



**Telefónica Europe B.V.**

*(incorporated with limited liability under  
the laws of the Netherlands)*

**EUR 1,300,000,000 Undated 6 Year Non-Call  
Deeply Subordinated Guaranteed Fixed Rate Reset Securities**

**unconditionally and irrevocably guaranteed on a subordinated basis by  
Telefónica, S.A.**

*(incorporated with limited liability under  
the laws of the Kingdom of Spain)*

The EUR 1,300,000,000 Undated 6 Year Non-Call Deeply Subordinated Guaranteed Fixed Rate Reset Securities (the "**Securities**") are issued by Telefónica Europe B.V. (the "**Issuer**") and unconditionally and irrevocably guaranteed on a subordinated basis by Telefónica, S.A. (the "**Guarantee**", and the "**Guarantor**" or "**Telefónica**", respectively).

As described in the Terms and Conditions of the Securities (the "**Conditions**"), the Securities will bear interest on their principal amount (i) at a fixed rate of 4.375 per cent. per annum from (and including) the Issue Date to (but excluding) the First Reset Date (as defined in the Conditions) payable annually in arrear on 14 March in each year, with the first Interest Payment Date on 14 March 2020; and (ii) from (and including) the First Reset Date, at the applicable 6 Year Swap Rate in respect of the Reset Period), plus: (A) in respect of the period commencing on the First Reset Date to (but excluding) 14 March 2029, 4.107 per cent. per annum; (B) in respect of the period commencing on 14 March 2029 to (but excluding) 14 March 2045, 4.357 per cent. per annum; and (C) from and including 14 March 2045, 5.107 per cent. per annum, all as determined by the Agent Bank, payable annually in arrear on 14 March in each year (each, an Interest Payment Date as defined in the Conditions), commencing on 14 March 2020.

The Issuer may, at its sole discretion, elect to defer (in whole or in part) any payment of interest on the Securities, as more particularly described in the "*Terms and Conditions of the Securities — Optional Interest Deferral*". Any amounts so deferred, together with further interest accrued thereon (at the Prevailing Interest Rate applicable from time to time), shall constitute Arrears of Interest (as defined in the Conditions). The Issuer may pay outstanding Arrears of Interest, in whole or in part, at any time in accordance with the Conditions. Notwithstanding the foregoing, the Issuer shall pay any outstanding Arrears of Interest in whole, but not in part, on the first occurring Mandatory Settlement Date following the Interest Payment Date on which any outstanding Deferred Interest Payment was first deferred, all as more particularly described in "*Terms and Conditions of the Securities — Optional Interest Deferral — Mandatory Settlement of Arrears of Interest*".

The Securities will be undated securities in respect of which there is no specific maturity date and shall be redeemable (at the option of the Issuer) in whole, but not in part, (i) on any date during the Relevant Period (as defined in the Conditions) or (ii) upon any Interest Payment Date (as defined in the Conditions) thereafter, at their principal amount together with any accrued and unpaid interest up to (but excluding) the Redemption Date (as defined in the Conditions) and any outstanding Arrears of Interest (including any Additional Amounts thereon). In addition, upon the occurrence of an Accounting Event, a Capital Event, a Tax Event, a Withholding Tax Event or a Substantial Purchase Event (each such term as defined in the Conditions), the Securities will be redeemable (at the option of the Issuer) in whole, but not in part, at the amount set out, and as more particularly described, in "*Terms and Conditions of the Securities — Redemption and Purchase*".

The Securities will constitute direct, unsecured and subordinated obligations of the Issuer and will at all times rank *pari passu* and without any preference among themselves, all as more particularly described in "*Terms and Conditions of the Securities — Status and Subordination of the Securities and Coupons*". The payment obligations of the Guarantor under the Guarantee will constitute direct, unsecured and subordinated obligations of the Guarantor and will at all times rank *pari passu* and without any preference among themselves. In the event of the Guarantor being declared in insolvency under Spanish Insolvency Law (as defined below), the rights and claims of Holders (as defined in the Conditions) against the Guarantor in respect of or arising under the Guarantee will rank, as against the other obligations of the Guarantor, in the manner more particularly described in "*Terms and Conditions of the Securities — Guarantee, Status and Subordination of the Guarantee*".

Payments in respect of the Securities will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature of the Netherlands or the Kingdom of Spain, unless such withholding or deduction is required by law. In the event that any such

withholding or deduction is made, additional amounts will be payable by the Issuer or, as the case may be, the Guarantor, subject to certain customary exceptions as are more fully described in "*Terms and Conditions of the Securities – Taxation*".

This document comprises a prospectus ("**Prospectus**") for the purposes of Article 5 of Directive 2003/71/EC (as amended or superseded, the "**Prospectus Directive**"). This Prospectus has been approved by the Central Bank of Ireland (the "**Central Bank**") as competent authority for the purposes of the Prospectus Directive. The Central Bank only approves this Prospectus as meeting the requirements imposed under Irish and EU law pursuant to the Prospectus Directive. Application has been made for the Securities to be admitted to listing on the official list (the "**Official List**") and to trading on the regulated market of The Irish Stock Exchange plc, trading as Euronext Dublin ("**Euronext Dublin**"). The regulated market of Euronext Dublin is a regulated market for the purposes of Directive 2014/65/EU on markets in financial instruments (as amended, "**MiFID II**").

The Securities have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the "**Securities Act**") and are subject to United States tax law requirements. The Securities are being offered outside the United States by the Joint Bookrunners (as defined in "*Subscription and Sale*") in accordance with Regulation S under the Securities Act ("**Regulation S**"), and may not be offered, sold or delivered within the United States or to, or for the account or benefit of, US persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

The Securities will be in bearer form and in the denomination of EUR 100,000. The Securities will initially be represented by a temporary global security (the "**Temporary Global Security**"), without interest coupons or talons, which will be deposited with a common depository on behalf of Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream, Luxembourg**") on or about the Issue Date. Interests in the Temporary Global Security will be exchangeable for interests in a permanent global security (the "**Permanent Global Security**") and together with the Temporary Global Security, the "**Global Securities**") in the circumstances set out in the Temporary Global Security. The Permanent Global Security will be exchangeable for definitive Securities (the "**Definitive Securities**") in the circumstances set out in the Permanent Global Security. See "*Summary of Provisions relating to the Securities while in Global Form*".

The Securities are expected to be rated BB+ by S&P Global Ratings Europe Limited ("**S&P**"), Ba2 by Moody's Investors Service Limited ("**Moody's**") and BB+ by Fitch Ratings Limited ("**Fitch**").

Each of S&P, Moody's and Fitch is established in the European Union and registered under Regulation (EU) No 1060/2009, as amended (the "**CRA Regulation**").

The determination of the Subsequent Fixed Interest Rate in respect of the Securities is dependent upon the relevant 6-month Euro Interbank Offered Rate ("**EURIBOR**") administered by the European Money Markets Institute and the 6 Year Swap Rate appearing on the Reuters Screen Page "ICESWAP2" provided by the ICE Benchmark Administration Limited. As at the date of this Prospectus, ICE Benchmark Administration Limited is included in the register of administrators and benchmarks established and maintained by the European Securities and Markets Authority ("**ESMA**") pursuant to Article 36 of Regulation (EU) No. 2016/1011 (the "**Benchmarks Regulation**") (the "**Register of Administrators and Benchmarks**") and European Money Markets Institute is not included in the Register of Administrators and Benchmarks. As far as the Issuer and the Guarantor are aware, transitional provisions in Article 51 of the Benchmarks Regulation apply, such that the European Money Markets Institute is not currently required to appear in the Register of Administrators and Benchmarks.

**A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.**

**Prospective investors should have regard to the factors described under the section headed "Risk Factors" in this Prospectus.**

*Joint Bookrunners*

**BANCA IMI  
CAIXABANK  
MUFG  
SOCIÉTÉ GÉNÉRALE CORPORATE &  
INVESTMENT BANKING**

**BNP PARIBAS  
CITIGROUP  
NATWEST MARKETS  
UNICREDIT BANK**

6 March 2019

## IMPORTANT NOTICES

Each of the Issuer and the Guarantor accepts responsibility for the information contained in this Prospectus and declares that, having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus to the best of its knowledge is in accordance with the facts and contains no omission likely to affect its import. Information appearing in this Prospectus is only accurate as of the date on the front cover of this Prospectus. The business, financial condition, results of operations and prospects of the Issuer and the Guarantor may have changed since such date.

Certain information contained in this Prospectus was derived from third party sources. Neither the Issuer nor the Guarantor accepts any responsibility for the accuracy of such information, nor have the Issuer or the Guarantor independently verified any such information. The Issuer and the Guarantor confirm that this information has been accurately reproduced, and so far as the Issuer and the Guarantor are aware and are able to ascertain from information available from such sources, no facts have been omitted which would render the reproduced information inaccurate or misleading.

The language of this Prospectus is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law.

Each of the Issuer and the Guarantor has confirmed to the Joint Bookrunners named under "*Subscription and Sale*" below (the "**Joint Bookrunners**") that this Prospectus contains all information regarding the Issuer, the Guarantor and the Securities which is (in the context of the issue of the Securities) material; such information is true and accurate in all material respects and is not misleading in any material respect; any opinions, predictions or intentions expressed in this Prospectus on the part of the Issuer or (as the case may be) the Guarantor are honestly held or made and are not misleading in any material respect; this Prospectus does not omit to state any material fact necessary to make such information, opinions, predictions or intentions (in such context) not misleading in any material respect; and all proper enquiries have been made to ascertain and to verify the foregoing.

Neither the Issuer nor the Guarantor has authorised the making or provision of any representation or information regarding the Issuer, the Guarantor or the Securities other than as contained in this Prospectus or as approved for such purpose by the Issuer and the Guarantor. Any such representation or information should not be relied upon as having been authorised by the Issuer, the Guarantor or the Joint Bookrunners.

Neither the Joint Bookrunners nor any of their respective affiliates have authorised the whole or any part of this Prospectus and none of them makes any representation or warranty or accepts any responsibility as to the accuracy or completeness of the information contained in this Prospectus. Neither the delivery of this Prospectus nor the offering, sale or delivery of any Security shall in any circumstances create any implication that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of the Issuer or the Guarantor since the date of this Prospectus.

This Prospectus does not constitute an offer of, or an invitation to subscribe for or purchase, any Securities.

The distribution of this Prospectus and the offering, sale and delivery of Securities in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Issuer, the Guarantor and the Joint Bookrunners to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of Securities and on distribution of this Prospectus and other offering material relating to the Securities, see "*Subscription and Sale*".

