the legal reserve exceeds the limit of 20% of share capital, it can only be used to offset losses, if there are no other reserves available. At December 31, 2017, after the capital increase carried forward in 2017, the Company needed to increase the legal reserve by 51 million euros until the legal reserve was fully constituted. The proposed appropriation of profit in 2017 included an allocation of that amount. At December 31, 2018, this reserve is fully constituted and amounts to 1,038 million euros.

c) Other reserves

“Other reserves” includes:

- The “Revaluation reserve” which arose as a result of the revaluation made pursuant to Royal Decree-Law 7/1996 dated June 7. The revaluation reserve may be used, free of tax, to offset any losses incurred in the future and to increase capital. From January 1, 2007, it may be allocated to unrestricted reserves, provided that the capital gain has been realized. The capital gain will be deemed to have been realized in respect of the portion on which the depreciation has been recorded for accounting purposes or when the revalued assets have been transferred or derecognized. In this respect, at the end of 2018 and 2017, an amount of 6 million euros in both years, corresponding to revaluations reserves subsequently considered unrestricted has been reclassified to “Other reserves”. The balance of this reserve at December 31, 2018 and 2017 was 72 million euros and 78 million euros, respectively.
- Reserve for cancelled share capital: In accordance with Section 335.c) of the Corporate Enterprises Act and to render null and void the right of opposition provided for in Section 334 of the same Act, whenever the Company decreases capital it records a reserve for cancelled share capital for an amount equal to the par value of the cancelled shares, which can only be used if the same requirements as those applicable to the reduction of share capital are met. The cumulative amount of the reserve for cancelled share capital at December 31, 2018 and 2017 totals 731 million euros.
- Pursuant to the provisions of Royal Decree 1514/2007, since 2008, after the distribution of profits for each year, the Company set aside a non-distributable reserve of 2 million euros for goodwill amortization. Pursuant to the provisions of Royal Decree 602/2016 of December 2, 2016, the goodwill amortization as of January 1, 2015, amounting to 10 million euros was registered with a counterparty in this reserve.

- In addition to the restricted reserves explained above, "Other reserves" includes unrestricted reserves from gains obtained by the Company in prior years.

d) Dividends

Dividend distribution in 2018

Approval was given at the General Shareholders Meeting of June 8, 2018 to pay a gross dividend of 0.40 for each company share issued, in circulation and carrying entitlement to this distribution against unrestricted reserves, payable in two tranches. The first payment of a gross amount of 0.20 in cash per share was made on June 15, 2018 amounting to 1,025 million euros and the second payment of a gross amount of 0.20 in cash per share was made on December 20, 2018 amounting to 1,026 million euros.

Dividend distribution in 2017

Approval was given at the General Shareholders Meeting of June 9, 2017 to pay a gross dividend of 0.40 for each company share issued, in circulation and carrying entitlement to this distribution against unrestricted reserves, payable in two tranches. The first payment of a gross amount of 0.20 in cash per share was made on June 16, 2017 amounting to 994 million euros and the second payment of a gross amount of 0.20 in cash per share was made on December 14, 2017 amounting to 1,025 million euros.

e) Other equity instruments

On September 24, 2014, Telefónica Participaciones, S.A.U., issued 1,500 million euros of bonds necessarily convertible into new and/or existing shares of Telefónica, S.A. at a nominal fixed interest rate of 4.9%, due on September 25, 2017, guaranteed by Telefónica, S.A. The notes could be converted at the option of the noteholders or the issuer. On the same date, Telefónica, S.A. issued bonds with the same amount and characteristics of the previously detailed bond and a derivative instrument (warrant) in order to hedge the conversion price of the bonds. These bonds were wholly acquired by Telefónica Participaciones, S.A.U.

At the issuance date, in the balance sheet of Telefónica, S.A. the present value of the coupons was recorded as debt, the warrant was accounted as long term liabilities to group companies and the remaining amount of 1,206 million euros was recorded as “other net equity instruments”.

As explained in section a) of this same note, at maturity of the notes, Telefónica, S.A. on behalf of Telefónica Participaciones, S.A.U. delivered a total of 154,341,669 shares of Telefónica S.A. at a conversion price of 9.7174 euros per share (minimum conversion price after the standard adjustments included in the terms of the notes). In order to meet the conversion of the notes, Telefónica S.A. issued 154,326,696 new shares in execution of a capital increase and delivered 14,973 treasury shares.

11.2 Unrealized gains (losses) reserve

The movements in the items composing “Unrealized gains (losses) reserve” in 2018 and 2017 are as follows:

2018

Millions of euros	Opening balance	Valuation at market value	Tax effect of additions	Amounts transferred to income statement	Tax effect of transfers	Closing balance
Available-for-sale financial assets (Note 9.3)	42	(91)	—	—	—	(49)
Cash flow hedges	(697)	991	(248)	(727)	182	(499)
Total	(655)	900	(248)	(727)	182	(548)

2017

Millions of euros	Opening balance	Valuation at market value	Tax effect of additions	Amounts transferred to income statement	Tax effect of transfers	Closing balance
Available-for-sale financial assets (Note 9.3)	8	2	2	30	—	42
Cash flow hedges	(674)	(191)	48	161	(41)	(697)
Total	(666)	(189)	50	191	(41)	(655)

In 2017, the impact of fair value hedges generated and transferred to the profit and loss account in the same period as the impacts of the hedged instruments, were reflected directly in the profit and loss account offsetting the amounts of those hedged instruments. Therefore there were no impact in the statement of recognized income and expense in Equity.

In 2018, the Company has decided to change the presentation of the concept, including them in the statement of recognized income and expense in equity, and transferring the amounts to the profit and loss account in the same period. The impacts are shown in the column "Valuation at market value" and with the opposite sign in the column "Amounts transferred to income statement" of the 2018 chart of movements. The accounting in the profit and loss account has remained unchanged.

Financial Statements

Note 12. Financial liabilities

The breakdown of "Financial liabilities" at December 31, 2018 and 2017 is as follows:

2018

Millions of euros	LIABILITIES AT FAIR VALUE			MEASUREMENT HIERARCHY			LIABILITIES AT AMORTIZED COST			
	Financial liabilities held for trading	Hedges	Subtotal financial liabilities at fair value	Level 1: quoted prices	Level 2: Estimates based on other directly observable market inputs	Level 3: Estimates not based on other directly observable market data	Trade and other payables	Trade and other payables at fair value	TOTAL CARRYING AMOUNT	TOTAL FAIR VALUE
Non-current financial liabilities	821	1,386	2,207	—	2,207	—	43,355	44,501	45,562	46,708
Payable to Group companies and associates	—	—	—	—	—	—	41,154	42,279	41,154	42,279
Bank borrowings	—	—	—	—	—	—	2,033	2,059	2,033	2,059
Derivatives (Note 16)	821	1,386	2,207	—	2,207	—	—	—	2,207	2,207
Other financial liabilities	—	—	—	—	—	—	168	163	168	163
Current financial liabilities	77	131	208	—	208	—	17,853	17,958	18,061	18,166
Payable to Group companies and associates	—	—	—	—	—	—	15,578	15,683	15,578	15,683
Bank borrowings	—	—	—	—	—	—	2,094	2,094	2,094	2,094
Bonds and other marketable debt securities	—	—	—	—	—	—	181	181	181	181
Derivatives (Note 16)	77	131	208	—	208	—	—	—	208	208
	898	1,517	2,415	—	2,415	—	61,208	62,459	63,623	64,874

Total
financial
liabilities

Financial Statements

2017

Millions of euros	LIABILITIES AT FAIR VALUE			MEASUREMENT HIERARCHY			LIABILITIES AT AMORTIZED COST			
	Financial liabilities held for trading	Hedges	Subtotal financial liabilities at fair value	Level 1: quoted prices	Level 2: Estimates based on other directly observable market inputs	Level 3: Estimates not based on other directly observable market data	Trade and other payables	Trade and other payables at fair value	TOTAL CARRYING AMOUNT	TOTAL FAIR VALUE
Non-current financial liabilities	1,038	1,758	2,796	—	2,796	—	45,160	48,409	47,956	51,205
Payable to Group companies and associates	—	—	—	—	—	—	40,642	43,821	40,642	43,821
Bank borrowings	—	—	—	—	—	—	4,186	4,244	4,186	4,244
Derivatives (Note 16)	1,038	1,758	2,796	—	2,796	—	—	—	2,796	2,796
Other financial liabilities	—	—	—	—	—	—	332	344	332	344
Current financial liabilities	119	133	252	—	252	—	15,201	15,226	15,453	15,478
Payable to Group companies and associates	—	—	—	—	—	—	14,101	14,128	14,101	14,128
Bank borrowings	—	—	—	—	—	—	896	894	896	894
Bonds and other marketable debt securities	—	—	—	—	—	—	204	204	204	204
Derivatives (Note 16)	119	133	252	—	252	—	—	—	252	252
Total financial liabilities	1,157	1,891	3,048	—	3,048	—	60,361	63,635	63,409	66,683

Derivatives are measured using the valuation techniques and models normally used in the market, based on money-market curves and volatility prices available in the market. Additionally, on this valuation, the credit valuation adjustment or CVA net for counterparty (CVA + DVA), which is the methodology used to measure the credit risk of the counterparties and of Telefónica itself is calculated to adjust the fair value determination of the derivatives. This adjustment reflects the possibility of insolvency or deterioration of the credit quality of the counterparty and Telefónica.

The calculation of the fair values of the Company’s financial debt instruments required an estimate for each currency of a credit spread curve using the prices of the Company’s bonds and credit derivatives.

Note 13. Bonds and other marketable debt securities

13.1 The balances and movements in issues of debentures, bonds and commercial paper at December 31, 2018 and 2017 are as follows:

2018

Millions of euros	Non-convertible debentures and bonds	Other marketable debt securities	Total
Opening balance	—	204	204
Additions	—	348	348
Disposals	—	(371)	(371)
Revaluation and other movements	—	—	—
Closing balance	—	181	181
Details of maturities:			
Non-current	—	—	—
Current	—	181	181

2017

Millions of euros	Non-convertible debentures and bonds	Other marketable debt securities	Total
Opening balance	788	370	1,158
Additions	—	428	428
Disposals	(774)	(594)	(1,368)
Revaluation and other movements	(14)	—	(14)
Closing balance	—	204	204
Details of maturities:			
Non-current	—	—	—
Current	—	204	204

The balance of “Non-convertible debentures and bonds” in 2017 was referred to Telefónica’s bond issuance made on July 24, 2014 amounting to 750 million euros. The bonds were mandatorily exchangeable into ordinary shares of Telecom Italia, S.p.A, maturing on July 24, 2017. At the maturity date, the Company fulfilled its commitments to deliver the shares with the vesting of the equity swap instrument arranged for that purpose. This movement was shown as disposals in the 2017 chart of movements.

At December 31, 2018 and 2017 there are no debentures and bonds outstanding.

13.2 At December 31, 2018, Telefónica, S.A. had a corporate promissory note programme registered with the CNMV, with the following features:

Millions of euros Amount	Placement system	Nominal amount of the Promissory notes	Terms of the Promissory notes	Placement
500 million; can be increased to 2,000 million	Auctions	100,000 euros	30, 60, 90, 180, 365, 540 and 731 days	Competitive auctions
	Tailored	100,000 euros	Between 3 and 731 days	Specific transactions

At December 31, 2018 the outstanding balance on this promissory note programme is 181 million euros (204 million euros in 2017).

13.3 The average interest rate during 2017 on debentures and bonds outstanding was 6.17%.

The average interest rate during 2018 on corporate promissory notes was -0.21% (-0.090% in 2017).

Note 14. Interest-bearing debt and derivatives

14.1 The balances at December 31, 2018 and 2017 are as follows:

December 31, 2018

Millions of euros	Current	Non-current	Total
Loans with financial entities (Note 12)	2,094	2,033	4,127
Derivative financial liabilities (Note 16)	208	2,207	2,415
Total	2,302	4,240	6,542

December 31, 2017

Millions of euros	Current	Non-current	Total
Loans with financial entities (Note 12)	896	4,186	5,082
Derivative financial liabilities (Note 16)	252	2,796	3,048
Total	1,148	6,982	8,130

14.2 The nominal values of the main interest-bearing debts at December 31, 2018 and 2017 are as follows:

2018

Description	Value Date	Maturity Date	Currency	Limit 12/31/18 (millions)	Balance (million of euros)
Structured Financing (*)	05/03/11	07/30/21	USD	106	93
Structured Financing (*)	02/22/13	01/31/23	USD	434	379
Structured Financing (*)	08/01/13	10/31/23	USD	359	314
Bilateral loan (1)	06/26/14	06/26/19	EUR	1,000	1,000
Structured Financing (*)	12/11/15	03/11/26	USD	591	516
Structured Financing (*)	12/11/15	03/11/26	EUR	401	401
Bilateral loan	02/23/16	02/23/21	EUR	100	100
Bilateral loan	10/24/16	03/19/19	EUR	150	150
Credit	12/27/02	12/27/20	EUR	380	271
Bilateral loan	12/28/17	10/22/20	EUR	100	100
Bilateral loan	11/24/17	01/30/26	EUR	100	100
Bilateral loan	12/20/17	07/22/19	EUR	385	385
Credit	05/23/13	03/01/20	GBP	100	112

(1) On July 17, 2018 the 500 million euros bilateral loan was cancelled prior to its maturity originally agreed in contract on June 26, 2019.

(*) Facility with amortization schedule, showing in the column "Limit 12/31/17" the outstanding amount.

Financial Statements

2017

Description	Value Date	Maturity Date	Limit Currency (millions)	Limit 12/31/17 (millions)	Balance (million of euros)
Structured Financing (*)	05/03/11	07/30/21	USD	153	128
Structured Financing (*)	02/22/13	01/31/23	USD	551	460
Structured Financing (*)	08/01/13	10/31/23	USD	446	371
Bilateral Loan (1)	06/26/14	06/26/19	EUR	1,500	1,500
Structured Financing (*)	12/11/15	03/11/26	USD	679	566
Structured Financing (*)	12/11/15	03/11/26	EUR	469	423
Bilateral loan	02/23/16	02/23/21	EUR	100	100
Loan	03/08/16	03/08/21	EUR	300	300
Bilateral loan	10/24/16	03/19/19	EUR	150	150
Credit	03/27/13	03/14/20	EUR	200	167
Credit	12/27/02	12/27/18	EUR	380	292

(*) Facilities with amortization schedule, showing in the column "Limit 12/31/17" the outstanding amount.

(1) On January 17, 2017 an amendment was made to the bilateral loan, with an outstanding amount of 1,500 million euros, split into two tranches with a new amortization schedule: tranche A for 500 million euros maturing on June 26, 2017 and tranche B for 1,000 million euros maturing on June 26, 2019. Later, on February 17, 2017 a new amendment was signed extending the maturity of the tranche A for 500 million euros up to June 26, 2019. Facility with amortization schedule.

14.3 Maturities of balances at December 31, 2018 and 2017 are as follows:

December 31, 2018	Maturity						
Millions of euros	2019	2020	2021	2022	2023	Subsequent years	Closing balance
Loans with financial entities	2,094	171	517	247	175	923	4,127
Derivative financial liabilities (Note 16)	208	600	293	221	126	967	2,415
Total	2,302	771	810	468	301	1,890	6,542

December 31, 2017	Maturity						
Millions of euros	2018	2019	2020	2021	2022	Subsequent years	Closing balance
Loans with financial entities	896	1,799	461	540	322	1,064	5,082
Derivative financial liabilities (Note 16)	252	209	820	440	174	1,153	3,048
Total	1,148	2,008	1,281	980	496	2,217	8,130

14.4 Interest-bearing debt arranged or repaid in 2018 mainly includes the following:

Description	Limit 12/31/18 (millions)	Currency	Outstanding balance 12/31/2018 (million euros)	Arrangement date	Maturity date	Drawdown 2018 (million euros)	Repayment 2018 (million euros)
Telefónica, S.A.							
Syndicated facility (1)	5,500	EUR	—	03/15/18	03/15/23	—	—
Bilateral Loan	100	EUR	100	11/24/17	01/30/26	100	—
Bilateral Loan	100	EUR	100	12/28/17	10/22/20	100	—
Bilateral Loan	385	EUR	385	12/20/17	07/22/19	385	—
Loan (2)	—	EUR	—	03/08/16	09/28/18	—	(300)
Bilateral loan (3)	1,000	EUR	1,000	06/26/18	06/26/19	—	(500)

(1) On March 15, 2018, Telefónica S.A executed a syndicated facility agreement for an aggregate amount of 5,500 million euros which unifies and replaces two existing revolving credit facilities: a revolving credit facility for3,000 million euros with maturity in February 2022. The facility agreement matures in 2023, with two annual extension options, at the request of Telefónica, for a maximum maturity in 2025.
(2) On September 28, 2018, an early repayment was made by Telefónica S.A. for the 300 million euros loan originally scheduled to mature on March 8, 2021.
(3) On July 17, 2018, an early repayment was made by Telefónica S.A. for 500 million euros originally scheduled to mature on June 26, 2019.

14.5 Average interest on loans and borrowings

The average interest rate in 2018 on loans and borrowings denominated in euros was 0.435% (0.47% in 2017) and 2.236% (2.516% in 2017) for foreign-currency loans and receivables.

14.6 Unused credit facilities

The balances of loans and borrowings only relate to drawn down amounts.
At December 31, 2018 and 2017, Telefónica had undrawn credit facilities amounting to 9,908 million euros and 9,967 million euros, respectively.
Financing arranged by Telefónica, S.A. at December 31, 2018 and 2017 is not subject to compliance with financial ratios (covenants).

Note 15. Payable to group companies and associates

15.1 The breakdown of payable to group companies and associates at the 2018 and 2017 year ends is as follows:

December 31, 2018

Millions of euros	Non-current	Current	Total
Loans	41,127	15,339	56,466
Trade payables to Group companies and associates	—	166	166
Derivatives (Note 16)	—	23	23
Tax Group payables to subsidiaries	27	50	77
Total	41,154	15,578	56,732

December 31, 2017

Millions of euros	Non-current	Current	Total
Loans	40,610	13,569	54,179
Trade payables to Group companies and associates	—	264	264
Derivatives (Note 16)	3	6	9
Tax Group payables to subsidiaries	29	262	291
Total	40,642	14,101	54,743

The maturity of these loans at the 2018 and 2017 year ends is as follows (figures in millions of euros):

December 31, 2018

Company	2019	2020	2021	2022	2023	2024 and subsequent years	Final balance, current and non-current
Telefónica Emisiones, S.A.U.	4,029	4,673	3,421	3,621	2,181	17,114	35,039
Telefónica Europe, B.V.	2,562	782	291	996	2,239	5,224	12,094
Telfisa Global, B.V.	8,748	—	—	—	—	—	8,748
Telefónica Participaciones, S.A.U.	—	—	585	—	—	—	585
Total	15,339	5,455	4,297	4,617	4,420	22,338	56,466

December 31, 2017

Company	2018	2019	2020	2021	2022	2023 and subsequent years	Final balance, current and non-current
Telefónica Emisiones, S.A.U.	4,248	3,491	4,632	3,389	3,641	15,454	34,856
Telefónica Europe, B.V.	2,052	849	1,421	622	995	5,538	11,476
Telfisa Global, B.V.	7,269	—	—	—	—	—	7,269
Telefónica Participaciones, S.A.U.	—	—	—	578	—	—	578
Total	13,569	4,340	6,053	4,589	4,636	20,992	54,179

Financing raised by Telefónica, S.A. through its subsidiary Telefónica Europe, B.V. at December 31, 2018 amounting 12,094 million euros (11,476 million euros in 2017). This financing entails a number of loans paying market interest rates calculated on a Euribor plus spread basis, with an average interest rate in 2018 of 0.04%

(4.55% in 2017). The main source of this financing was the funds obtained through the issuance of undated deeply subordinated reset rate guaranteed securities amounting to 7,484 million euros (7,026 million euros in 2017), bonds and debentures amounting to 1,559 million euros (1,542 million euros in 2017) and commercial paper amounting to 1,666 million euros (1,850 million euros in 2017).

Financing raised by Telefónica, S.A. through Telefónica Emisiones, S.A.U. at December 31, 2018 was 35,039 million euros (34,856 million euros in 2017). This financing is arranged as loans between these companies on the similar terms and conditions as those of the notes issued under the debt issuance programmes of Telefónica Emisiones, S.A.U. The average interest rate in 2018 was 3.36% (3.86% in 2017). The financing arranged includes, as a related cost, the fees or premiums taken to the income statement for the period corresponding to the financing based on the corresponding effective interest rates. Telefónica Emisiones, S.A.U. raised financing in 2018 by tapping the European, American and Taiwanese capital markets, issuing bonds totaling 3,611 million euros (7,324 million euros in 2017). The characteristics of the main bonds issued during 2018 are the following:

Description	Issue date	Maturity date	Amount in millions (nominal)	Currency of issue	Amount in millions of euros (nominal)	Coupon	
Telefónica Emisiones, S.A.U.							
EMTN bond	1/22/2018	1/22/2027	1,000	EUR	1,000	1.447	%
SHELF bond	3/6/2018	3/6/2038	750	USD	655	4.665	%
SHELF bond	3/6/2018	3/6/2048	1,250	USD	1,091	4.895	%
EMTN bond	9/11/2018	9/11/2025	1,000	EUR	1,000	1.495	%

Part of the amount owed by Telefónica, S.A. to Telefónica Emisiones, S.A.U. and to Telefónica Europe, B.V. includes adjustments to amortized cost at December 31, 2018 and 2017 as a result of fair value interest rate and exchange rate hedges.

Telfisa Global, B.V. centralizes and handles cash management and flows for the Telefónica Group in Latin America, the United States, Europe and Spain. The balance payable to this subsidiary is formalized through several deposit agreements accruing interest at market rates and amounting to 8,748 million euros in 2018 (7,269 million euros in 2017).

Financing raised by Telefónica, S.A. through Telefónica Participaciones, S.A.U. at December 31, 2018 totals 585 million euros (578 million euros in 2017) and corresponds to a loan with a principal of 600 million euros at an annual interest rate of 0.25%; which funds are a result of the issuance of non-dilutive convertible bonds carried out by Telefónica Participaciones, S.A.U., guaranteed by Telefónica, S.A. at March 9, 2016. These bonds are benchmarked against the value of Telefónica S.A. shares, with an aggregate nominal amount of 600 million euros, an issue price of 101.25% and 5-year maturity.

15.2 The balance of “Payable to subsidiaries due to taxation on a consolidated basis” was 77 and 291 million euros at December 31, 2018 and 2017, respectively. This basically includes payables to Group companies for their contribution of taxable income (tax loss carryforwards) to the tax group headed by Telefónica, S.A. (see Note 17). The current or non-current classification is based on the Company’s projection of maturities.