In particular, the Securities have not been and will not be registered under the Securities Act and are subject to United States tax law requirements. Subject to certain exceptions, Securities may not be offered, sold or delivered within the United States or to US persons.

In this Prospectus, unless otherwise specified, references to a "**Member State**" are references to a Member State of the European Economic Area, references to "**U.S.\$**", and "**U.S. dollar**" are to United States dollars, the lawful currency of the United States of America, references to "**pound sterling**" or "**£**" are to the currency of the United Kingdom and references to "**EUR**" or "**euro**" are to the currency introduced at the start of the third stage of European economic and monetary union, and as defined in Article 2 of Council Regulation (EC) No 974/98 of 3 May 1998 on the introduction of the euro, as amended.

The Securities are securities which, because of their nature, are normally bought and traded by a limited number of investors who are particularly knowledgeable in investment matters, and may not be a suitable investment for all investors. Each potential investor in the Securities must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- (i) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Securities and the impact the Securities will have on its overall investment portfolio;
- (ii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Securities, including where the currency for principal or interest payments is different from the potential investor's currency;
- (iii) understand thoroughly the terms of the Securities and be familiar with the behaviour of any relevant indices and financial markets; and
- (iv) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone investments. They purchase complex financial instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in the Securities unless it has the knowledge and expertise (either alone or with a financial adviser) to evaluate how the Securities will perform under changing conditions, the resulting effects on the value of the Securities, and the impact this investment will have on the potential investor's overall investment portfolio.

Prior to making an investment decision, potential investors should consider carefully, in light of their own financial circumstances and investment objectives, all the information contained in this Prospectus or incorporated by reference herein. Potential investors should not construe anything in this Prospectus as legal, tax, business or financial advice. Each investor should consult with his or her own advisers as to the legal, tax, business, financial and related aspects of a purchase of the Securities.

**MiFID II product governance / Professional investors and ECPs only target market – Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the Securities has led to the conclusion that: (i) the target market for the Securities is eligible counterparties and professional clients only, each as defined in MiFID II; and (ii) all channels for distribution of the Securities to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Securities (a "distributor") should take into consideration the manufacturers' target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Securities (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels, subject to the distributor's suitability and appropriateness obligations under MiFID II, as applicable.**

**PROHIBITION OF SALES TO EEA RETAIL INVESTORS – The Securities are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("EEA"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or (ii) a customer within the meaning of Directive 2002/92/EC (as amended or superseded), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the "PRIIPs Regulation") for offering or selling the Securities or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Securities or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.**

**In connection with the issue of the Securities, BNP Paribas (the "Stabilisation Manager") (or persons acting on behalf of the Stabilisation Manager may over-allot Securities or effect transactions with a view to supporting the market price of the Securities at a level higher than that which might otherwise**

**prevail. However, stabilisation may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Securities is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the issue date of the Securities and 60 days after the date of the allotment of the Securities. Any stabilisation action or over-allotment must be conducted by the Stabilisation Manager (or person(s) acting on behalf of the Stabilisation Manager) in accordance with all applicable laws and rules.**

#### **Certain terms and conventions**

As used herein, "**Telefónica**", the "**Telefónica Group**" and the "**Group**" mean Telefónica, S.A. and its consolidated subsidiaries, unless the context requires otherwise.

Below are definitions of certain technical terms used in this Prospectus:

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

"**ARPU**" is the average revenues per access per month. ARPU is calculated by dividing total gross service revenues (excluding inbound roaming revenues) from sales to customers for the preceding 12 months (or another given period) by the weighted average number of accesses for the same period, and then dividing by 12 (or the number of months in such other given period).

"**Bundles**" refer to combination products that combine fixed services (wirelines, broadbands and television) and mobile services.

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

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

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

"**Connectivity services**" are services on a fixed or mobile Internet network.

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

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

"**Data traffic**" includes all traffic from Internet access, messaging (SMS, MMS) and connectivity services that is transported by the networks owned by Telefónica.

"**Fixed telephony accesses**" includes public switched telephone network (PSTN) lines (including public use telephony), and integrated services digital network (ISDN) lines and circuits. For the purpose of calculating Telefónica's number of fixed line accesses, Telefónica multiplies its lines in service as follows: PSTN (x1); basic ISDN (x1); and primary ISDN (x30, x20 or x10).

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

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

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

"**GHz**" means gigahertz.

"**Gross adds**" means the gross increase in the customer base measured in terms of accesses in a period.

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

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

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

"**IoT**" means the Internet of Things.

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

"**IT**", or information technology, is the acquisition, processing, storage and dissemination of vocal, pictorial, textual and numerical information by a microelectronics-based combination of computing and telecommunications.

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

"**LTE**" means Long Term Evolution, a 4G mobile access technology.

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

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

"**Mb**" means megabits.

"**MHz**" means megahertz.

"**MMS**" means multimedia messaging services.

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

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

"**MTR**" means mobile termination rate, which is the charge per minute or SMS paid by a telecommunications network operator when a customer makes a call to another network operator.

"**MVNO**" means mobile virtual network operator, which is a mobile operator that is not entitled to use spectrum for the provision of mobile services. Consequently, an MVNO must subscribe to an access agreement with a mobile network operator in order to provide mobile access to their customers. An MVNO pays a determined tariff to such mobile network operator for using the infrastructure to facilitate coverage to their customers.

"**Net adds**" means the number of new accesses in a certain period.

"**Non SMS data revenues**" means data revenues excluding SMS revenues.

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

"**P2P SMS**" means person to person short messaging service (usually sent by mobile customers).

"**Pay TV**" includes cable TV, direct to home satellite TV, or DTH, and Internet Protocol TV, or IPTV.

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

"**Service revenues**" means revenues less revenues from handset sales. Service revenues are mainly related to telecommunications services, especially voice revenues and data revenues (SMS and data traffic download and upload revenues) consumed by Telefónica's customers.

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

"**SMS**" means short message service.

"**Ultra-Broadband**" or "**UBB**" is the fiber-to-the-premise broadband which is capable of giving minimum downlink speed of 100 Mb per second and minimum uplink speed of 50 Mb per second.

"**Unbundled local loop**", or "**ULL**" includes accesses to both ends of the copper local loop leased to other operators to provide voice and digital subscriber line ("**DSL**") services (fully unbundled loop or "**fully ULL**") or only DSL services (shared unbundled loop or "**shared ULL**").

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

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

"**WAP**" means wireless application protocol.

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

"**Wholesale ADSL**" means accesses of broadband or fiber that Telefónica provides to its competitors, who then sell services over such accesses to their residential and corporate clients.

In this Prospectus certain comparisons are made in local currency or on a "constant Euro basis" or "excluding foreign exchange rate effects" in order to present an analysis of the development of the Group's results of operations from year-to-year without the effects of currency fluctuations. To make comparisons on a local currency basis, financial items in the relevant local currency are compared for the periods indicated as recorded in the relevant local currency for such periods. To make comparisons on a "constant Euro basis" or "excluding foreign exchange rate effects," the relevant financial item is converted into Euro using the prior year's average Euro to relevant local currency exchange rate. In addition, certain financial information is presented excluding the effects of Venezuela or Argentina as these are considered hyperinflationary economies.

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## **RISK FACTORS**

*Any investment in the Securities is subject to a number of risks. Prior to investing in the Securities, prospective investors should carefully consider risk factors associated with any investment in the Securities, the business of the Issuer and the Guarantor and the industries in which each of them operates together with all other information contained in this Prospectus, including, in particular the risk factors described below. Words and expressions defined in the "Terms and Conditions of the Securities" below or elsewhere in this Prospectus, have the same meanings in this section.*

*The Issuer and the Guarantor have identified in this Prospectus a number of factors which could materially adversely affect their businesses and ability to make payments due under the Securities and believes that the factors described below represent the principal risks inherent in investing in the Securities.*

*The following is not an exhaustive list or explanation of all risks which investors may face when making an investment in the Securities and should be used as guidance only. Additional risks and uncertainties relating to the Issuer and the Guarantor that are not currently known to the Issuer and the Guarantor, or that either currently deems immaterial, may individually or cumulatively also have a material adverse effect on the business, prospects, results of operations and/or financial position of the Issuer and the Guarantor and, if any such risk should occur, the price of the Securities may decline and investors could lose all or part of their investment. Investors should consider carefully whether an investment in the Securities is suitable for them in light of the information in this Prospectus and their personal circumstances.*

### **Risks relating to the Issuer and the Guarantor**

The risk factors set out below are applicable to the Issuer, as a member of the Telefónica Group, and to the Guarantor.

#### ***No regulation of the Issuer by any regulatory authority.***

The Issuer is not required to be licensed, registered or authorised under any current relevant laws in the Netherlands, and will operate without supervision by any authority in any jurisdiction. Regulatory authorities in one or more jurisdictions may decide, however, that the Issuer is subject to certain laws in such jurisdiction, which could have an adverse impact on the Issuer or the holders of Securities.

The Telefónica Group's business is affected by a series of intrinsic risk factors that affect exclusively the Group, as well as a series of external factors that are common to businesses of the same sector. The main risks and uncertainties facing Telefónica which could affect its business, financial position, reputation, corporate image and brand and its results of operations are set out below and must be considered jointly with the information set out in the 2018 Consolidated Financial Statements.

#### ***Worsening of the economic and political environment could negatively affect Telefónica's business.***

Telefónica's international presence enables the diversification of its activities across countries and regions, but it exposes Telefónica to diverse legislation, as well as to the political and economic environments of the countries in which it operates. Any adverse developments or even uncertainties in this regard, including exchange-rate or sovereign-risk fluctuations, may adversely affect Telefónica's business, financial position, cash flows and results of operations and/or the performance of some or all of the Group's financial indicators.

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

In Europe, the macro-financial outlook showed a slight deterioration during the second half of 2018, influenced by external factors such as the weaker and maturing global economic cycle, the recent tightening of financial conditions, the greater uncertainty associated with the trade tensions between China and the United States and the risks that such tensions pose on economic growth and global stability. On the regional front, the political uncertainty in Europe has diminished in part after the results of the general elections in some European countries, but it still persists in various countries, including Italy, given the lack of political commitment with a reformist agenda. Economic activity and financial stability in Europe could also be affected by the monetary normalisation that the European Central Bank is expected to continue implementing and by how Greece continues to manage its ongoing banking and economic restructuring process, after the country's recent exit from its bailout programme.