The most significant amounts correspond to Telefónica Digital España, S.L.U. for 31 million euros (34 million in 2017), Telefónica International Wholesale Services II, S.L. for 7 million euros, and Telefónica Innovación Alpha, S.L. for 4 million euros (2 million in 2017).

Note 16. Derivative financial instruments and risk management policies

a) Derivative financial instruments

During 2018, the Group continued to use derivatives to limit interest and exchange rate risk on otherwise unhedged positions, and to adapt its debt structure to market conditions.

At December 31, 2018, the total outstanding balance of derivatives transactions was 115,410 million euros (116,580 million euros in 2017), of which 89,341 million euros related to interest rate risk and 26,069 million euros to foreign currency risk. In 2017, 92,948 million euros related to interest rate risk and 23,632 million euros to foreign currency risk.

It should be noted that at December 31, 2018, Telefónica, S.A. had transactions with financial institutions to hedge exchange rate risk for other Telefónica Group companies amounting to 1,684 million euros (1,637 million euros in 2017). At year-end 2018 and 2017, the Company had no transactions to hedge interest rate risk for other Group companies. These external trades are matched by intra-group hedges with identical terms and maturities between Telefónica, S.A. and Group companies, and therefore involve no risk for the Company. External derivatives not backed by identical intragroup transactions consist of hedges on net investment and future acquisitions that, by their nature, cannot be transferred to Group companies and/or transactions to hedge financing raised by Telefónica, S.A. as parent company of the Telefónica Group, which are transferred to Group subsidiaries in the form of financing rather than via derivative transactions.

The breakdown of Telefónica, S.A.'s interest rate and exchange rate derivatives at December 31, 2018, their notional amounts at year end and the expected maturity schedule is as follows:

2018

Millions of euros		Telefónica receives		Telefónica pays	
Type of risk	Value in Euros	Carrying	Currency	Carrying	Currency
Euro interest rate swaps	65,786				
Fixed to fixed	200	200	EUR	200	EUR
Fixed to floating	32,933	32,933	EUR	32,933	EUR
Floating to fixed	32,653	32,653	EUR	32,653	EUR
Foreign currency interest rate swaps	22,467				
Fixed to floating					
CHFCHF	333	375	CHF	375	CHF
GBPGBP	2,688	2,405	GBP	2,405	GBP
USDUSD	18,340	21,006	USD	21,006	USD
Floating to fixed					
GBPGBP	425	380	GBP	380	GBP
USDUSD	410	470	USD	470	USD
Floating to floating					
USDUSD	271	310	USD	310	USD
Exchange rate swaps	16,464				
Fixed to fixed					
EURBRL	123	123	EUR	546	BRL
Fixed to floating					
JPYEUR	95	15,000	JPY	95	EUR
Floating to fixed					
USDEUR	162	200	USD	162	EUR
Floating to floating					
CHFEUR	308	375	CHF	308	EUR
GBPEUR	2,048	1,600	GBP	2,048	EUR
USDEUR	13,728	16,230	USD	13,728	EUR
Forwards	9,605				
BRLEUR	100	444	BRL	100	EUR
CLPEUR	1	640	CLP	1	EUR
CZKEUR	66	1,708	CZK	66	EUR
EURBRL	2,160	2,160	EUR	9,584	BRL
EURCLP	339	339	EUR	269,670	CLP
EURGBP	4,061	4,061	EUR	3,634	GBP
EURMXN	1	1	EUR	29	MXN
EURUSD	1,575	1,575	EUR	1,804	USD
GBPEUR	280	252	GBP	280	EUR
GBPUSD	2	2	GBP	3	USD
USDBRL	19	22	USD	83	BRL
USDCLP	5	6	USD	4,060	CLP

Financial Statements

USDCOP	2	2	USD	7,193	COP
USDEUR	965	1,110	USD	965	EUR
USDGBP	22	26	USD	20	GBP
USDPEN	3	3	USD	10	PEN
CLPUSD	1	1,071	CLP	2	USD
BRLUSD	3	13	BRL	3	USD
PENUSD	—	1	PEN	—	USD
COPUSD	—	1,675	COP	1	USD
Swaption	250				
Fixed to floating					
EUREUR	205	205	EUR	205	EUR
Floating to fixed					
EUREUR	45	45	EUR	45	EUR
Subtotal	114,572				

Millions of euros

Notional amounts of structured products with options	Value in euros	Notional	Currency
Caps&Floors	838		
GBP	838	750	GBP
TOTAL	115,410		

The breakdown by average maturity is as follows:

Millions of euros

Hedged underlying item	Notional	Up to 1 year	From 1 to 3 years	From 3 to 5 years	Over 5 years
Promissory notes	1,700	—	1,700	—	—
Pension Plans	4,347	630	955	970	1,792
Loans	15,492	2,478	6,135	4,168	2,711
in national currency	10,260	1,425	4,560	1,925	2,350
in foreign currencies	5,232	1,053	1,575	2,243	361
Debentures and bonds MtM	63,550	2,989	25,687	4,921	29,953
in national currency	15,967	550	8,650	2,767	4,000
in foreign currencies	47,583	2,439	17,037	2,154	25,953
Other underlying*	30,321	20,622	3,594	3,753	2,352
CCS	373	123	250	—	—
Forward	9,605	9,605	—	—	—
IRS	20,343	10,894	3,344	3,753	2,352
Total	115,410	26,719	38,071	13,812	36,808

(*) Most of these transactions are related to economic hedges of investments, assets and liabilities of subsidiaries

The breakdown of Telefónica, S.A.'s derivatives in 2017, their notional amounts at year end and the expected maturity schedule is as follows:

2017

Millions of euros		Telefónica receives		Telefónica pays	
Type of risk	Value in Euros	Carrying	Currency	Carrying	Currency
Euro interest rate swaps	67,355				
Fixed to fixed	390	390	EUR	390	EUR
Fixed to floating	34,020	34,020	EUR	34,020	EUR
Floating to fixed	32,945	32,945	EUR	32,945	EUR
Foreign currency interest rate swaps	23,523				
Fixed to floating					
CHFCHF	534	625	CHF	625	CHF
GBPGBP	3,865	3,430	GBP	3,430	GBP
JPYJPY	74	10,000	JPY	10,000	JPY
USDUSD	17,026	20,421	USD	20,421	USD
Floating to fixed					
GBPGBP	1,217	1,080	GBP	1,080	GBP
USDUSD	807	968	USD	968	USD
Exchange rate swaps	16,040				
Fixed to fixed					
EURBRL	138	138	EUR	546	BRL
Fixed to floating					
JPYEUR	95	15,000	JPY	95	EUR
Floating to fixed					
USDEUR	702	765	USD	702	EUR
Floating to floating					
CHFEUR	515	625	CHF	515	EUR
GBPEUR	2,048	1,600	GBP	2,048	EUR
JPYEUR	101	10,000	JPY	101	EUR
USDEUR	12,441	14,849	USD	12,441	EUR
Forwards	7,592				
BRLEUR	9	33	BRL	9	EUR
CLPEUR	1	640	CLP	1	EUR
CZKEUR	67	1,708	CZK	67	EUR
EURBRL	728	728	EUR	2,889	BRL
EURCLP	367	367	EUR	270,421	CLP
EURGBP	3,056	3,056	EUR	2,712	GBP
EURMXN	1	1	EUR	18	MXN
EURUSD	1,269	1,269	EUR	1,522	USD
GBPEUR	1,021	906	GBP	1,021	EUR
GBPUSD	1	1	GBP	1	USD
USDBRL	20	24	USD	77	BRL

USDCLP	3	4	USD	2,353	CLP
USDCOP	1	1	USD	4,130	COP
USDEUR	1,018	1,216	USD	1,018	EUR
USDGBP	28	33	USD	25	GBP
USDPEN	2	3	USD	9	PEN
Swaption	425				
Fixed to floating					
EUREUR	205	205	EUR	205	EUR
Floating to fixed					
EUREUR	220	220	EUR	220	EUR
Subtotal	114,935				

Millions of euros

Notional amounts of structured products with options	Value in Euros	Notional	Currency
Interest rate options Caps & Floors	1,645		
Caps&Floors	1,645		
GBP	845	750	GBP
EUR	800	800	EUR
Currency options	—		
USDEUR	120	120	EUR
EURUSD	(120)	(120)	EUR
Subtotal	1,645		
TOTAL	116,580		

The breakdown by average maturity is as follows:

Millions of euros

Hedged underlying item	Notional	Up to 1 year	From 1 to 3 years	From 3 to 5 years	Over 5 years
Promissory notes and Commercial Paper	200	—	200	—	—
Pension plans	5,009	700	1,145	935	2,229
Loans	21,041	4,158	7,838	4,525	4,520
in national currency	14,635	2,425	6,600	1,660	3,950
in foreign currencies	6,406	1,733	1,238	2,865	570
Debentures and bonds MtM	63,822	7,696	18,311	13,470	24,345
in national currency	18,767	2,200	8,250	2,917	5,400
in foreign currencies	45,055	5,496	10,061	10,553	18,945
Other underlying*	26,508	13,851	5,647	3,030	3,980
CCS	390	73	317	—	—
Forward	7,591	7,591	—	—	—
IRS	18,527	6,187	5,330	3,030	3,980
Total	116,580	26,405	33,141	21,960	35,074

(*) Most of these transactions are related to economic hedges of investments, assets and liabilities of subsidiaries

The debentures and bonds hedged relate to both those issued by Telefónica, S.A. and intragroup loans on the same terms as the issues of Telefónica Europe, B.V. and Telefónica Emisiones, S.A.U.

b) Risk management policy

Telefónica, S.A. is exposed to various financial market risks as a result of: (i) its ordinary business activity, (ii) debt incurred to finance its business, (iii) its investments in companies, and (iv) other financial instruments related to the above commitments.

The main market risks affecting Telefónica are as follows:

Exchange rate risk

Foreign currency risk primarily arises in connection with: (i) Telefónica's international presence, through its investments and businesses in countries that use currencies other than the euro (primarily in Latin America and in the United Kingdom), and (ii) debt denominated in currencies other than that of the country where the business is conducted or the home country of the company incurring such debt.

Interest rate risk

Interest rate risk arises primarily in connection with changes in interest rates affecting (i) financial expenses on floating rate debt (or short-term debt likely to be renewed), due to changes in interest rates and (ii) the value of non-current liabilities at fixed interest rates.

Share price risk

Share price risk arises primarily from changes in the value of the equity investments (that may be bought, sold or otherwise involved in transactions), from changes in the value of derivatives associated with such investments, from changes in the value of treasury shares and from equity derivatives.

Other risks

Telefónica, S.A. is also exposed to liquidity risk if a mismatch arises between its financing needs (operating and financial expense, investment, debt redemptions and dividend commitments) and its sources of finance (revenues, divestments, credit lines from financial institutions and capital market operations). The cost of finance could also be affected by movements in the credit spreads (over benchmark rates) demanded by lenders.

Credit risk appears when a counterparty fails to meet or delays its payment obligations in accordance with the agreed terms, driving an impairment in an asset due to: (i) solvency issues, or (ii) no intention to pay.

Finally, Telefónica is exposed to country risk (which overlaps with market and liquidity risks). This refers to the possible decline in the value of assets, cash flows generated or cash flows returned to the parent company as a result of political, economic or social instability in the countries where Telefónica, S.A. operates, especially in Latin America.

Risk management

Telefónica, S.A. actively manages these risks through the use of derivatives (primarily on exchange rates, interest rates and share prices) and by incurring debt in local currencies, where appropriate, with a view to optimize the financial cost and to stabilizing cash flows, the income statement and investments. In this way, Telefónica attempts to protect its solvency, facilitate financial planning and take advantage of investment opportunities.