Furthermore, the planned exit of the United Kingdom from the European Union ("EU") following the outcome of the referendum held in June 2016 is expected to result in economic adjustments regardless of the nature of the new trade and investment relationships between the United Kingdom and the rest of Europe in the future. As of the date of this Prospectus, there is significant uncertainty regarding the Brexit negotiations and required parliamentary approvals, both in terms of timing (the process can be subject to delays) and the final outcome, with multiple options still being possible, including a no deal Brexit. In the meantime, uncertainty surrounding Brexit could have a negative impact on investment, economic activity and employment. It could also lead to financial market volatility, which could limit or restrict access to capital markets. This situation could worsen depending on the final terms of Brexit, which could increase regulatory and legal complexities, including those relating to tax, trade and security. Such changes could be costly and potentially disruptive to business relationships in these markets, including those of Telefónica, its suppliers and its customers. The elections to the European Parliament in May 2019 could also lead to political uncertainty, as they could result in a rebalancing of political groupings and significant changes in goals for the European project in the medium term, as well as in changes in key positions of the main European institutions during 2019.

In Spain, another possible source of uncertainty is Catalonia's political situation and its impact on the Spanish economy. Although recent developments have contributed to reduce such uncertainty, if political tensions re-emerge or intensify, there could be a negative impact both on financing conditions and on the Spanish macroeconomic scenario, given the demanding sovereign bond maturity calendar and the high dependence of the Spanish economy on the international investors and economic outlook. There is also some uncertainty regarding the economic policy mix to be implemented in 2019 as a result of the current high parliamentary fragmentation. In 2018, the Telefónica Group obtained 26.1 per cent. of its revenues in Spain (24.3 per cent. in 2017), 15.0 per cent. in Germany (14.0 per cent. in 2017) and 13.9 per cent. in the United Kingdom (12.6 per cent. in 2017).

In Latin America, exchange rate risk is particularly noteworthy. Certain external factors contributing to this risk are the uncertainty derived from the monetary normalisation process in the United States, increasing global trade tensions, the continuing low commodity prices in certain cases and doubts about growth and financial imbalances in China. Certain internal factors contributing to this risk are the high fiscal and external deficits in major Latin American countries and the low liquidity in certain exchange markets, together with low productivity growth, which hinder a more accelerated progress in economic development and the rebalancing of still existing mismatches.

In Argentina, the government is focused on resolving the country's macroeconomic and financial imbalances and on recovering international confidence, particularly after the agreement reached with the International Monetary Fund to provide financial support in the medium term. Even though the measures taken by the government are expected to have positive effects in the medium term, both the macroeconomic and exchange rate risks remain high in the short term. The major challenges the economy is facing, both internally (with an ongoing sharp reduction of public deficit in an environment of economic recession and high inflation) and externally (with significant financing needs in the medium term), make the Argentine economy vulnerable to episodes of volatility in the financial markets. Moreover, the presidential elections due to take place in 2019 pose additional risks, as they could result in a change in the current economic policy stance with very limited economic policy levers.

In Brazil, after the presidential elections resulted in a change of government, the effectiveness of such government in implementing the announced and needed reforms that would improve the potential growth of the economy and drive the fiscal accounts towards sustainability remains to be seen. On the other hand, while signs of stabilisation have emerged and the economy has started to show positive growth figures, the pace of the recovery is still gradual. Despite the decreasing external financing needs, internal financing needs remain high, and financing conditions remain challenging, as the country sovereign credit rating remains below investment grade.

Mexico has a high commercial and financial exposure to the United States, which could generate uncertainty. Domestically, there is also uncertainty surrounding the new government's political agenda, despite having a relatively stable economic outlook. Both the political management by the new government of the structural achievements made in recent years and the final approval of the Agreement between the United States, Mexico and Canada ("USMCA") are expected to have a material impact on the economy. While the signing of USMCA has significantly reduced uncertainty, it has not eliminated it, as the agreement still needs to be ratified by the respective national legislative chambers. Any higher than expected increase in interest rates in the United States and/or a possible re-negotiation of trade agreements

between the above mentioned countries could result in higher restrictions on imports into the United States, which, together with political uncertainty surrounding such matters, could negatively impact economic activity and exchange rates in Mexico. The relative weight of Mexico in the consolidated revenues of the Telefónica Group was 2.4 per cent. in 2018.

Chile, Colombia and Peru have been able to stabilise their economies with growth rates close to their potential growth led by domestic demand, while recent adjustments and political decisions have addressed certain fiscal and external account issues. Nevertheless, these economies are exposed not only to changes in the global economy given their vulnerability to abrupt movements in commodity prices, but also to unexpected changes in financial conditions.

In Ecuador, a decrease in domestic political uncertainty has allowed for an improvement in economic activity through exports, but risks persist, mainly on the fiscal front. The country's financing needs are still high, which, together with low international reserves, keep the country in a vulnerable position against volatility shocks.

In 2018, Telefónica Brazil represented 20.8 per cent. of the Telefónica Group's revenues (23.1 per cent. in 2017). In 2018, Telefónica Hispam Norte and Telefónica Hispam Sur represented 8.4 per cent. and 13.7 per cent. of the Telefónica Group's revenues, respectively (8.3 per cent. and 15.8 per cent., respectively, in 2017). In 2018, 4.3 per cent. of Telefónica Group's revenues came from Chile, 4.3 per cent. from Peru and 4.8 per cent. from Argentina. In 2018, 28.2 per cent. of the Group's revenues were generated in countries that do not have investment grade credit rating status (in order of their contribution to the Group's revenues: Brazil, Argentina, Ecuador, Costa Rica, Nicaragua, Guatemala, El Salvador and Venezuela) and other countries are only one notch away from losing this status.

"Country risk" factors include, among others, the following:

- unexpected adverse changes in regulation or administrative policies, including changes that modify the terms and conditions of licences and concessions and their renewal (or delay their approval);
- abrupt exchange-rate movements;
- high inflation rates;
- expropriation or nationalisation of assets, adverse tax decisions, or other forms of state intervention;
- economic and financial downturns, political instability and civil disturbances; and
- maximum limits on profit margins imposed in order to limit the prices of goods and services through the analysis of cost structures (for example, in Venezuela, a maximum profit margin has been introduced that is set annually by the Superintendence for Defense of Socioeconomic Rights).

Any of the foregoing may adversely affect the business, financial position, results of operations and/or cash flows of the Group.

***The Group's financial condition and results of operations may be adversely affected if it does not effectively manage its exposure to foreign currency exchange rates or interest rates.***

In nominal terms, as of 31 December 2018, 73.6 per cent. of the Group's net financial debt plus commitments was pegged to fixed interest rates for a period greater than one year. As of the same date, 18.7 per cent. of the Group's net financial debt plus commitments was denominated in a currency other than the euro.

To illustrate the sensitivity of financial expenses to variations in short-term interest rates as of 31 December 2018: (i) a 100 basis points increase in interest rates in all currencies in which Telefónica had a financial position at that date would have led to an increase in financial expenses of EUR 102 million, (ii) whereas a 100 basis points decrease in interest rates in all currencies (even if negative rates are reached), would have led to a reduction in financial expenses of EUR 88 million. These calculations were made assuming a constant currency and balance position equivalent to the position at that date and taking into account the derivative financial instruments arranged by the Group.

According to the Group's calculations, the impact on results and specifically on net exchange differences due to a 10 per cent. depreciation of Latin American currencies against the U.S. dollar and a 10 per cent. depreciation of the rest of the currencies against the euro would result in exchange losses of EUR 1 million for the year ended 31 December 2018, primarily due to the weakening of the Venezuelan bolivar and, to a lesser extent, the Argentine peso. These calculations have been made assuming a constant currency position with an impact on profit or loss as of 31 December 2018, taking into account derivative instruments in place.

During 2018, Telefónica Brazil represented 27.7 per cent. (25.9 per cent. in 2017), Telefónica United Kingdom represented 12.0 per cent. (10.1 per cent. in 2017), Telefónica Hispam Norte represented 5.1 per cent. (7.8 per cent. in 2017) and Telefónica Hispam Sur represented 11.0 per cent. (14.1 per cent. in 2017) of the operating income before depreciation and amortisation ("**OIBDA**") of the Telefónica Group.

The Telefónica Group uses a variety of strategies to manage this risk, among others the use of financial derivatives, which themselves are also exposed to risk, including counterparty risk. However, the Group's risk management strategies may not achieve the desired effect, which could adversely affect the Group's business, financial condition, results of operations and/or cash flows.

The evolution of exchange rates negatively impacted the Group's 2018 results, decreasing the year-on-year growth of the Group's consolidated revenues and OIBDA by an estimated 8.8 percentage points and 10.3 percentage points, respectively, mainly due to the depreciation of the Brazilian real and the Argentine peso (3.2 percentage points and 4.7 percentage points, respectively in 2017, mainly due to the depreciation of the Argentine peso, the Venezuelan bolivar and the pound sterling). Furthermore, translation differences had a negative impact on the Group's equity of EUR 2,044 million as of 31 December 2018, whereas they had a negative impact on the Group's equity of EUR 4,279 million as of 31 December 2017.

If the Group does not effectively manage its exposure to foreign currency exchange rates or interest rates, it may adversely affect its business, financial position, results of operations and/or cash flows.

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

The operation, expansion and improvement of the Telefónica Group's networks, the development and distribution of the Telefónica Group's services and products, the implementation of Telefónica's strategic plan and new technologies, the renewal of licences or the expansion of the Telefónica Group's business in countries where it operates, may require a substantial amount of financing.

A decrease in the liquidity of Telefónica, or a difficulty in refinancing maturing debt or raising new funds as debt or equity could force Telefónica to use resources allocated to investments or other commitments to pay its financial debt, which could have a negative effect on the Group's business, financial condition, results of operations and/or cash flows.

Funding could be more difficult and costly in the event of a deterioration of conditions in the international or local financial markets due, for example, to monetary policies set by central banks, including increases in interest rates and/or balance sheet reductions, increasing global political and commercial uncertainty and oil price instability, or if there is an eventual deterioration in the solvency or operating performance of Telefónica.

As of 31 December 2018, the Group's net financial debt amounted to EUR 41,785 million (EUR 44,230 million as of 31 December 2017) and the Group's gross financial debt amounted to EUR 54,702 million (EUR 55,746 million as of 31 December 2017). As of 31 December 2018, the average maturity of the debt was 8.98 years (8.08 years as of 31 December 2017).

As of 31 December 2018, the Group's gross financial debt scheduled to mature in 2019 amounted to EUR 9,368 million and gross financial debt scheduled to mature in 2020 amounted to EUR 6,417 million.