Telefónica manages its exchange rate risk and interest rate risk in terms of net debt and net financial debt as calculated by them. Telefónica believes that these parameters are more appropriate to understanding its debt position. Net debt and net financial debt take into account the impact of the Group's cash balance and cash equivalents including derivatives positions with a positive value linked to liabilities. Neither net debt nor net financial debt as calculated by Telefónica should be considered an alternative to gross financial debt (the sum of current and non-current interest-bearing debt) as a measure of leverage.

Exchange rate risk

The fundamental objective of the exchange rate risk management policy is that, in event of depreciation in foreign currencies relative to the euro, any potential losses in the value of the cash flows generated by the businesses in such currencies, caused by depreciation in exchange rates of a foreign currency relative to the euro, are offset (to some extent) by savings from the reduction in the euro value of debt denominated in such currencies and/or synthetic debt in such currencies. This objective is also reflected on the decrease of the sensitivity to exchange rate variations of the net debt to operating income before depreciation and amortization (OIBDA) ratio, in order to protect the Group solvency.

The degree of exchange rate hedging employed varies depending on the type of investment. For transactions of purchase or sale of business in currencies other than euro, additional hedges can be made on the estimate prices of the transactions or on estimated cash flows and OIBDA.

Telefónica occasionally takes out dollar-denominated debt to hedge the euro-dollar intermediate component in the relation euro-Latin American currencies, either in Spain (where such debt is associated with an investment as long as it is considered to be an effective hedge) or in the country itself, where the market for local currency financing or hedges may be inadequate or non-existent.

At December 31, 2018, the net financial debt in pounds sterling was approximately 1.97 times the value of the business' OIBDA in 2018 for Group companies in the United Kingdom, which was in line with the policy of previous years of 2 times the OIBDA ratio. At December 31, 2018, the net financial debt denominated in pounds sterling was equivalent to 3,566 million euros (3,089 million euros at December 31, 2017).

Telefónica also manages its exchange rate risk, seeking to significantly reduce the negative impact of any currency exposure on the income statement, both from transactions recognized on the balance sheet and those classified as highly probable, regardless of whether or not open positions are held. Such open position exposure can arise for any of three reasons: (i) a thin market for local derivatives or difficulty in obtaining funding in the local currency, making it impossible to arrange a low-cost hedge (as in Argentina and Venezuela); financing through intra-group loans, where the accounting treatment of exchange rate risk is different from that for funding through capital contributions, and (iii) as the result of a deliberate policy decision, to avoid the high cost of hedges that are not warranted by expectations or high depreciation risks.

The main transactions that generate or may generate exchange rate risk (regardless of whether or not they have an impact on the income statement) are, among others, as follows: issues in currencies other than the euro, which is Telefónica S.A.'s functional currency, highly probable transactions in other currencies, future cash inflows in other currencies, investments and divestments, provisions for collections or payments in foreign currency, the actual value of the investments (subsidiaries) in currencies other than the euro.

Interest rate risk

The Telefónica´s financial expenses are exposed to changes in interest rates. In 2018 Euribor, the dollar Libor and the pound sterling Libor were the short term rates that accounted for most of the exposure. Telefónica manages its interest rate risk by entering into derivative financial instruments, primarily swaps and interest rate options.

Telefónica analyzes its exposure to changes in interest rates at the Telefónica Group level. The table illustrates the sensitivity of finance costs and the balance sheet to variability in interest rates at Group and Telefónica, S.A. level.

To calculate the sensitivity of the income statement, a 100 basis point rise in interest rates in all currencies in which there are financial positions at December 31, 2018 has been assumed, as well as a 100 basis point decrease in all currencies in order to avoid negative rates. The constant position equivalent to that prevailing at the end of the year has also been assumed.

To calculate the sensitivity of equity to variability in interest rates, a 100 basis point increase in interest rates in all currencies and terms in which there are financial positions at December 31, 2018 was assumed, as well as a 100 basis point decrease in all currencies and terms. Cash flow hedge positions were also considered as they are the only positions where changes in market value due to interest-rate fluctuations are recognized in equity.
In both cases, only transactions with external counterparties have been considered.

	Impact on Consolidated net income	Impact on P/L Telefónica, S.A.	Impact on Consolidated Equity	Impact on Telefónica, S.A. Equity
+100bp	(102)	(58)	317	317
-100bp	88	55	(317)	(317)

Share price risk

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

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

In 2018, the General Shareholder's Meeting approved a new long-term incentive plan consisting of the delivery of shares of Telefónica, S.A. allocated to Senior Executive Officers of the Telefónica Group. The characteristics of the plan are described in Note 19. Additionally, the Shareholder's Meeting approved a share plan for the incentivised purchase of shares for employees of the Telefónica Group, which will be implemented in 2019.

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

In addition, part of the treasury shares of Telefónica, S.A. held at December 31, 2018 might be used to cover the shares deliverable under the new plans. The fair value of the treasury shares at liquidation moment could increase or decrease depending on the variations in Telefónica, S.A.'s share quotation.

Liquidity risk

The Telefónica Group seeks to match the schedule for its debt maturity payments to its capacity to generate cash flows to meet these maturities, while allowing for some flexibility. In practice, this has been translated into two key principles:

1. The Telefónica Group's average maturity of net financial debt is intended to stay above 6 years, or be restored above that threshold in a reasonable period of time if it eventually falls below it. This principle is considered as a guideline when managing debt and access to credit markets, but not a rigid requirement. When calculating the average maturity for the net financial debt and part of the undrawn credit lines can be considered as offsetting the shorter debt maturities, and extension options on some financing facilities may be considered as exercised, for calculation purposes.

2. The Telefónica Group must be able to pay all commitments over the next 12 months without accessing new borrowing or tapping the capital markets (drawing upon firm credit lines arranged with banks), assuming budget projections are met.

Country risk

The Telefónica Group managed or mitigated country risk by pursuing two lines of action (in addition to its normal business practices):

1. Partly matching assets to liabilities (those not guaranteed by the parent company) in the Telefónica Group's Latin American companies such that any potential asset impairment would be accompanied by a reduction in liabilities; and,
2. Repatriating funds generated in Latin America that are not required for the pursuit of new, profitable business development opportunities in the region.

Credit risk

The Telefónica Group trades in derivatives with creditworthy counterparties. Therefore, Telefónica, S.A. generally trades with credit entities whose "senior debt" ratings are of at least "A-" or in case of Spanish entities in line with the credit rating of Kingdom of Spain. In Spain, where most of the Group's derivatives portfolio is held, there are netting agreements with financial institutions, with debtor or creditor positions offset in case of bankruptcy, limiting the risk to the net position. In addition, the CDS (Credit Default Swap) of all the counterparties with which Telefónica, S.A. operates is monitored at all times in order to assess the maximum allowable CDS for operating at any given time. Transactions are generally only carried out with counterparties whose CDS is below the threshold.

CVA or Credit Valuation Adjustment is the method used to measure credit risk for both counterparties and Telefonica in order to determine the fair value of the derivatives portfolio. This adjustment reflects the probability of default or the deterioration of the credit quality of both Telefonica and its counterparties. The simplified formula to calculate CVA is Expected Exposure times Probability of Default times Loss Given Default. In order to calculate these variables standard market practices are used.

When managing credit risk, Telefonica considers the use of CDS, novations, derivatives with break clauses and signing CSA´s under certain conditions.

For other subsidiaries, particularly those in Latin America, assuming a stable sovereign rating provides a ceiling which is below "A", trades are with local financial entities whose rating by local standards is considered to be of high creditworthiness.

Meanwhile, with credit risk arising from cash and cash equivalents, the Telefónica Group places its cash surpluses in high quality and highly liquid money-market assets. These placements are regulated by a general framework, revised annually. Counterparties are chosen according to criteria of liquidity, solvency and diversification based on the conditions of the market and countries where the Group operates. The general framework sets: the maximum amounts to be invested by counterparty based on its rating (long-term debt rating); and the instruments in which the surpluses may be invested (money-market instruments).

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

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

This customer credit risk management model is embedded in the day-to-day operational processes of the different companies, where the credit risk assessment guides both the product and services available for the different customers and the collection strategy.

Telefónica's maximum exposure to credit risk is initially represented by the carrying amounts of the assets (see Notes 8 and 9) and the guarantees given by Telefónica.

Capital management

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

The corporate finance department estimates the cost of capital on a continuous basis through the monitoring of the financial markets and the application of standard industry approaches for calculating weighted average cost of capital, or WACC, so that it can be applied in the valuation of businesses in course and in the evaluation of investment projects. Telefónica also uses as reference a net financial debt (excluding items of a non-recurring or exceptional nature) that allows for a comfortable investment grade credit rating as assigned by credit rating agencies, aiming at protecting credit solvency and making it compatible with alternative uses of cash flow that could arise at any time. These general principles are refined by other considerations and the application of specific variables, such as country risk in the broadest sense, or the volatility in cash flow generation that are considered, when evaluating the financial structure of the Telefónica Group and its different areas.

Derivatives Policy

Telefónica's derivatives policy emphasizes the following points:

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

Hedge accounting

Hedges can be of three types:

- Fair value hedges.
- Cash flow hedges. Such hedges can be set at any value of the risk to be hedged (interest rates, exchange rates, etc.) or for a defined range (interest rates between 2% and 4%, above 4%, etc.). In this last case, the hedging instrument used is options and only the intrinsic value of the option is recognized as an effective hedge.
- Hedges of net investment in consolidated foreign subsidiaries. Generally such hedges are arranged by the parent company and the other Telefónica holding companies. Wherever possible, these hedges are implemented through real debt in foreign currency. Often, however, this is not always possible as many Latin American currencies are non-convertible, making it impossible for non-resident companies to issue local currency debt. It may also be that, due to the debt market deepness, the debt in the currency concerned is not enough to accommodate the required hedge, or that an acquisition is made

in cash with no need for market financing. In these circumstances derivatives, either forwards or cross-currency swaps are mainly used to hedge the net investment.

Hedges can comprise a combination of different derivatives.

There is no reason to suppose management of accounting hedges will be static, with an unchanging hedging relationship lasting right through maturity. Hedging relationships may change to allow appropriate management that serves our stated principles of stabilizing cahs flows, stabilizing net financial income/expense and protecting our equity. The designation of hedges may therefore be cancelled, before maturity, because of a change in the underlying, a change in the perceived risk on the underlying or a change in market view. The hedges must meet the effectiveness test and be well documented. To gauge the efficiency of transactions defined as accounting hedges, we analyze the extent to which the changes in the fair value or in the cash flows attributable to the hedged item would offset the changes in fair value or cash flows attributable to the hedged risk using a linear regression model for both forward- and backward-looking analysis.

The possible sources of ineffectiveness that Telefónica can have when designing a hedging relationship and that will be considered when establishing the hedging rationale are:

- The hedging instrument and the hedged item have different maturity dates, initial dates, contract dates, repricing dates, etc.
- The hedging instrument starts with initial value and a financing effect is produced.
- When a cross-currency swap is designated as a hedging instrument on a foreign currency bond and the currency basis spread remains within the coverage.
- When the underlying items have different sensitivity and are not homogeneous, for example EURIBOR 3M versus EURIBOR 6M.

The main guiding principles for risk management are laid down by Telefónica’s finance department and implemented by company financial officers (who are responsible for balancing the interests of each company and those of the Telefónica Group). The Corporate finance department may allow exceptions to this policy where these can be justified, normally when the market is too thin for the volume of transactions required or on clearly limited and small risks.

In 2018 the Company recognized a loss of 28.4 million euros for the ineffective part of cash flow hedges (a loss of 6.3 million euros in 2017).

The fair value of Telefónica, S.A. derivatives with third parties amounted to a positive MTM (accounts receivable) of 848 million euros in 2018 (254 million euros in 2017).

The fair value of Telefónica, S.A. intragroup derivatives amounted to a positive MTM (accounts payable) of 14 million euros in 2018 (+1 million euros in 2017).

The breakdown of the Company’s derivatives with third party counterparties at December 31, 2018 and 2017 by type of hedge, their fair value at year end and the expected maturity schedule is as follows:

2018

Millions of euros	Fair value	Notional amount maturities (*)				
Derivatives	(**)	2019	2020	2021	Subsequent years	Total
Interest rate hedges	(174)	(786)	1,698	—	(431)	481
Cash flow hedges	180	(650)	1,523	—	944	1,817
Fair value hedges	(354)	(136)	175	—	(1,375)	(1,336)
Exchange rate hedges	44	262	2,219	1,102	5,980	9,563
Cash flow hedges	44	262	2,219	1,102	5,980	9,563
Interest and exchange rate hedges	(467)	962	800	2,002	1,743	5,507
Cash flow hedges	(467)	962	800	2,002	1,743	5,507
Other derivatives	(251)	(9,904)	(321)	(1,481)	(2,551)	(14,257)
Interest rate	(132)	(3,571)	(321)	(881)	(2,551)	(7,324)
Exchange rate	(123)	(6,333)	—	—	—	(6,333)
Other	4	—	—	(600)	—	(600)

(*) For interest rate hedges, the positive amount is in terms of fixed "payment." For foreign currency hedges, a positive amount means payment in functional vs. foreign currency.
(**) Positive amounts indicate payables.

2017

Millions of euros	Fair value	Notional amount maturities (*)				
Derivatives	(**)	2018	2019	2020	Subsequent years	Total
Interest rate hedges	(159)	(1,407)	(780)	1,690	577	80
Cash flow hedges	246	(900)	(650)	1,523	1,844	1,817
Fair value hedges	(405)	(507)	(130)	167	(1,267)	(1,737)
Exchange rate hedges	341	1,266	621	2,219	4,720	8,826
Cash flow hedges	341	1,266	621	2,219	4,720	8,826
Interest and exchange rate hedges	(389)	308	962	800	3,744	5,814
Cash flow hedges	(389)	308	962	800	3,744	5,814
Other derivatives	(63)	(3,418)	1,766	(495)	(3,401)	(5,548)
Interest rate	(123)	(3,035)	1,840	(495)	(3,401)	(5,091)
Exchange rate	(9)	(1,193)	(74)	—	—	(1,267)
Other	69	810	—	—	—	810

(*) For interest rate hedges, the positive amount is in terms of fixed "payment." For foreign currency hedges, a positive amount means payment in functional vs. foreign currency.
(**) Positive amounts indicate payables.

Note 17. Income tax

Pursuant to a Ministerial Order dated December 27, 1989, Telefónica, S.A. has filed consolidated tax returns with certain Group companies. The consolidated tax group in 2018 and 2017 comprised 44 and 45 companies, respectively. Consolidated tax group is valid during an indefinite period as long as the law requirements are fulfilled, or the Company decides to expressly resign to it.

Tax balances as of December 31, 2018 and 2017 are as follows:

Millions of euros	2018	2017
Tax receivables:	3,157	3,167
Deferred tax assets:	2,978	2,857
Deferred income tax (income)	277	406
Long-term tax credits for loss carryforwards	1,831	1,060
Unused tax deductions	870	1,391
Current tax receivables (Note 10):	179	310
Withholdings	20	19
Corporate income tax payable	154	284
VAT and Canary Islands general indirect tax refundable	5	7
Tax payable:	470	680
Deferred tax liabilities:	291	427
Current payables to public administrations (Note 18):	179	253
Personnel income tax withholdings	5	4
Withholding on investment income, VAT and other	173	247
Social security	1	2

Telefónica, S.A. has tax credits for loss carryforwards, unused by Tax Group in Spain at December 31, 2018 amounting to 8,291 million euros (gross):

31/12/2018	Total carryforwards	Less than 1 year	More than 1 year	Total recognized
Tax Group tax credits for loss carryforwards	8,040	3,322	4,718	6,784
Prior to Tax Group loss carryforwards (*)	251	—	251	—

(*) Unused tax credits for loss carryforwards

Total tax credits based on the taxable income recognized in the balance sheet at December 31, 2018 therefore amounts to 1,831 million euros (1,160 million euros in 2017).

During 2018, Telefónica, S.A., as head of the Telefónica tax group, made payments on account of income tax amounting to 20 million euros (131 million euros in 2017).

17.1 Movement in deferred tax assets and liabilities

The balances and movements in “Deferred tax assets” and “Deferred tax liabilities” for Telefónica, S.A. at December 31, 2018 and 2017 are as follows:

2018

Millions of euros	Tax credits	Temporary differences, assets	Deductions	Total deferred tax assets	Deferred tax liabilities
Opening balance	1,060	406	1,391	2,857	427
Arising in the year	780	4	10	794	2
Reversal	—	(93)	(472)	(565)	—
Transfers to the tax group's net position	(9)	(40)	(59)	(108)	(138)
Closing balance	1,831	277	870	2,978	291

2017

Millions of euros	Tax credits	Temporary differences, assets	Deductions	Total deferred tax assets	Deferred tax liabilities
Opening balance	1,174	479	1,310	2,963	571
Arising in the year	—	19	9	28	—
Reversal	(114)	(56)	(6)	(176)	(2)
Transfers to the tax group's net position	—	(36)	78	42	(142)
Closing balance	1,060	406	1,391	2,857	427

Due to the amendment of the Corporate Tax Law by Royal Legislative Decree (RLD) 3/2016, of December 2, that limits the offsetting of negative tax bases to 25%, as a result of the impairment testing on the recoverability of deferred tax assets carried out by the Group, 98 million euros of tax loss carryforwards were reversed in 2017.

In 2018, the schedule of deferred tax assets and liabilities consumption has been built in accordance with the resolution issued by the Spanish Central Economic-Administrative Tax Court (Tribunal Económico Administrativo Central), notified on January 22, 2019, partially upholding the claims of the Company regarding the usage of tax credits, mainly tax loss carryforwards, during the years 2008, 2009 and 2010. As a consequence of this assumption, tax loss carryforwards amounting to 780 million euros have been activated and tax deductions of 472 million euros have been reversed (9 million euros were capitalized in 2017).

The effect of deferred taxes in equity in 2018 is a net disposal of 66 million euros (5 million euros of additions in 2017).

On the other hand, and in compliance with the sixteenth transitional provision of this RDL 3/2016, which requires the inclusion of one-fifth of the investment portfolio impairment losses which had been deductible in the tax base before January 1, 2013, 138 million euros of recorded deferred tax liabilities have been reversed, offsetting the negative gross tax payable (141 million euros in 2017).

17.2 Reconciliation of accounting profit to taxable income and income tax expense to income tax payable.

The calculation of the income tax expense and income tax payable for 2018 and 2017 is as follows.

Millions of euros	2018	2017
Accounting profit before tax	2,264	274
Permanent differences	(4,489)	(2,241)
Temporary differences:	464	394
Arising in the year	15	32
Arising in prior years	449	362
Tax result	(1,761)	(1,573)
Gross tax payable	(440)	(393)
Corporate income tax refundable	(440)	(393)
Activation/Reversion of loss carryforwards and/or deductions	(319)	89
Temporary differences for tax valuation	(116)	(99)
Other effects	71	84
Corporate income tax accrued in Spain	(804)	(319)
Foreign taxes	54	39
Income tax	(750)	(280)
Current income tax	(386)	(355)
Deferred income tax	(364)	75

The permanent differences mainly correspond to the change in the write-off of the investments in Group companies, to the non-tributable dividends received, to the non-tributable capital gains on the non-monetary contribution of the stake in Telxius transferred to Pontel and the subsequent sale of 16.65% share capital of Pontel (see Note 8) and to the financial goodwill.

The heading "Activation/reversion of loss carryforwards and/or deductions" mainly includes the reversion of deductions by 472 million euros (activation of deductions amounting to 9 million euros in 2017) and the activation of loss carryforwards by 780 million euros (reversal of loss carryforwards by 98 million euros in 2017), as mentioned in caption 17.1.

The caption “Other effects” mainly includes the impact arising from the provision made in relation to the tax deductibility of the financial goodwill taken in the year (see section 17.3).

17.3 Tax inspections and tax-related lawsuits

In 2012, tax inspections for all taxes for the years 2005 to 2007 were completed, with the Company signing off a corporate income tax assessment of 135 million euros, which was paid in 2012, whilst disputing other adjustments with which it disagreed. Although the settlement agreement for the disputed tax assessment did not give rise to any tax payment, since the adjustments proposed were offset by unused tax credits for loss carryforwards, the Company filed an appeal with the Central Economic-Administrative Court against these adjustments in May 2015, regarding the tax treatment of the “juros sobre el capital propio” (interest on own capital) as dividends.

On the other hand, in July 2015, tax inspections for all taxes for the years 2008 to 2011 were completed, with the Company signing off certain corporate income tax assessments and disputing others. This resulted in an expense amounting to 206 million euros in 2015. However, no cash payment was made, as the adjustments arising from the inspection were offset by unused tax credits for loss carryforwards, at the corresponding tax rate for each period.

Although the settlement agreement for the disputed tax assessment did not give rise to any tax payment, in July 2015 the Company filed an appeal with the Central Economic-Administrative Court against the adjustments in dispute, regarding the tax treatment of the “juros sobre el capital propio” (interest on own capital) as dividends, and the criteria to use tax credits for loss carryforwards in the years subject to settlement.

In June 2017 the Company received an order of the Audiencia Nacional extending the effects of its ruling from February 27, 2014 from another tax payer to the individual legal status of Telefónica in connection with the “Juros sobre el capital propio” (interest on own capital). As a consequence of the aforementioned, the Audiencia Nacional has voided the corporate income tax assesment, for the years 2005 to 2007 and 2008 to 2011 related to “Juros sobre el capital propio” settled by the tax authorities.

With respect to the use of tax loss carryforwards in the years subject to settlement during the inspection 2008 to 2011, still under litigation, in November 2017 the Company brought a judicial appeal to the Audiencia Nacional, against the alleged dismissal of the claim in the absence of a reply from the authorities. On January 22, 2019, Telefónica was notified of a resolution issued by the Central Economic-Administrative Court which partially upheld the claims made by Telefónica in connection with the tax inspections in dispute. Telefónica intends to appeal this resolution, which has not been executed yet, in respect of such matters that were resolved against the Company's interest.

At 2018 year end, it is not expected that there is any need to recognize additional liabilities for the outcome of this litigation.

Tax deducibility of financial goodwill

The tax regulations added article 12.5 to the Corporate Income Tax Law, which came into force on January 1, 2002. The article regulated the deductibility of tax amortization of financial goodwill arising from the acquisition of non-Spanish companies, which could be amortized over 20 years at 5% per annum. Following the entry into force of the Laws 9/2011 of August 19, 2011 and 16/2013 of October 29, 2013, the amount of goodwill amortization deductible for tax purposes under article 12.5 for the years 2011 to 2015 was reduced from 5% to 1%. The effect is temporary because the 4% not amortized during five years (20% in total) will be recovered extending the deduction period from the initial 20 years to 25 years.