In accordance with its liquidity policy, Telefónica has covered its gross debt maturities for the next 12 months with cash and credit lines available at 31 December 2018. As of 31 December 2018, the Telefónica Group had undrawn committed credit facilities arranged with banks for an amount of EUR 12,219 million (EUR 11,887 million of which were due to expire in more than 12 months). Telefónica's liquidity could be affected if market conditions make it difficult to renew existing undrawn credit lines. As of 31 December

2018, 2.7 per cent. of the aggregate undrawn amount under credit lines was scheduled to expire prior to 31 December 2019.

In addition, given the interrelation between economic growth and financial stability, the materialisation of any of the economic, political and exchange rate risks referred to above could lead to a negative impact on the availability and cost of Telefónica's financing and its liquidity strategy. This in turn could have a negative effect on the Group's business, financial condition, results of operations and/or cash flows.

***Adoption of new accounting standards could affect the Group's reported results and financial position.***

Accounting standard-setting bodies and other authorities may periodically change accounting regulations that govern the preparation of the Group's consolidated financial statements. Those changes could have a significant impact on the way the Group accounts for certain matters and presents its financial position and its results of operations. In some instances, a modified standard or a new requirement with retroactive effect must be implemented, which requires the Group to restate previous financial statements.

In particular, Telefónica is required to adopt the new accounting standard IFRS 16 Leases ("**IFRS 16**") effective from 1 January 2019.

This standard requires significant changes that will affect the accounting treatment for all lease contracts where Telefónica acts as lessee, other than certain short-term leases and leases of low-value assets. The Group estimates that the first-time adoption of IFRS 16 will have a material impact on the Group's financial statements and may make comparisons between periods less meaningful. It will also likely materially affect the amounts used to calculate certain financial metrics reported by the Group or used by analysts and investors to analyse the Group.

Note 3 to the 2018 Consolidated Financial Statements includes information on the main impacts expected from the first-time adoption of the new requirements.

***The Group operates in a highly regulated industry which requires government concessions for the provision of a large part of its services and the use of spectrum, which is a scarce and costly resource.***

The telecommunications sector is subject to laws and sector-specific regulations in the majority of the countries where the Group operates. Additionally, many of the services the Group provides require the granting of a licence, concession or official approval, which usually requires certain obligations and investments to be made, such as those relating to the acquisition of spectrum capacity. Among the main legal risks are those related to spectrum regulation and licences/concessions, rates, universal service regulation, regulated wholesale services over fiber networks, privacy, functional separation of businesses and network neutrality. The fact that the Group's business is highly regulated both affects its revenues and imposes costs on its operations.

As the Group provides most of its services under licences, authorisations or concessions, it is vulnerable to administrative bodies' decisions, such as economic fines for serious breaches in the provision of services and, potentially, revocation or failure to renew these licences, authorisations or concessions, or the granting of new licences to competitors for the provision of services in a specific market. The spectrum to which most of the licences and administrative concessions refer to is used for the provision of mobile services on 2G, 3G and 4G technologies. The complementarity between the different frequency bands successively assigned to an operator in a geographic market enables greater flexibility and efficiency in both the deployment of the network and the provision of services to final customers over the capacities resulting from such network.

Any challenges or amendments to the terms of licences, authorisations or concessions granted to the Group and necessary for the provision of its services or the Group's failure to obtain sufficient or appropriate spectrum capacity in the jurisdictions discussed below or any others in which it operates, or its inability to assume the related costs, could have an adverse impact on its ability to launch and provide new services and on its ability to maintain the quality of existing services, which may adversely affect the Group's business, financial condition, results of operations and/or cash flows.

Additional information on the key regulatory issues and concessions and licences held by the Telefónica Group can be found in Appendix VI of the 2018 Consolidated Financial Statements.

Additionally, the Telefónica Group could be affected by regulatory actions of the antitrust authorities. These authorities could prohibit certain actions, such as new acquisitions or specific practices, create obligations or impose heavy fines. Any such measures implemented by the antitrust authorities could result in economic and/or reputational loss for the Group, in addition to a loss of market share and/or harm to the future growth of certain businesses.

*Regulation of spectrum and access to new government licences/concessions of spectrum*

In Europe, the Directive (EU) 2018/1972 of the European Parliament and of the Council establishing the European Electronic Communications Code ("**EECC**"), was approved on 11 December 2018. The aim of the EECC is fostering investment in new high-capacity networks (principally fiber networks and the fifth generation of mobile telecommunications, or 5G) and create a 'level playing field' between telecommunications companies and over-the-top providers ("**OTTs**"). Member States have a period of two years (until 21 December 2020) to transpose said Directive into their national legislation. Certain provisions included in the EECC are so extensive and complex that their final impact on operators, such as Telefónica, will largely depend on how they are interpreted by regulatory authorities in each Member State. The EECC will continue to oblige national regulatory authorities to analyse telecommunications markets and determine whether any operators dominate the market. Such operators will continue to be designated as having significant market power ("**SMP**") and face additional obligations in that territory. In the case of new fiber networks, such SMP obligations could be relaxed if co-investment agreements bear fruit among SMP and non-SMP networks operators.

Furthermore, in Europe, spectrum auctions are expected to take place in the coming years, requiring potential cash outflows to obtain additional spectrum or to meet the coverage requirements associated with some of these licences.

In Spain, the auction of the 3.6 GHz band was carried out during July 2018, and Telefónica was awarded 50 MHz. The Ministry of Economy and Business Affairs has published the roadmap to clear spectrum in the 700 MHz band from its current use (digital television), in line with the calendar approved by the European Commission ("**EC**") and with the 5G National Plan adopted in December 2017. The plan foresees the completion of the release of the 700 MHz band before 30 June 2020 and the Ministry has indicated its intention to hold the auction in 2020.

In the United Kingdom, the Office of Communications ("**Ofcom**"), the national telecommunications regulatory authority, conducted a spectrum auction for the 2.3 GHz and 3.4 GHz bands in March and April 2018. Telefónica United Kingdom won all of the 2.3 GHz spectrum available (40 MHz) and an additional 40 MHz of the 3.4 GHz spectrum band (out of the 150 MHz available), in both cases under 20-year renewable licences. In December 2018, Ofcom launched a public consultation regarding the coverage obligations and auction design relating to the 700 MHz/3.6 GHz bands, which are expected to be auctioned in the first quarter of 2020.

In Germany, on 14 May 2018 the Regulatory Agency for Electricity, Gas, Telecommunications, Post and Railway ("**BNetzA**") published Decisions I and II on the method to award frequencies nationwide in the 2GHz band and a large part of the 3.6 GHz band. In addition, under the same decisions, BNetzA allocated 100 MHz in the 3.6 GHz band and also frequencies in the 26 GHz band, both for local/regional assignments upon application.

Subsequently, on 26 November 2018, BNetzA published Decisions III and IV establishing the conditions for frequency usage and auction rules on the above-mentioned 2 GHz and 3.6 GHz bands (Auction Rules). The rules include obligations for better coverage in both urban and rural areas, as well as along transport routes and other conditions, such as the obligation to negotiate on national roaming and network sharing. The above four decisions have been challenged in Court by Telefónica Deutschland Group. Nevertheless, Telefónica Deutschland Group submitted its application to the auction by 25 January 2019. The auction is scheduled to begin in the first quarter of 2019.

All of the bands mentioned above are considered to be technologically neutral, which means that they could potentially be used in the future for 5G services.

In Latin America, spectrum auctions are expected to take place in the coming years, potentially requiring cash outflows to obtain additional spectrum or to meet the coverage requirements or other obligations

associated with these licences. Specifically, the procedures that will take place in 2019 in jurisdictions that are relevant for the Group are:

- *Argentina*: The government issued on 21 January 2018 a decree (*Decreto de Necesidad y Urgencia*) that contemplates the possibility of auctioning the spectrum previously reserved for ARSAT (a public company). The spectrum that was reserved for ARSAT includes 20 MHz in the 700 MHz band (national), 50 MHz in the AWS band (national) and 20 MHz in the 1900 MHz band (regional).
- *Brazil*: In September 2018, the Brazilian regulator, ANATEL, launched a first consultation to award spectrum in the 2.3GHz TDD band and spectrum in the 3.5GHz TDD (time division duplexing) band. A consultation on the auction of the remaining spectrum in the 700 MHz band is expected to take place in the first half of 2019. ANATEL's 5G commission has also identified 1500 MHz which could be auctioned. An auction to award spectrum in any of these bands could take place in 2019 or 2020.
- *Colombia*: The consultation processes launched in 2017 and early 2018 on the conditions of the 700 MHz spectrum auction were suspended following the change of government that took place in August 2018. The new government has submitted to Congress a draft bill with regards to information and communication technologies. Among the measures included in the draft bill, there is an extension of the duration of spectrum licences. The approval process of the draft bill may have an impact on the timing of the auction. This draft bill is expected to be discussed in the first quarter of 2019.
- *Peru*: In October 2018, the Ministry of Transport and Communications approved a new regulation for the reorganisation of frequency bands, known as "refarming". This could result in a spectrum award process in 2019 or 2020.

It is possible that some of the above mentioned spectrum tender procedures will not be completed, or even initiated within the proposed time frames. In addition, in the cases where Telefónica has submitted comments to the proposed conditions of auctions or allocation procedures, there is no certainty as to whether and to what extent such comments will be considered by the relevant regulator. In addition, Telefónica may decide to abstain from a particular process once it reviews the viability of each spectrum acquisition opportunity.

In addition to the spectrum tender procedures referred to above, it may be the case that certain administrations which have not yet announced their intention to release new spectrum may do so during 2019 and thereafter. The above does not include processes announced through general statements by administrations, which involve bands not key to Telefónica's needs. Furthermore, Telefónica may also seek to acquire spectrum on the secondary market where opportunities might arise.

#### *Risks relating to concessions and licences previously granted*

In Spain, pursuant to the licence for the 800 MHz spectrum band, there are a series of obligations that Telefónica is subject to with the aim of reaching coverage that allows access, with a speed of at least 30 Mb per second, to at least 90 per cent. of the inhabitants in population units of less than 5,000 inhabitants. The approval of the final terms and conditions to implement this coverage obligation was published in November 2018. Telefónica is undergoing a constant process of deployment and densification of Long Term Evolution ("**LTE**") solutions over the 800 MHz band that will be the base for compliance with such obligation.

Telefónica owns two concessions in the 2.1 GHz and 3.5 GHz spectrum, both awarded in 2000, which expire in April 2020 but may be extended for an additional ten years.