The Telefónica Group, under this regulation, has been amortizing for tax purposes the financial goodwill from its investments, both direct and indirect, in O2, BellSouth and ColTel (prior to December 21, 2007) and Vivo (acquired in 2010). The positive accumulated effect in the corresponding settlements of corporate income tax from 2004 to the closing of December 31, 2018, was 1,389 million euros.

In relation to this tax incentive, the European Commission (EC) has in recent years commenced three proceedings against the Spanish State as it deems that this tax benefit could constitute an example of state aid. Although the EC itself acknowledged the validity of its first two decisions for those investors that invested in European companies (for operations carried out before December 21, 2007 in the first decision, and before May 21, 2011 for investments in other countries in the second decision), in its third decision from October 15, 2014 it calls into question the applicability of the principle of legitimate expectations in the application of the incentive for indirect acquisitions, whatever the date of acquisition may have been.

As of the date of these annual financial statements, the three decisions continue subject to a final ruling. The first two were annulled by two judgments of the General Court of the European Union, which were appealed by the EC before the Court of Justice of the European Union and sent again to the General Court by the Judgment dated December 21, 2016, to reassess the tax incentive. The Court sentenced November 15, 2018, confirming the applicability of legitimate expectations principle, but considering the "goodwill amortization" as state aid no compatible with the common market. The last Sentence has been appealed before the Court of Justice of the European Union; the third decision is still pending.

Furthermore, there are doubts in the Spanish courts regarding the classification of the incentive as a deduction and if this deduction would remain in the case of a subsequent transfer of the relevant stake.

The Group has continued accruing the amount of the goodwill amortized for tax purposes, corresponding mainly to the purchase of Vivo, for a total of 283 million euros at December 31, 2018 (215 million euros at December 31, 2017).

Note 18. Trade, other payables and provisions

A) Trade and other payables

The breakdown of “Trade and other payables” is as follows:

Millions of euros	2018	2017
Suppliers	83	84
Accounts payable to personnel	37	36
Other payables	63	166
Other payables to public administrations (Note 17)	179	253
Total	362	539

Other payables

In accordance with Telefónica’s irrevocable commitment, undertaken in 2015, to pay a 325 million euros donation to Fundación Telefónica, in 2018 cash payments have been made in an amount of 94 million euros and in-kind contributions amounting to 2 million euros. The outstanding amount of this item as of December 31, 2018 totals 49 million euros.

Information on deferred payments to third parties. (Third additional provision, “Information requirement” of Law 15/2010 of July, 5).

In accordance with the aforementioned Law, the following information corresponding to the Company is disclosed:

	2018	2017
	Number of days	Number of days
Weighted average maturity period	39	37
Ratio of payments	39	38
Ratio of outstanding invoices	39	19
	Millions of euros	Millions of euros
Total Payments	303	323
Outstanding invoices	29	28

Telefónica, S.A. has adapted its internal processes and payment schedules to the provisions of Law 15/2010 (amended by Law 31/2014) and Royal Decree 4/2013, amending Law 3/2004, establishing measures against late payment in commercial transactions. Engagement conditions with commercial suppliers, as contractually agreed with them, in 2018 included payment periods with a maximum of 60 days.

For reasons of efficiency and in line with general practice in the business, the Company has set payment schedules, whereby payments are made on set days. Invoices falling due between two payment days are settled on the following payment date in the schedule.

Payments to Spanish suppliers in 2018 surpassing the legal limit were due to circumstances or incidents beyond the payment policies, mainly the delay in the billing process (a legal obligation for the supplier), the closing of agreements with suppliers over the delivery of goods or the rendering of services, or occasional processing issues.

B) Provisions

In 2018 and 2017 the concepts and amounts under the provision captions are the following:

2018

Millions of euros	Non-current	Current	Total
Tax Provisions	298	—	298
Termination plans (Note 19)	82	18	100
Other provisions	114	75	189
Total	494	93	587

2017

Millions of euros	Non-current	Current	Total
Tax Provisions	230	—	230
Termination plans (Note 19)	115	44	159
Other provisions	114	79	193
Total	459	123	582

Movements in the provisions during 2018 and 2017 are disclosed below:

Millions of euros	2018	2017
Opening balance:	582	488
Additions	68	142
Amortization and reversals	(59)	(29)
Transfers	—	(22)
Fair value adjustments and others	(4)	3
Closing balance:	587	582
Maturity:		
Non-current	494	459
Current	93	123

In 2018 the caption “Additions” includes 68 million euros (62 million euros in 2017) of tax provisions for the article 12.5 of the Spanish Corporate Tax Law related to the acquisition of Vivo (see Note 17).

The caption “Transfers” included in 2017 the partial recovery of the value of certain investments which had a negative book value in 2016.

With respect to the simplification and transformation process of the Telefónica Group, Telefónica, S.A. launched in 2015 a voluntary termination plan ending in December 2017 for the employees who met the requirements defined by the Plan regarding age and seniority in the Company, among others. Following this transformation and simplification framework, the Company, on the one hand, extended the plan termination till 2018 and on the other hand, set up in December 2016 a new voluntary programme aimed at some employees who met certain requirements related to seniority in the Company. In 2017 the last programme was extended, with an additional provision of 11 million euros shown as "Additions" in the 2017 chart of movements.

Regarding the aforementioned termination plan, the caption “Amortization and reversals” includes in 2018 a provision reversal amounting to 18 million euros and amortizations of the same provision amounting to 41 million euros. During 2017 amortization and reversals related to this plan were recorded amounting to 36 million euros.

Note 19. Revenue and expenses

19.1 Revenue

a) Rendering of services

Telefónica, S.A. has contracts for the right to use the Telefónica brand with Group companies which use the license. The amount each subsidiary must recognize as a cost for use of the license is stipulated in the contract as a percentage of income obtained by the licensor. In 2018 and 2017, "Rendering of services to Group companies and associates" included 440 and 481 million euros, respectively, for this item.

Telefónica, S.A. has signed contracts to provide management support services to Telefónica de España, S.A.U, Telefónica Móviles España, S.A.U., Telefónica UK, Ltd., Telefónica Latinoamérica Holding, S.L., Telxius Telecom, S.A. and since 2018, Telefónica Germany, GmbH. Revenues received for this concept in 2018 and 2017 amounted to 30 and 31 million euros, respectively, recognized under "Rendering of services to Group companies and associates".

Revenues also include property rental income amounting to 43 and 45 million euros in 2018 and 2017, respectively, mainly generated from the lease of office space in Distrito Telefónica to several Telefónica Group companies (see Note 7).

b) Dividends from Group companies and associates

The detail of the main amounts recognized in 2018 and 2017 is as follows:

Millions of euros	2018	2017
Telfisa Global, B.V.	700	733
Telefónica de España, S.A.U.	1,574	664
Telefónica Europe, plc.	609	619
Telefónica Móviles España, S.A.U.	552	305
Telefônica Brasil, S.A.	447	355
Sao Paulo Telecomunicaçoes, Ltda	77	130
Telefónica Móviles Argentina, S.A.	31	164
Telefónica Centroamérica Inversiones, S.L.	42	34
Telefónica Luxembourg Holding S.à.r.L	165	—
Telxius Telecom, S.A.	32	—
Other companies	30	23
Total	4,259	3,027

c) Interest income on loans to Group companies and associates

This heading includes the return obtained on loans granted to subsidiaries to carry out their business (see Note 8.5). The breakdown of the most significant amounts is as follows:

Millions of euros	2018	2017
Telefónica Móviles México, S.A. de C.V.	49	43
Telefónica Móviles España, S.A.U.	6	7
Telefónica Latinoamérica Holding, S.L.	32	—
Telefónica Móviles Argentina, S.A.	—	4
Other companies	37	41
Total	124	95

19.2 Non-core and other current operating revenues

"Non-core and other current operating revenues – Group companies" relates to revenues on centralized services that Telefónica, S.A., as head of the Group, provides to its subsidiaries. Telefónica, S.A. bears the full cost of these services and then charges each individual subsidiary for the applicable portion.

19.3 Personnel expenses and employee benefits

The breakdown of "Personnel expenses" is as follows:

Millions of euros	2018	2017
Wages, salaries and other personnel expenses	119	151
Pension plans	3	2
Social security costs	21	21
Total	143	174

In 2018, "Wages, salaries and other personnel expenses" includes a reversal of compensation accruals amounting to 18 million euros (11 million euros of compensation accrual in 2017). The outstanding figure of this concept at 2018 closing balance has been described in Note 18.

Telefónica has reached an agreement with its staff to provide an Occupational Pension Plan pursuant to Legislative Royal Decree 1/2002, of November 29, approving the revised Pension Plans and Funds Law. The features of this plan are as follows:

- Defined contribution of 4.51% of the participating employees' base salary. The defined contributions of employees transferred to Telefónica from other Group companies with different defined contributions (e.g. 6.87% in the case of Telefónica de España, S.A.U.) will be maintained.
- Mandatory contribution by participants of a minimum of 2.2% of their base salary.
- Individual and financial capitalization systems.

This fund was outsourced to Telefónica subsidiary, Fonditel Entidad Gestora de Fondos de Pensiones, S.A., which has added the pension fund assets to its Fonditel B fund.

At December 31, 2018, 2,152 employees have signed up for the plan (2,059 employees in 2017). This figure includes both employees contributing and those who have ceased to contribute to the plan, as provided for in Royal Decree 304/2004 approving the regulations for Pension Plans and Funds. The cost for the Company amounted to 4 million euros both in 2017 and 2018.

In 2006, a Pension Plan for Senior Executives, wholly funded by the Company, was created and complements the previous plan and involves additional defined contributions at a certain percentage of the executive’s fixed remuneration, based on professional category, plus some extraordinary contributions depending on the circumstances of each executive, payable in accordance with the terms of the plan.

Telefónica, S.A. has recorded costs related to the contributions to this executive plan of 8 million euros in both 2017 and 2018. In 2018 and 2017 some executives under this Pension Plan for Senior Executives have left the Company, and accordingly their accumulated contributions have been retrieved by Telefónica, S.A. and registered as a minor expense totaling 9 million euros in both years.

No provision was made for this plan as it has been fully externalized.

The main share-based payment plans in place in the 2017-2018 period are as follows:

Long-term incentive plan based on Telefónica, S.A. shares: Performance Share Plan 2018-2022

At the General Shareholders’ Meeting held on June 8, 2018, a long-term incentive plan was approved, consisting of the delivery of shares of Telefónica, S.A. aimed at senior executive officers of the Telefónica Group, including the Executive Directors of Telefónica, S.A. The plan consists of the delivery to the participants of a certain number of shares of Telefónica, S.A. based on compliance with the objectives established for each of the cycles into which the plan is divided.

In the first cycle of the plan, the number of shares to deliver will depend (i) 50% on achievement of the total shareholder return ("TSR") objective for shares of Telefónica, S.A. and (ii) 50% on the generation of free cash flow of the Telefónica Group ("FCF").

For each of the remaining cycles, the Board of Directors of Telefónica, S.A. may introduce new objectives linked to sustainability, the environment or corporate governance, as well as vary the relative weight accorded to each of them.

The plan will have a total duration of five years and will be divided into three cycles of three years each. The first cycle commenced in 2018 and will be finalized on December 31, 2020, with delivery of the respective shares in 2021.

The maximum number of shares assigned to senior executive officers of the Telefónica Group in this cycle of the plan is 8,466,996 shares and the outstanding shares at December 31, 2018 8,451,511, with the following breakdown:

First cycle	No. of shares assigned	Outstanding shares as of December 31, 2018	Unit fair value
TSR Objective	4,233,498	4,225,755.5	4.52
FCF Objective	4,233,498	4,225,755.5	6.46
Total number of shares	8.466.996	8.451.511	

From this total, the shares assigned to Telefónica, S.A.'s employees are 2,950,982. The outstanding shares as of December 31, 2018 are 2,931,478.