In the state of São Paulo, Telefónica Brazil provides local and national long-distance Fixed Switched Telephony Services ("**STFC**") under the so-called public regime, through a concession agreement, which is expected to remain in force until 2025. At 31 December 2018, the estimated residual value of the assets assigned to the provision of STFC was 8,622 million Brazilian reais (approximately EUR 1,943 million under the exchange rate applicable on such date) (8,763 million Brazilian reais as of 31 December 2017, approximately EUR 2,209 million under the exchange rate applicable on such date), which comprised switching and transmission equipment and public use terminals, external network equipment, energy, system and operational support equipment. In principle, such assets were considered to be reversible assets, and were thus supposed to revert to the federal government at the end of the concession agreement. However, the implementation of a bill amending the regulatory framework in Brazil which establishes, among other things, that such assets would no longer be reversible under a new licence regime in exchange

for investment commitments, is currently pending. The bill was approved at both legislative houses, but was challenged before the Federal Supreme Court due to an alleged procedural defect. The outcome of this lawsuit is uncertain, although the Senate's board may overcome it by sending the bill for voting in the Plenary. In the event that the bill is finally approved, ANATEL would be entitled to adopt the relevant administrative decisions for the amendment of the respective licences with the consequent amendment of the future obligations imposed on STFC providers.

As of the date of this Prospectus, there is no certainty that the proposed change in the regulatory framework will be completed, or that it will be completed in fully satisfactory terms for Telefónica Brazil. Only after this bill or a similar law is adopted (enabling the exchange of reversion obligations for investment commitments) could ANATEL impose the investment obligations referred to above.

As of the date of this Prospectus, it is not possible to estimate the hypothetical investment obligations that ANATEL could impose on the concessionaires, including Telefónica Brazil, in exchange for eliminating their obligation to revert assets used for the provision of the STFC services.

In Colombia, the ITC issued resolution 597 on 27 March 2014 to renew 850 MHz/1900 MHz band licences for ten additional years. Under the scope of such resolution, Colombia Telecomunicaciones, S.A. ("**ColTel**") (67.5 per cent. of which is owned, directly and indirectly, by Telefónica and 32.5 per cent. of which is owned by the government of Colombia), renewed its licence to exploit such spectrum to provide telecommunication services.

The concession agreements from 1994, which were renewed in 2004 and under which the mobile telephone services were provided until 28 November 2013, contained a reversion clause for the underlying assets. However, Law 422 of 1998 and Law 1341 of 2009 provided that upon expiration of a concession agreement for telecommunication services, only the spectrum reverts to the State. That was the understanding under which all the operators, including the authorities, operated between 1998 and 2013. In 2013, however, when analysing an appeal on the constitutionality of said laws, the Constitutional Court confirmed the constitutionality of the laws but ruled that it could not be concluded that those laws modified with retroactive effect the reversion clause of the concession agreements of 1994. On 16 February 2016, the ITC started an arbitration proceeding against ColTel and other defendants in accordance with the terms of the relevant concession agreement of 1994, in order to clarify the validity and scope of such reversion clause. The arbitration award was rendered on 25 July 2017 and was not favourable to ColTel and its co-defendants.

The arbitration tribunal ordered ColTel to pay 1,651,012 million Colombian pesos. On 29 August 2017, the shareholders' meeting of ColTel approved a capital increase in a total amount of 1,651,012 million Colombian pesos (EUR 470 million at the exchange rate as of such date) to pay the amount imposed by the arbitration award. The Telefónica Group and the Colombian government subscribed the capital increase *pro rata* to their respective shareholding in ColTel. Telefónica's decision to participate in the capital increase does not constitute, and should not be understood as, an acceptance of the arbitration award. Telefónica reserves all of its legal rights and the exercise by Telefónica or ColTel of any applicable legal action, national or international. Both ColTel and Telefónica have started legal actions. On 18 August 2017, ColTel filed an appeal to challenge the arbitration award at Colombia's highest court of administrative litigation (*Consejo de Estado*), which was dismissed on 24 May 2018. In addition, on 18 December 2017, ColTel also filed a constitutional action (*acción de tutela*) with the Constitutional Court seeking to protect its constitutional rights, jeopardised by the arbitration award. On 15 March 2018, the constitutional action was denied and ColTel filed an appeal against this ruling on 18 April 2018, which was dismissed on 24 May 2018. On 27 November 2018 a recusal motion was filed at the Constitutional Court, which is pending resolution.

In addition, pursuant to the relevant bilateral treaty, Telefónica notified Colombia of its intention to file a claim in the International Centre for Settlement of Investment Disputes ("**ICSID**"). After the expiration of the required 90-day notice period, on 1 February 2018, Telefónica submitted the arbitration request to the ICSID and, on 20 February 2018, the General Secretary of ICSID registered the request for the institution of arbitration proceedings. The request for arbitration is ongoing and the arbitral tribunal is in the process of being appointed.

In Peru, Telefónica has concessions for the provision of fixed-line services until November 2027. In December 2013, Telefónica filed a partial renewal request for these concessions for five more years. On 26 November 2018, the Ministry of Transportation and Communications (*Ministerio de Transportes y Comunicaciones*) notified the denial of such renewals. Telefónica has filed an appeal for reconsideration.



On 5 February 2019, the Ministry dismissed the mentioned appeal and Telefónica is considering to challenge the decision. In December 2014, June 2016 and May 2017 Telefónica filed renewal requests for an additional 20 years in relation to a concession for the provision of local carrier services, one of the concessions to provide mobile services in certain provinces and one concession to provide fixed-line services, respectively. In addition, in April 2016, Telefónica filed a renewal request in relation to the 1900 MHz frequency spectrum for the Provincias (all of Peru except for Lima and Callao), which licence expired in 2018. As of the date of this Prospectus, the decision of the Ministry of Transportation and Communications (*Ministerio de Transportes y Comunicaciones*) in these proceedings is still pending and, according to the legislation, the underlying concessions remain in force as long as the proceedings are pending.

In Chile, Telefónica Móviles Chile, S.A. and other two telecommunications operators were awarded spectrum in the 700 MHz band in March 2014, with Telefónica Móviles Chile being awarded 2x10 MHz. While services are being provided on such spectrum, a consumer organisation filed a claim before the Tribunal for the Defense of Free Competition (the "**TDFC**") against Telefónica Móviles Chile, S.A. and the other two operators, regarding the allocation of spectrum in the 700 MHz band and challenging the outcome of the spectrum allocation. The TDFC rejected this claim on consecutive occasions but, on 25 June 2018, the Supreme Court issued a final judgment stating that the assignment of spectrum in the 700 MHz band to the mobile operators constituted anticompetitive behavior as it awarded spectrum blocks without respecting the 60 MHz spectrum cap set by the Supreme Court in a ruling from 2009.

The Supreme Court ruled that the incumbent operators have to relinquish the same amount of spectrum that they acquired in the 700 MHz band auction. However, the ruling of the Supreme Court allows the operators to choose the band from which the spectrum that exceeds the fixed cap (60 MHz) is to be relinquished and no deadline has been set to complete such relinquishment. As of the date of this Prospectus, Telefónica Móviles Chile has not relinquished any of the required spectrum, since the proceeding has been temporally suspended by a resolution issued by the Constitutional Court on 29 January 2019.

The Supreme Court ruling also states that if the sector-specific authority ("**Subtel**") considers it necessary to review the maximum spectrum cap, it should put in place a consultation process before the TDFC. Subtel must otherwise initiate the necessary procedures to adapt the set cap to the fixed parameters of 60 MHz for each participating operator in the aforementioned radio spectrum. On 3 October 2018, Subtel submitted its proposal on the review of the maximum spectrum cap to the TDFC.

Additionally, Subtel submitted to the TDFC a proposal of "complementary conditions" with a general scope which would be applicable to all bands, as well as another proposal of "special conditions" to be considered in future auctions. The TDFC set a deadline of 28 December 2018 for interested parties to provide their comments. The process initiated by the TDFC is expected to last several months.

In addition, the Supreme Court rejected the appeal filed by Telefónica Móviles Chile, S.A. against the resolution of the TDFC that ordered immediate compliance with the spectrum relinquishment obligations, without waiting for the result of the spectrum cap consultation. However, on 29 January 2019, the Constitutional Court temporarily suspended the obligation to immediately comply with such spectrum relinquishment obligations until the remedy of inapplicability that has been filed by Telefónica is resolved.

Additionally, regarding the 3.5 GHz band, Subtel issued a decision on 21 June 2018 regarding the 3.4-3.8 GHz spectrum band, which, among other things, has suspended the granting of authorisations, the modification of concessions and the reception of network rollouts in connection with this spectrum band. Its purpose is to carry out an in-depth study on the efficiency of the usage of this band for 5G and ensuring the efficient usage of this band in light of international best practices and the need for efficient spectrum management. The decision had a limited impact on Telefónica's operations as Telefónica Chile, S.A. only has 50 MHz of spectrum assigned in that band in Regions XI and XII (representing less than 2 per cent. of the population) and that spectrum is currently not in use. On 3 October 2018, Subtel modified the above mentioned resolution and resolved to release part of this spectrum to enable operators to provide wireless fixed services. Of the 50 MHz awarded to Telefónica Chile, S.A., 30 MHz were released and may only be used for mobile services, which is a required change for 5G provision, once future auctions on 3400-3800 MHz range are firmly awarded. The remainder of the spectrum may not currently be used for any service.

On 20 November 2018, Telefónica Chile, S.A. requested the TDFC to initiate a consultation process to determine whether the decision of Subtel regarding the 3.5 GHz band violates competition law. The deadline for third parties to provide background information expired on 18 February 2019.

In Mexico, in August 2018, Telefónica participated in the auction of the 2500-2690 MHz band and was awarded 2x20 MHz of spectrum. The rules and the procedure of the auction were challenged by an operator and Telefónica has responded to the allegations made. Telefónica's regional holdings in the 1900 MHz band (approximately 44 per cent. of the total 1900 MHz band) expired in October 2018. Telefónica has requested the renewal of this concession. The *Instituto Federal de Telecomunicaciones* ("**IFT**") is expected to decide on the renewal request during the first quarter of 2019. Telefónica may continue to use this spectrum while the IFT decision is pending.

In 2018, the Group's consolidated investment in spectrum acquisitions and renewals amounted to EUR 868 million (EUR 538 million in 2017).

#### *Regulation of wholesale services*

The EC's proposal in respect of the regulatory framework for wholesale services intends, among other measures, to incorporate a costing methodology to fix a European upper limit for the call-termination prices for landline phones/mobile phones (FTRs/MTRs) applicable in the EU. According to this proposal, the decreases in wholesale mobile termination rates ("**MTRs**") in Europe have been noteworthy. It should be noted that since termination fees in mobile and fixed communications have decreased substantially in recent years, future decreases are expected to become smaller so that the negative impact on turnover is expected to be less significant than in the past.

In the United Kingdom, on 1 June 2018, the price of MTRs fell to 0.489 pence per minute. From 1 April 2019, they will be priced at 0.479 pence per minute, with a further reduction based on inflation (consumer prices index ("**CPI**") minus 3.7 per cent. from 1 April 2020).

In Spain, in January 2018 the Spanish National Regulatory and Competition Authority (*Comisión Nacional de los Mercados y la Competencia* or "**CNMC**") approved a decision setting the new MTRs for all mobile operators, which will result in a progressive reduction of 40 per cent. from January 2018 levels (EUR 0.0109 per minute). The approved MTRs are as follows: from the date the decision became effective until 31 December 2018 EUR 0.0070 per minute; from 1 January 2019 until 31 December 2019 EUR 0.0067 per minute; and as from 1 January 2020 EUR 0.0064 per minute. The CNMC launched a public consultation in November 2018 regarding fixed termination rates ("**FTRs**"), which proposed a progressive reduction in prices of 34 per cent. from November 2018 levels. The proposed prices are as follows: from the date the decision becomes effective until 31 December 2019 EUR 0.0640 per minute; from 1 January 2020 until 31 December 2020 EUR 0.0591 per minute and as from 1 January 2021 EUR 0.0543 per minute. A final decision is expected to be adopted in the first quarter of 2019.

In Germany, on 1 December 2018 the price of the MTR fell from 1.07 euro cents per minute to 0.95 euro cents per minute. This price will be in force until 30 November 2019.

MTRs for subsequent periods will be decided in 2019.

In Brazil, Resolution 639/2014 established that MTRs will be subject to successive yearly reductions from 2016 until 2019, when the definitive cost-oriented-model fees are expected to be in force. In addition, through Act No. 6211/2014, ANATEL published the reference prices to be applied by operators with significant market power ("**SMP**"). In 2018, through Act No. 9919/2018, ANATEL published the reference prices to be applied by SMP operators from 2020 until 2023. In addition to the planned implementation of the cost-oriented-model, the *Plano Geral de Metas de Competição* ("**PGMC**"), amended by Resolution 649/2015, among other changes, updated the partial "bill and keep" model for MTRs, aiming to fix an imbalanced remuneration pattern between SMP operators and other companies operating in the relevant market. This measure was intended to adapt the networks to the reductions of MTRs and promote a gradual adaptation to the enforcement of the cost-oriented fees in early 2019. However, the new PGMC that was published in July 2018, among other changes, extended the "bill and keep" model, which was expected to expire in February 2019, until the next revision of the PGMC in four years.

In Mexico, on 13 November 2018, the IFT announced that the MTRs applicable to the so-called Prevailing Economic Agent ("**PEA**") for 2019 shall be 0.028313 pesos per minute while the MTRs applicable to the operators other than the PEA shall be 0.112623 pesos per minute. Both this decision and the decision that established the MTRs applicable to 2018 were challenged by Telefónica.

In Peru, on 21 December 2018, the regulator, OSIPTEL, published the new MTRs. The new MTRs applicable to all operators of mobile public services was fixed at U.S.\$0.00302 per minute rated at the second, which entails a 54 per cent. decrease from the previous rate (U.S.\$0.00661 per minute rated at the second). The new rates have been in effect since 1 January 2019 and will remain in effect until a new MTR value is defined by the regulator.

In Argentina, on 17 August 2018, the *Ente Nacional de Comunicaciones* ("**Enacom**") published the provisional termination and local origination charges for mobile communications services provided by networks until the final charges are decided pursuant to a cost model. Enacom set a tariff of U.S.\$0.0108 per minute and the measurement unit for valuation is per second. During the summer of 2018, Enacom launched a public consultation on the cost models for mobile communications services. On 22 November 2018, Enacom set the provisional termination charge in fixed networks at U.S.\$0.0045 per minute, the tariff for local transit services at U.S.\$0.0010 per minute, and the tariff for long distance transportation services at U.S.\$0.0027 per minute. In each case the measurement unit for valuation is per second.

In Chile, regarding mobile termination rates, on 5 February 2019, Subtel notified TMCH of a new proposal on tariff decree, which will be applicable for the next five years. The average tariff which will apply until 2024 is 1.8 Chilean pesos per minute (EUR 0.0024, without VAT, based on the exchange rate as of 6 February 2019, to be charged on a per second basis). The new tariff decree is in effect since 26 January 2019. New tariffs on fixed operations will come into force in May 2019.

In Colombia, in December 2018, the regulator (*Comisión de Regulación de Comunicaciones*) published two consultations. The first initiative would reduce the FTRs from U.S.\$0.01 to U.S.\$0.003 in 2019, which would be beneficial to ColTel as it is a net payer of FTRs. As of 2020, FTRs between fixed networks would be completely eliminated. The second initiative, on one hand seeks to substitute the national roaming charges in incoming calls charged to operators using national roaming, for mobile termination rates, which would negatively impact the revenues of ColTel; and, on the other hand, modifies the formula that defines the maximum regulated rate for network provision charged to MVNOs, from the minimum ARPU reported by MVNOs to the average ARPU from the past four (4) quarters.

As a result of the foregoing actions, the prices for certain wholesale services may be reduced, which may materially adversely affect the Group's business, financial condition, results of operations and/or cash flows. During 2018, the negative impact of these wholesale regulations (mainly MTRs, FTRs and roaming) is estimated to have resulted in the deduction of approximately 1.1 percentage points from the organic growth of the Group's revenues.

#### *Regulation of universal service obligations*

Universal service obligations ("**USO**") refers to the obligations imposed on telecommunication operators which are aimed at granting access to all consumers in a country to a minimum set of services offered at reasonable and fair prices in order to avoid social exclusion.

As stated above, Directive (EU) 2018/1972, of 11 December 2018, which approves the EECC, updates USO provisions in Europe, removing the mandatory inclusion of the legacy outdated services (payphone boxes, directories and information services) and focusing on the provision of affordable broadband services. The EECC provides Member States with full flexibility in relation to the financing required for the provision of these services, allowing Member States to choose between public or industry funding. This ample room for discretion, together with the possibility that the affordability obligations could end up being too onerous, might result in higher costs for the industry.

In Spain, Telefónica is the operator responsible for the provision of universal service elements with respect to fixed network access with a broadband bandwidth of at least 1 Mb per second (until December 2019). On 28 December 2018, the government approved (by Royal Decree 1517/2018) the modification of the USO framework, eliminating the obligation to provide telephone directories to users (which had been assigned from 1 January 2017 to Telefónica), but maintaining Telefónica's designation as the operator responsible for the provision of public payphones until 31 December 2019, date on which it is expected that such obligation will be removed.

In Brazil, the General Plan of Universalisation Targets (PGMU IV) of Fixed Switched Telephony Services (the "**General Plan**") that was due to have been published in 2016 was finally published on 21 December 2018 (Presidential Decree No. 9.619/2018) after a long period of discussion.

The General Plan lessens the USO framework in three ways: (i) there is a material decrease in the maintenance obligations with respect to public use terminals; (ii) there is a material reduction of the obligations to meet requests for installation of individual accesses within seven days; and (iii) the extinction of the obligations to install and maintain multifacilities service stations.

However, the General Plan imposes a new obligation with respect to "fixed wireless access systems with support for broadband connection" through the implementation of a base radio station in 310 pre-determined localities in the State of São Paulo.

The imposition on the Telefónica Group of additional or more onerous USO in the jurisdictions where it operates could have a material adverse effect on its business, financial condition, results of operations and/or cash flows.

#### *Regulation of fiber networks*

In Spain, on 6 March 2018, the CNMC approved a final decision on the economic replicability methodology (or ERT in its acronym in English) to be used to assess the maximum wholesale access price which Telefónica can charge other operators for accessing the optical fiber network in regulated areas (NEBA Local and NEBA services). According to this methodology, from April 2018, Telefónica is to apply a wholesale access price (NEBA) of EUR 17.57 per month, with this price being updated twice a year in order to assess whether Telefónica's retail offers (broadband flagship products) are economically replicable with such wholesale NEBA price. In July 2018, the CNMC approved a final decision on the methodology to assess if Telefónica's retail offers for the business sector can be replicated by other operators.

This and any other similar obligations and restrictions which may be imposed in the future in the various jurisdictions where the Telefónica Group operates could raise costs and limit Telefónica's flexibility in providing the aforementioned services, which could materially adversely affect Telefónica's business, financial condition, results of operations and/or cash flows.

#### *Regulations on privacy*

In Europe, the General Data Protection Regulation ("**GDPR**") of 27 April 2016, has been directly applicable in all Member States since 25 May 2018 and implementing measures have been introduced by Member States, including Spain, Germany and the United Kingdom.

In Spain, on 5 December 2018, the Personal Data Protection and Digital Rights Act was approved. This Act implements GDPR in Spain, addressing several particularities concerning data blocking for judicial purposes or specific matters on databases for advertising purposes or data relating to deceased people. Equally, it implements procedural mechanisms within the framework of legal investigations concerning potential infringements of the GDPR.

In addition, on 10 January 2017, the EC presented its proposal for a regulation on privacy and electronic communications ("**ePrivacy Regulation**"), which will replace the current Directive 2002/58/EC. The proposal implies an extra layer of regulation on top of the GDPR and also introduces administrative fines of up to 4 per cent. of an undertaking's annual global turnover for breaching new regulations. In this area, a strict data protection and privacy regulation may result in limitations on the ability to offer innovative digital services such as big data services. The future ePrivacy Regulation is not expected to be adopted before the end of 2019.

The Privacy Shield, approved by the EC on 12 July 2016 to lay out the framework for the international transfer of personal data from the EU to the US, was challenged before the EU's General Court by civil-society groups. One of the appeals was not admitted and the admission of a second appeal is still pending as of the date of this Prospectus. The results of the second annual revision of the Privacy Shield by the Commission were published on 19 December 2018. The report concludes that the United States continues to guarantee an adequate level of protection of transferred personal data under the Privacy Shield and that the measures adopted by US authorities to implement the recommendations made by the Commission in the 2017 report have improved the functioning of the framework.