Long-term incentive plan based on Telefónica, S.A. shares: “Performance and Investment Plan 2014-2019”

The Telefónica, S.A. General Shareholders’ Meeting on May 30, 2014 approved a new installment of the long-term share-based incentive “Performance and Investment Plan” for certain senior executives and members of the Group’s management team, operational on completion of the first “Performance and Investment Plan”.

The term of the plan was a total of five years divided into three cycles. The initial and the second share allocations took place on October 1, 2014, and on October 1, 2015, respectively. Regarding the third cycle of this 2016-2019 Plan, the Company's Board of Directors, following a favorable report from the Nomination, Compensation and Corporate Governance Committee, resolved not to execute or implement it, after having decided that it was not sufficiently in line with the Telefónica Group's strategic plan, taking into account the circumstances and macroeconomic environment.

The first cycle expired on September 30, 2017. The maximum number of shares assigned to this cycle of the plan was 6,927,953 shares assigned on October 1, 2014, with a fair value of 6.82 euros per share. The second cycle expired on September 30, 2018. The maximum number of shares assigned to this cycle was 6,775,445 shares assigned on October 1, 2015, with a fair value of 6.46 euros per share. Delivery of shares was not required at the end of each of these cycles according to the general conditions of the plan; therefore, managers did not receive any shares.

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

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

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

The first cycle commenced in 2018 and will be finalized on December 31, 2020, with delivery of the respective shares in 2021. The maximum number of shares assigned to employees of the Telefónica Group in this cycle of the plan is 787,500 shares and the outstanding shares at December 31, 2018 785,750, with the following breakdown:

First cycle	No. of shares assigned	Outstanding shares as of December 31, 2018	Unit fair value (euros)
TSR Objective	393,750	392,875	4.52
FCF Objective	393,750	392,875	6.46
Total number of shares	787.500	785.750	

From this total, the shares assigned to Telefónica, S.A.'s employees are 92,500. This same number of shares are outstanding at year end.

Long-term incentive plan based on Telefónica, S.A. shares: “Talent for the Future Share Plan 2014-2019” (TFSP)

At the General Shareholders’ Meeting held on May 30, 2014, a long-term share-based incentive plan called “Talent for the Future Share Plan” was approved for certain Telefónica Group employees.

The plan consisted of the delivery of a certain number of shares of Telefónica, S.A. to participants selected by the Company who had opted to take part in the scheme and had met the requirements and conditions stipulated to this end.

The term of the plan was five years and it was divided into three cycles. The initial and the second share allocations took place on October 1, 2014, and on October 1, 2015, respectively. Regarding the third cycle of this 2016-2019 Plan, the Company's Board of Directors, following a favorable report from the Nomination, Compensation and Corporate Governance Committee, resolved not to execute or implement it, after having decided that it was not sufficiently in line with the Telefónica Group's strategic plan, taking into account the circumstances and macroeconomic environment.

Financial Statements

The first cycle expired on September 30, 2017. The maximum number of shares assigned to this phase of the plan was 556,795 shares assigned on October 1, 2014, with a fair value of 6.82 euros per share. The second cycle expired on September 30, 2018. The maximum number of shares assigned to this phase of the plan was 618,000 shares assigned on October 1, 2015, with a fair value of 6.46 euros per share. Delivery of shares was not required at the end of each of these cycles according to the general conditions of the plan.

Telefónica, S.A. global share plans "Global Employee Share Plans"
The Telefónica, S.A. Ordinary General Shareholders' meeting on May 30, 2014 approved a new voluntary plan for incentivised purchases of shares of Telefónica, S.A. for the employees of the Group, with certain exceptions. Under this Plan, employees were offered the option to acquire Telefónica, S.A. shares during a twelve-month period (the acquisition period), with the company undertaking to deliver a certain number of free shares to participants, subject to certain requirements. Each employee was limited to buying a maximum of 1,800 euros in Telefónica, S.A. shares, subject to a minimum of 300 euros. The employees that remained part of the Telefónica Group and held on to the shares for one year following the acquisition period (the shareholding period), were entitled to receive one free share for each share they acquired and retained throughout the shareholding period.
The acquisition period commenced in July 2015 and ended in June 2016. The share holding period ended in August 2017. 27,018 employees on the scheme were rewarded with a total of 3,187,055 Telefónica shares, valued at approximately 33 million euros at the time they were delivered.
In addition, at the General Shareholders' Meeting held on June 8, 2018, a new global employee incentive share purchase plan for shares of Telefónica, S.A. was approved, aimed at employees of the Telefónica Group, that will be launched in 2019. The total number of free shares to be delivered for the whole plan may never exceed 0.1% of the share capital of Telefónica, S.A.

19.4 Average number of employees in 2018 and 2017 and number of employees at year-end:
2018

	Employees at 12/31/18			Average no. of employees in 2017		
Professional category	Females	Males	Total	Females	Males	Total
Chairman and General Managers	—	1	1	—	1	1
Directors	58	130	188	56	132	188
Managers	152	174	326	145	158	303
Project Managers	168	126	294	167	117	284
University graduates and experts	161	114	275	155	104	259
Administration, clerks, advisors	105	8	113	104	5	109
Total	644	553	1,197	627	517	1,144

2017

	Employees at 12/31/17			Average no. of employees in 2016		
Professional category	Females	Males	Total	Females	Males	Total
Chairman and General Managers	—	1	1	—	1	1
Directors	53	125	178	60	130	190
Managers	145	151	296	141	151	292
Project Managers	155	112	267	159	113	272
University graduates and experts	145	92	237	136	85	221
Administration, clerks, advisors	106	6	112	104	6	110
Total	604	487	1,091	600	486	1,086

According to the new requirement of the Spanish Companies Law established in article 260, the average number of employees in 2018 with disability of 33% or higher, establishing the categories to which they belong are the following:

Professional category	Average number of employees
Project Managers	1
University graduates and experts	2
Administration, clerks, advisors	1
Total	4

19.5 External services.

The items composing “External services” are as follows:

Millions of euros	2018	2017
Rent	12	12
Independent professional services	136	128
Donations (Note 18)	1	1
Marketing and advertising	110	138
Other expenses	41	121
Total	300	400

On December 19, 2007, Telefónica, S.A. signed a rental contract with a view to establishing the headquarters of the “Telefónica Corporate University”. The lease period is 15 years (until 2023), renewable for another five.

Future minimum rentals payable under non-cancellable operating leases without penalization at December 31, 2018 and 2017 are as follows:

Millions of euros	Total	Up to 1 year	From 1 to 3 years	From 3 to 5 years	Over 5 years
Future minimum rentals 2018	28	6	6	11	5
Future minimum rentals 2017	30	5	15	10	—

19.6 Finance revenue

The items composing “Finance revenue” are as follows:

Millions of euros	2018	2017
Dividends from other companies	12	14
Other third parties financial revenues and gains on derivative instruments	347	397
Total	359	411

“Other third parties finance revenues and gains on derivative instruments” include the effect of the financial hedges arranged to unwind positions for 2018 and 2017, which have the same amount under ¨Finance costs payable to third parties by financial hedges¨ and therefore do not have a net impact in the income statement.

19.7 Finance costs

The breakdown of “Finance costs” is as follows:

Millions of euros	2018	2017
Interest on borrowings from Group companies and associates	1,910	1,894
Finance costs payable to third parties and losses on interest rates of financial hedges	320	405
Total	2,230	2,299

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

Millions of euros	2018	2017
Telefónica Europe, B.V.	648	479
Telefónica Emisiones, S.A.U.	1,223	1,335
Other companies	39	80
Total	1,910	1,894

Other companies includes financial costs with Telfin Ireland Limited and Telfisa Global, B.V. related to current payables for specific cash needs.

The amount included as “Finance costs payable to third parties and losses on interest rate of financial hedges” refers to fair value effects in the valuation of derivative instruments described in Note 16. As it has been explained in the Note 19.6, some of these derivative instruments do not have a net impact in the income statement because they are part of the hedges to unwind positions, so they have a similar impact under ¨other financial revenues¨.

19.8 Exchange differences:

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

Millions of euros	2018	2017
On current operations	20	33
On loans and borrowings	92	299
On derivatives	710	1,007
On other items	50	29
Total	872	1,368

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

Millions of euros	2018	2017
On current operations	21	28
On loans and borrowings	116	88
On derivatives	604	1,013
On other items	82	54
Total	823	1,183

The variation in exchange gains and losses is due to the fluctuations in the main currencies the Company works with. In 2018 US dollar exchange rate has strengthened by 4.72% against euro, unlike 2017 trend, when it was significantly depreciated by 13.8% against euro. Pound sterling exchange rate has depreciated by 0.81% (in 2017 there was a depreciation of 3.77% against euro). Brazilian real has significantly depreciated by 10.60%, (in 2017 it was depreciated by 15.5% against euro). These impacts are offset by the hedges contracted to mitigate exchange rate fluctuations.

19.9 Impairment losses on disposal of financial instruments with third parties

In 2017 the Company recognized a write-down of its investment in Prisa (see Note 9.3) amounting to 30 million euros. In 2018 there has been no need to make additional value adjustments regarding this investment.

Note 20. Other information

a) Financial guarantees

At December 31, 2018, Telefónica, S.A. had provided financial guarantees for its subsidiaries and investees to secure their transactions with third parties amounting to 46,218 million euros (45,220 million euros at December 31, 2017). These guarantees are measured as indicated in Note 4.g).

Millions of euros

Nominal Amount	2018	2017
Debentures and bonds and equity instruments	43,833	42,659
Loans and other payables	719	711
Other marketable debt securities	1,666	1,850
Total	46,218	45,220

The debentures, bonds and equity instruments in circulation at December 31, 2018 issued by Telefónica Emisiones, S.A.U., Telefónica Europe, B.V., Telefónica Finanzas México, S.A. de C.V. and Telefónica Participaciones, S.A.U., were guaranteed by Telefónica, S.A. The nominal amount guaranteed was equivalent to 43,833 million euros at December 31, 2018 (42,659 million euros at December 31, 2017). During 2018, Telefónica Emisiones, S.A.U. issued debt instruments on capital markets for an equivalent of 3,611 million euros (6,852 million euros in 2017) and 3,713 million euros matured during 2018 (5,372 million euros during 2017).

The main loans and other debts guaranteed by Telefónica, S.A. at December 31, 2018 are: the cash-settled equity link bonds non-dilutive issued by Telefónica Participaciones, S.A.U., whose outstanding amount at December 31, 2018 and 2017 was 600 million euros in both years.

"Other marketable debt securities" includes the guarantee of Telefónica, S.A. relating to the commercial paper issue program of Telefónica Europe, B.V. The outstanding balance of commercial paper in circulation issued through this programme at December 31, 2018 was 1,666 million euros (1,850 million euros at December 31, 2017).

Telefónica, S.A. provides operating guarantees granted by external counterparties, which are offered during its normal commercial activity. At December 31, 2018 and 2017, these guarantees amounted to approximately 41 million euros in both years.

b) Litigation

Telefónica and its group companies are party to several legal proceedings which are currently in progress in the courts of law and the arbitration bodies of the various countries in which we are present.

Based on the advice of our legal counsel it is reasonable to assume that these legal proceedings will not materially affect the financial condition or solvency of the Telefónica Group.