In Brazil, the Personal Data Protection Act (Act 13709/2018) was approved on 14 August 2018. This Act entails further obligations and restrictions for operators in relation to the collection of personal data and its processing and is based on the GDPR. The text was approved in the Chamber of Deputies and the Senate but the President vetoed the creation of the Authority for the Protection of Personal Data and of the National

Council for the Protection of Personal Data and Privacy, after considering them to be unconstitutional. On 27 December 2018 the President of Brazil signed provisional measure 869/2018 that created the National Data Protection Authority (ANPD) and postponed to August 2020 the entry into force of the new Personal Data Protection Act. The approval of provisional measure 869/2018 by the National Congress and its conversion into law is still pending.

In Chile and Argentina, two bills aligned with the GDPR are in process to pass into law.

Any obligations and restrictions arising from privacy regulations could raise costs and limit Telefónica's ability to provide certain services, which could materially adversely affect Telefónica's business, financial condition, results of operations and/or cash flows.

#### *Regulation of network neutrality*

Under the principle of network neutrality applicable to the Internet access services realm, network operators are not permitted to establish technical or commercial restrictions regarding the terminals that can be connected or the services, or applications and contents that can be accessed or distributed through the Internet by the end user. It also refers to the non-discriminatory behavior (e.g. non-anticompetitive) to be adopted by operators regarding the different types of Internet traffic circulating through their networks.

Net neutrality regulation is being implemented all across Europe and in most of the Latin American countries where Telefónica is operating.

In Mexico, it is expected that IFT will issue guidelines during 2019.

Any changes to regulation as it is established in the various jurisdictions where the Telefónica Group operates, could limit the commercial flexibility and might have an impact on its business, financial condition, results of operations and/or cash flows of the Group.

#### ***The Telefónica Group is exposed to risks in relation to compliance with anti-corruption laws and regulations and economic sanctions programmes.***

The Telefónica Group is required to comply with the laws and regulations of various jurisdictions where it conducts operations. In particular, the Group's international operations are subject to various anti-corruption laws, including the US Foreign Corrupt Practices Act of 1977 and the United Kingdom Bribery Act of 2010, and economic sanctions programmes, including those administered by the United Nations, the European Union and the United States, including the US Treasury Department's Office of Foreign Assets Control. The anti-corruption laws generally prohibit providing anything of value to government officials for the purposes of obtaining or retaining business or securing any improper business advantage. As part of the Telefónica Group's business, it may deal with entities, the employees of which are considered government officials. In addition, economic sanctions programmes restrict the Group's business dealings with certain sanctioned countries, individuals and entities.

Although the Group has internal policies and procedures designed to ensure compliance with applicable anti-corruption laws and sanctions regulations, there can be no assurance that such policies and procedures will be sufficient or that the Group's employees, directors, officers, partners, agents and service providers will not take actions in violation of the Group's policies and procedures (or, otherwise in violation of the relevant anti-corruption laws and sanctions regulations) for which the Group or they may be ultimately held responsible. Violations of anti-corruption laws and sanctions regulations could lead to financial penalties, exclusion from government contracts, damage to the Group's reputation and result in other consequences, that could have a material adverse effect on the Group's business, results of operations and financial condition.

As of the date of this Prospectus, 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.

***Telefónica may not anticipate or adapt in a timely manner to changing customer demands and/or new ethical or social standards, which could adversely affect Telefónica's business and reputation.***

To maintain and improve its position in the market *vis-à-vis* its competitors, it is vital that Telefónica has the ability to anticipate and adapt to the evolving needs and demands of its customers, and that it avoids commercial actions that may generate a negative perception of the Group or the products and services it offers, or that may have or be perceived to have a negative impact on society. In addition to harming Telefónica's reputation, such actions could also result in fines and other sanctions.

There is growing social and regulatory demand for companies to behave in a socially responsible manner. In addition, the risks associated with potential damage to a brand's reputation have become more relevant, especially due to the impact that the publication of news through social networks can have.

If Telefónica were not able to anticipate or adapt to the evolving needs and demands of its customers or avoid inappropriate actions, its reputation could be adversely affected or it could otherwise have an adverse effect on the business, financial condition, results of operations and/or cash flows of the Group.

***Telefónica's competitive position in some markets could be affected by the evolution of competition and market consolidation.***

The Telefónica Group operates in highly competitive markets and it is possible that the Group may not be able to market its products and services effectively or respond successfully to the different commercial actions carried out by its competitors. The Group may also fail to meet its growth plans or to retain its customers, any of which may result in the decrease of the Group's profits and revenue margins.

In addition, increased market concentration, including as a result of mergers and acquisitions, or alliances and collaboration agreements among other industry players, could adversely affect the competitive position of Telefónica, as well as the efficiency of its operations and its business continuity.

The entry of new competitors into markets where Telefónica is a leader, in addition to changes in market dynamics which have led to aggressive data offers and broadband deployments by the Group's competitors and mergers of operators in certain markets, have adversely affected the competitive position of Telefónica, negatively impacting the evolution of revenues and its share of customers.

If Telefónica is not able to face the challenges posed by its competitors, the business, financial condition, results of operations and/or cash flows of the Group could be negatively affected.

***Telefónica operates in a sector characterised by rapid technological changes and it may not be able to anticipate and adapt to such changes or select the right investments to make.***

The pace of innovation and Telefónica's ability to keep up with its competitors is a critical issue in a sector so affected by technology such as telecommunications.

While automation and other digital processes may lead to significant cost and efficiency gains, there are also significant risks associated with such transformation processes.

New products and technologies are constantly emerging that can render products and services offered by the Telefónica Group obsolete, as well as its technology. In addition, the explosion of the digital market and the entrance of new players in the communications market, such as MNVOs, Internet companies or device manufacturers, could imply the loss of value of certain assets, affect the generation of income, or otherwise cause Telefónica to have to update its business model. This forces Telefónica to invest in the development of new products, technology and services in order to compete effectively with current or future competitors, which may result in the decrease of the Group's profits and revenue margins. Additionally, this investment may not lead to the development or commercialisation of successful products or services. In this respect, margins from traditional voice and data business are shrinking, while new sources of revenues are derived from mobile Internet and connectivity services that are being launched. Examples of these services include IPTV services, IoT services, financial, security and cloud services.

Research and development costs amounted to EUR 947 million in 2018, representing an increase of 9.8 per cent. from EUR 862 million in 2017 (EUR 906 million in 2016). These expenses represented 1.9 per cent., 1.7 per cent. and 1.7 per cent. of the Group's consolidated revenues in 2018, 2017 and 2016, respectively.

These figures have been calculated using the guidelines established in the Organisation for Economic Co-operation and Development ("**OECD**") manual.

One of the technologies currently being developed by telecommunications operators, including Telefónica (in Spain and Latin America), is the new FTTx type networks, which allow to offer broadband accesses over fiber optics with high performance, such as 600Mb Internet connections or high definition television services. However, the deployment of such networks, in which the copper of the access loop is totally or partially replaced by optical fiber, implies high levels of investments. As of 31 December 2018, in Spain, fiber coverage reached 21.3 million premises. There is a growing demand for the services that these new networks can offer to the end customer. However, the high level of investments required by these networks results in the need to continuously consider the expected return on investment, and no assurance can be given that these investments will be profitable.

In addition, the ability of the Telefónica Group's IT systems (operational and backup) to adequately support and evolve to respond to Telefónica's operating requirements is a key factor in the commercial development, customer satisfaction and business efficiency of the Telefónica Group. Any failure by the Telefónica Group to develop or implement IT systems that adequately support and respond to the Group's evolving operating requirements could have an adverse effect on the Group's business, financial condition, results of operations and/or cash flows.

If Telefónica were not able to anticipate and adapt to the technological changes and trends in the sector, or to properly select the investments to be made, this could negatively affect the Group's business, financial condition, results of operations and/or cash flows.

***Telefónica depends on its suppliers.***

The existence of critical suppliers in the supply chain, especially in areas such as network infrastructure, information systems or handsets with a high concentration in a small number of suppliers, poses risks that may affect Telefónica's operations, and may cause legal contingencies or damages to its image in the event that a participant in the supply chain engages in practices that do not meet acceptable standards or that otherwise fail to meet Telefónica's performance expectations. This may include delays in the completion of projects or deliveries, poor-quality execution, cost deviations and inappropriate practices.

As of 31 December 2018, the Telefónica Group depended on two handset suppliers and ten network infrastructure suppliers, which, together, accounted for 71 per cent. and 80 per cent., respectively, of the total contracted handsets as of such date. One of the handset suppliers represented 42 per cent. of all contracted handsets as of such date.

These suppliers may, among other things, extend delivery times, raise prices and limit supply due to their own stock shortfalls and business requirements or for other reasons. In addition, the suppliers on which Telefónica relies may also be subject to litigation with respect to technology on which Telefónica depends, including litigation involving claims of patent infringement. Such claims are frequently made in the communications industry.

If suppliers cannot supply their products to the Telefónica Group within the agreed deadline or such products and services do not meet the Group's requirements, this could hinder the deployment and expansion plans of the network, which in certain cases could affect Telefónica's compliance with the terms and conditions of the licences under which it operates, or otherwise adversely affect the business and operating results of the Telefónica Group. In addition, the possible adoption of new protectionist measures in certain parts of the world, including as a result of trade tensions between the United States and China, may have an adverse impact on certain of Telefónica's suppliers and other significant players in the industry.

The imposition of trade restrictions could result in higher costs and lower margins, and could adversely affect the Group's business, financial condition, results of operations and/or cash flows.

***Unanticipated network interruptions can lead to quality loss or the interruption of the service.***

Unforeseen network interruptions due to system failures, including those due to natural disasters caused by natural or meteorological events or phenomena, network failures, hardware or software failures, theft of network elements or cyber-attacks that affect the quality of, or cause interruption to, the provision of the services of the Telefónica Group, could cause customer dissatisfaction, a reduction in revenues and traffic, the realisation of expensive repairs, the imposition of sanctions or other measures by regulatory bodies, and

damage to the image and reputation of the Telefónica Group or could otherwise have an adverse effect on the business, financial condition, results of operations and/or cash flows of the Group.

***Information technology is key to the Group's business and it could be subject to cybersecurity risks.***

The Group operates in an environment increasingly prone to cyber-threats. Consequently, it is necessary for the Group to continue to advance its capacity to identify and detect technical threats and vulnerabilities and improve its ability to react to incidents. This includes the need to strengthen security controls in the supply chain as well as to place increased focus on security measures adopted by partners of the Group and other third parties.