It is worth highlighting the following aspects relating to the unresolved legal proceedings or those underway during 2018 (see Note 17 for details of tax-related cases):

Appeal against the Decision of the European Commission dated January 23, 2013 to sanction Telefónica for the infringement of Article 101 of the Treaty on the functioning of the European Union

On January 19, 2011, the EC initiated formal proceedings to investigate whether Telefónica, S.A. (Telefónica) and Portugal Telecom SGPS, S.A. (Portugal Telecom) had infringed European Union anti-trust laws with respect to a clause contained in the sale and purchase agreement of Portugal Telecom's ownership interest in Brasilcel, N.V., a joint venture in which both were venturers and which was the owner of the Brazilian company Vivo.

On January 23, 2013, the European Commission passed a ruling on the formal proceedings. The ruling imposed a fine on Telefónica of 67 million euros, as the European Commission ruled that Telefónica and Portugal Telecom committed an infraction of Article 101 of the Treaty on the Functioning of the European Union for having entered into the agreement set forth in Clause Nine of the sale and purchase agreement of Portugal Telecom’s ownership interest of Brasilcel, N.V.

On April 9, 2013, Telefónica filed an appeal for annulment of this ruling with the European Union General Court. On August 6, 2013, the European Union General Court notified Telefónica of the response issued by the European Commission, in which the European Commission reaffirmed the main arguments of its ruling and, specially, that Clause Nine includes a competition restriction. On September 30, 2013, Telefónica filed its reply. On December 18, 2013, the European Commission filed its appeal.

A hearing was held on May 19, 2015, at the European Union General Court.

On June 28, 2016, the European Union General Court ruled. Although it declares the existence of an infringement of competition law, it annuls Article 2 of the contested Decision and requires the European Commission to reassess the amount of the fine imposed. The General Court considers that the European Commission has not neutralized the allegations and evidences provided by Telefónica on services in which there was not potential competition or were outside the scope of Clause Nine.

Telefónica understands that there are grounds for believing that the ruling does not suit at law; consequently, it filed an appeal to the Court of Justice of the European Union, on September 11, 2016.

On November 23, 2016, the EC filed its response against the Telefónica´s appeal. On January 30, 2017, Telefónica filed its reply. On March 9, 2017, the European Commission filed its rejoinder.

On December 13, 2017, the General Court dismissed the appeal filed by Telefónica. The European Commission must issue a new resolution in accordance with the judgment of the General Court of June 2016, which urged the Commission to recalculate the amount of the fine.

Decision by the High Court regarding the acquisition by Telefónica of shares in Český Telecom by way of tender offer

Venten Management Limited ("Venten") and Lexburg Enterprises Limited ("Lexburg"), were minority shareholders of Český Telecom. In September 2005 both companies sold their shares to Telefónica in a mandatory tender offer. Subsequently Venten and Lexburg, in 2006 and 2009, respectively, filed actions against Telefónica claiming a higher price than the price for which they sold their shares in the mandatory tender offer.

On August 5, 2016, the hearing before the High Court in Prague took place in order to decide the appeal against the second decision of the Municipal Court, which had been favourable to Telefónica's position (as was also the case with the first decision of the Municipal Court). At the end of the hearing, the High Court announced the Second Appellate Decision by which it reversed the second decision of the Municipal Court and ordered Telefónica to pay 644 million Czech koruna (approximately 23 million euros) to Venten and 227 Czech koruna (approximately 8 million euros) to Lexburg, in each case plus interest.

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

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

Venten and Lexburg filed with the Supreme Court a motion to partially abolish the suspension of enforceability of the Decision of the High Court in Prague. On January 17, 2018, Telefónica filed its response seeking dismissal of such motion for lack of legal basis.

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

c) Other contingencies

Telefónica is currently conducting internal investigations covering various countries regarding possible violations of applicable anti-corruption laws. Telefónica continues to cooperate with governmental authorities and continues with the ongoing investigations. Although it is not possible at this time to predict the scope or duration of these matters or their likely outcome, Telefónica believes that, considering the size of the Group, any potential penalty as a result of the resolution of these investigations would not materially affect the Group's financial condition.

d) Commitments

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

As a result of the sale agreement of Atento by Telefónica, announced on October 12, 2012, and ratified on December 12, 2012, both companies signed a Master Service Agreement which regulates Atento’s relationship with the Telefónica Group as a service provider for a period of nine years and which was amended on May 16, 2014, on November 8, 2016 and on May 11, 2018. This period was extended only for Spain and Brazil in November 2016, for two additional years until 2023.

By virtue of this agreement, Atento became Telefónica’s preferred Contact Center and Customer Relationship Management (CRM) service provider, stipulating annual commitments in terms of turnover which is updated based on inflation and deflation that vary from country to country, pursuant to the volume of services Atento has been providing to the entire Group. Effective January 1, 2017, the minimum volume commitments that Telefónica must comply with have significantly decreased for Brazil.

Failure to meet the annual turnover commitments in principle results in the obligation to the counterparty, to pay additional amounts, which would be calculated based on the difference between the actual amount of turnover and the predetermined commitment, applying a percentage based on the Contact Center’s business margin to the final calculation.

Notwithstanding the above, as a consequence of the amendment signed with the Atento Group on May 11, 2018, starting on January 1, 2018 the payment obligation for failure to meet the annual turnover commitment will be calculated for each year of the agreement but will only be liquidated upon termination of the agreement. Such payment will only be due if the balance is in favor of Atento after adding certain amounts agreed between the parties and deducting an annual percentage of the Atento Group’s sales to the Telefónica Group.

The Master Agreement sets forth a reciprocal arrangement, whereby Atento assumes similar commitments to subscribe its telecommunications services to Telefónica.

Agreement for the sale of the shares of Telefónica Gestión de Servicios Compartidos España, S.A.U., Telefónica Gestión de Servicios Compartidos Argentina, S.A. and T-Gestiona Servicios Contables y Capital Humano, S.A.C.

On March 1, 2016, a share purchase agreement between, on one hand, Telefónica, S.A., Telefónica Servicios Globales, S.L.U. and Telefónica Gestión de Servicios Compartidos Perú, S.A.C. (as sellers), and, on the other hand, IBM Global Services España, S.A., IBM del Perú, S.A.C., IBM Canada Limited and IBM Americas Holding, LLC (as purchasers) for the sale of the companies Telefónica Gestión de Servicios Compartidos España, S.A.U., Telefónica Gestión de Servicios Compartidos Argentina, S.A. and Tgestiona Servicios Contables y Capital Humano, S.A.C., for a total price of approximately 22 million euros, was ratified before Notary Public. This share purchase agreement was subscribed on December 31, 2015.

Following the aforementioned share purchase agreement and in connection with the latter transaction, also, on December 31, 2015, Telefónica subscribed a master services agreement with IBM for the outsourcing of economic-financial and HR activities and functions to be provided to the Telefónica Group during a period of ten years, for a total amount of approximately 450 million euros. Most of the Telefónica Group’s subsidiary companies have already adhered to that master services agreement.

e) Directors’ and senior executives’ compensations and other benefits

The compensation of the members of Telefónica’s Board of Directors is governed by article 35 of the Company’s By-Laws, which provides that the annual amount of the compensation to be paid thereby to all of the Directors in their capacity as such, i.e., as members of the Board of Directors and for the performance of the duty of supervision and collective decision-making inherent in such body, shall be fixed by the shareholders at the General Shareholders' Meeting. The Board of Directors shall determine the exact amount to be paid within such limit and the distribution thereof among the Directors, taking into account the duties and responsibilities assigned to each Director, their membership on Committees within the Board of Directors and other objective circumstances that it deems relevant. Furthermore, Executive Directors shall receive such compensation as the Board determines for the performance of executive duties delegated or entrusted to them by the Board of Directors. Such compensation shall conform to the Director compensation policy approved by the shareholders at the General Shareholders’ Meeting.

In accordance with the foregoing, the shareholders acting at the Ordinary General Shareholders’ Meeting held on April 11, 2003 set at 6 million euros the maximum amount of annual gross compensation to be received by the Board of Directors as a fixed allotment and as attendance fees for attending the meetings of the Advisory or Control Committees of the Board of Directors. Thus, as regards fiscal year 2018, the total amount of compensation accrued by the Directors of Telefónica, in their capacity as such, was 2,838,067 euros for the fixed allocation and for attendance fees.

The compensation of the Directors of Telefónica in their capacity as members of the Board of Directors, of the Executive Commission and/or of the Advisory or Control Committees consists of a fixed amount payable monthly and of attendance fees for attending the meetings of the Advisory or Control Committees.

Set forth below are the amounts established in fiscal year 2018 as fixed amounts for belonging to the Board of Directors, the Executive Commission and the Advisory or Control Committees of Telefónica and the attendance fees for attending meetings of the Advisory or Control Committees of the Board of Directors:

Compensation of the Board of Directors and of the Committees thereof

Amounts in euros

Position	Board of Directors	Executive Commission	Advisory or Control Committees (*)
Chairman	240,000	80,000	22,400
Vice chairman	200,000	80,000	—
Executive Member	—	—	—
Proprietary Member	120,000	80,000	11,200
Independent Member	120,000	80,000	11,200
Other external	120,000	80,000	11,200

(*) In addition, the amount of the attendance fee for each of the meetings of the Advisory or Control Committees is 1,000 euros.

In this regard, it is noted that the current Executive Chairman, Mr. José María Álvarez-Pallete López, has waived the receipt of the above amounts (i.e., 240,000 euros as Chairman of the Board of Directors and 80,000 euros as Chairman of the Executive Commission).

Likewise, the fixed remuneration, for their executive roles, of 1,923,100 euros that the Executive Chairman, Mr. José María Álvarez-Pallete López, has established for the 2019 financial year is equal to the one received in the years 2018, 2017 and 2016, which was set in his capacity as Chief Operating Officer, remaining invariably after his appointment as Chairman. This compensation is a 13.8% lower to the compensation established for the position of Executive Chairman prior to his appointment as such.

The fix remuneration, for their executives tasks, of 1,600,000 euros that the Chief Operating Officer (C.O.O.), Mr. Ángel Vilá Boix, has established for the 2019 financial year is equal to the one received in the year 2018.

Individualized description

Annex II provides an individual breakdown by item of the compensation and benefits that the members of the Board of Directors and of the Senior Management of the Company have accrued and/or received from Telefónica, S.A. and from other companies of the Telefónica Group during fiscal year 2018. Likewise, the compensation and benefits accrued and/or received, during such year, by the members of the Company's Senior Management are broken down.

f) Related-party transactions

Significant shareholders

The significant shareholders of the Company are Banco Bilbao Vizcaya Argentaria, S.A. (BBVA), Blackrock, Inc. and Caja de Ahorros y Pensiones de Barcelona ("la Caixa") with stakes in Telefónica, S.A. of 5.28%, 5.01% and 5.08%, respectively.

During 2018 and 2017 the Group did not carry out any significant transactions with Blackrock, Inc., other than the dividends paid corresponding to its stake.

A summary of significant transactions between Telefónica, S.A. and the companies of BBVA and those of la Caixa, carried out at market prices, is as follows:

Millions of euros

2018	BBVA	la Caixa
Financial expenses	11	7
Receipt of services	2	1
Total expenses	13	8
Dividends received (1)	11	—
Total revenues	11	—
Financing transactions	595	891
Guarantees granted	—	8
Time deposits	262	271
Dividends distributed	124	105

(1) As of December 31, 2018 Telefónica holds 0.66% investment in BBVA (See Note 9.3.).

Millions of euros

2017	BBVA	la Caixa
Financial expenses	9	4
Receipt of services	2	2
Total expenses	11	