Telecommunications companies worldwide face increasing cybersecurity threats as businesses have become increasingly dependent on telecommunications and computer networks and have adopted cloud computing technologies. Cybersecurity threats may include gaining unauthorised access to Telefónica's systems or inserting computer viruses or malicious software in its systems to misappropriate consumer data and other sensitive information, corrupt Telefónica's data or disrupt its operations. Unauthorised access may also be gained through traditional means such as the theft of laptop computers, data devices and mobile phones and intelligence gathering by employees with access. Further, the Group's employees or other persons may have unauthorised or authorised access to the Group's systems and/or take actions that affect the Group's networks in an inconsistent manner with the Group's policies or otherwise adversely affect the Group or its ability to adequately process internal information.

Telefónica attempts to mitigate these risks through a number of measures, including backup, log review, vulnerabilities checks, network segregation measures and protective systems such as firewalls, intrusion detection or prevention systems, virus scanners and other physical and logical security measures. However, the application of these measures may not always be effective. The Telefónica Group has insurance policies in place which could cover, subject to the policies terms, conditions, exclusions, limits and sublimits of indemnity, and deductibles applying, certain losses arising out of this type of incidents. To date the insurance policies in place have covered some incidents of this sort, yet due to the potential severity and uncertainty of the mentioned events, these policies may not be sufficient to cover all possible monetary losses arising out of an individual event.

***Possible regulatory, business, economic or political changes and other factors could lead to asset impairment.***

The Telefónica Group reviews on an annual basis, or more frequently when the circumstances require it, the value of assets and cash-generating units, to assess whether their carrying values can be supported by the future expected cash flows, including, in some cases synergies allowed for in acquisition costs. Potential changes in the regulatory, business, economic or political environment may result in the need to introduce changes to estimates made and to recognise impairments in goodwill, intangible assets, property, plant and equipment or financial assets. Although the recognition of impairments of these assets results in a non-cash charge on the income statement, it could adversely affect the results of the Telefónica Group's operations. In this respect, the Telefónica Group has experienced impairments on certain of its investments, affecting its results of operations in the year in which they were experienced. In 2018, impairment losses in the value of goodwill, have been recognised amounting to EUR 350 million, related to Telefónica's operations in Mexico. No impairments were recognised in 2017. In 2016, impairment losses, in the value of goodwill, were recognised amounting to EUR 215 million, related to Telefónica's operations in Venezuela (EUR 124 million) and in Mexico (EUR 91 million). In addition, Telefónica may not be able to realise deferred tax assets on its statement of financial position to offset future taxable income. The recoverability of deferred tax assets depends on the Group's ability to generate taxable income over the period for which the deferred tax assets remain deductible. If Telefónica believes it is unable to utilise its deferred tax assets during the applicable period, it may be required to record an impairment against them resulting in a non-cash charge on the income statement. In 2018, Telefónica Móviles México derecognised deferred tax assets amounting to EUR 327 million. Further details on intangible assets and goodwill are provided in Notes 6 and 7 to the 2018 Consolidated Financial Statements.

***The Telefónica Group's networks carry and store large volumes of confidential, personal and corporate data, and its Internet access and hosting services may lead to claims for illegal or illicit use of the Internet.***

The Telefónica Group's networks carry and store large volumes of confidential, personal and business data, through both voice and data traffic. The Telefónica Group stores increasing quantities and types of customer



data in both business and consumer segments. Despite its best efforts to prevent it, the Telefónica Group may be found liable for any loss, transfer, or inappropriate modification of the customer data or general public data stored on its servers or transmitted through its networks, any of which could involve many people and have an impact on the Group's reputation, or lead to legal claims and liabilities that are difficult to measure in advance.

In addition, the Telefónica Group's Internet access and hosting servers could lead to claims for illegal or unlawful use of the Internet. Telefónica, like other telecommunications providers, may be held liable for any loss, transfer or inappropriate modification of the customer data stored on its servers or carried by its networks.

In most countries in which the Telefónica Group operates, the provision of its Internet access and hosting services (including the operation of websites with shelf-generated content) are regulated under a limited liability regime applicable to the content that it makes available to the public as a technical service provider, particularly content protected by copyright or similar laws. However, regulatory changes have been introduced imposing additional obligations on access providers (such as blocking access to a website) as part of the struggle against some illegal or illicit uses of the Internet, notably in Europe.

Any of the foregoing could have an adverse effect on the business, financial position, results of operations and/or cash flows of the Group.

***Telefónica and Telefónica Group companies are party to lawsuits, antitrust, tax claims and other legal proceedings.***

Telefónica and Telefónica Group companies are party to lawsuits, tax claims, antitrust and other legal proceedings in the ordinary course of their businesses, the financial outcome of which is unpredictable. An adverse outcome or settlement in these or other proceedings could result in significant costs and may have a material adverse effect on the Group's business, financial condition, results of operations, reputation and/or cash flows. In particular, the Telefónica Group is party to certain judicial tax proceedings in Peru concerning the clearance of certain previous years' income tax, in respect of which a contentious-administrative appeal is currently pending and to certain tax and regulatory proceedings in Brazil, primarily relating to the ICMS (a Brazilian tax on telecommunication services) and the corporate tax. Further details on these matters are provided in Notes 22 and 26 to the 2018 Consolidated Financial Statements. Additional details on provisions for litigation, tax sanctions and claims can be found in Note 21 to the 2018 Consolidated Financial Statements.

***The telecommunications industry could be affected by factors related to sustainability and the environment. It could also be affected by the possible effects that electromagnetic fields could have on health.***

Telefónica's operations and assets (including its towers and submarine cables) are located in many areas that are subject to natural disasters and severe weather, and which may be adversely affected in the future by climate change. Climate-related factors, such as heat waves, drought, sea levels, storms or flooding, could lead to unanticipated network interruptions and costly repairs, and negatively impact the demand for Telefónica's services in affected areas. Furthermore, if the Group's insurance did not fully cover business interruptions or losses resulting from these events, any of the foregoing could have an adverse effect on the business, financial position, results of operations and/or cash flows of the Group.

In addition, government restrictions, standards, or regulations intended to reduce greenhouse gas emissions or potential climate change impacts are likely to result in increased energy, transportation, or raw material and other supply costs. Moreover, local, national or international policy responses to climate change, such as carbon pricing or levies, emission caps or subsidy withdrawals may also lead to the stranding or financial impairment of certain of the Group's assets. Furthermore, the Group may face increased reputational pressure if its activities are perceived to be inconsistent with addressing climate change.

While the Group has taken several steps to increase its resilience to climate change and to limit its carbon footprint, there is no certainty as to whether such steps will be effective or sufficient.

The telecommunications industry could also be affected by the possible effects that electromagnetic fields emitted by mobile devices and base stations could have on health, as well as by concerns relating to such matters. These concerns have led some governments and administrations to take measures that have

compromised the deployment of the necessary infrastructures to ensure quality of service, and have affected the criteria for the deployment of new networks and the development of digital services such as smart meters.

There is consensus among several groups of experts and public health agencies, including the World Health Organization, who state that, to date, there have been no proven risks of exposure to low radio-frequency signals from mobile communications. The scientific community continues to investigate this issue, especially with regard to mobile devices.

Concerns about electromagnetic fields may discourage the use of mobile telephony and new digital services, and may lead government authorities to impose significant restrictions on the location and operation of antennas or cells and the use of radio frequencies by mobile phones, as well as the deployment of smart meters and other products that use mobile technology. This could lead to the impossibility of expanding or improving the Group's mobile network.

Any of the foregoing could have an adverse effect on the business, financial position, results of operations and/or cash flows of the Group.

### **Risks relating to Withholding**

#### ***Risks in relation to Dutch Taxation.***

##### *Dutch tax risks related to the new government's approach on tax avoidance and tax evasion*

On 10 October 2017, the new Dutch government released its coalition agreement (*Regeerakkoord*) 2017-2021, which includes, among others, certain policy intentions for tax reform. On 23 February 2018, the Dutch State Secretary for Finance published a letter with an annex containing further details on the government's policy intentions against tax avoidance and tax evasion.

The Dutch government released its Tax Plan 2019 as part of Budget Day 2018 on 18 September 2018 and made certain amendments to the Tax Plan 2019 in memoranda of amendments published on 26 October 2018, which include, among others, certain legislative proposals based on the policy intentions as mentioned in the coalition agreement and letter on tax avoidance and tax evasion. Two policy intentions in particular may become relevant in the context of the Dutch tax treatment of the Issuer, the Securities, and/or payments under the Securities.

The first policy intention relates to the introduction of a conditional withholding tax on interest paid to creditors in low tax jurisdictions or non-cooperative jurisdictions as of 2021. A legislative proposal introducing a similar conditional withholding tax on dividends and the supporting parliamentary documents thereto mention that, like the conditional dividend withholding tax, this interest withholding tax would apply to certain payments made by a Dutch entity directly or indirectly to a group or related entity (as defined in the legislative proposal on the conditional dividend withholding tax) in a low tax or non-cooperative jurisdiction. However, it cannot be ruled out that it will have a wider application and, as such, it could potentially be applicable to payments under the Securities.

The memoranda of amendments published by the Dutch government on 26 October 2018 in which it is announced that, among others, the introduction of the conditional withholding tax on dividends will be postponed (and the current Dutch dividend withholding tax will not be abolished). The introduction of the conditional withholding tax on interest and royalties will not be postponed. A legislative proposal is still expected to be published in 2019.

The second policy intention relates to the introduction of a thin capitalisation rule as of 2020 that would limit the deduction of interest on debt exceeding 92 per cent. of the commercial balance sheet total. The heading in the coalition agreement, the annex to the letter and the legislative proposal on the conditional withholding tax on dividends suggest that this thin capitalisation rule will apply solely to banks and insurers. However, it cannot be ruled out that it will have a generic application and, as such, it could potentially be applicable to other taxpayers (including the Issuer).

Many aspects of these policy intentions remain unclear. However, if the policy intentions are implemented they may have an adverse effect on the Issuer and its financial position and may give rise to a Tax Event or Withholding Tax Event (in each case as defined in Condition 17 (*Definitions*) of the Securities), in which case the Issuer may redeem the Securities pursuant to its option under Condition 6(c) (*Redemption for*

*Taxation Reasons*) of the Securities (see "*Risk Factors - The Issuer may redeem the Securities under certain circumstances*" and "*Risk Factors - The Issuer may redeem the Securities after a Tax Event relating to the intra-group loan*").

#### ***Risks in relation to Spanish Taxation.***

With respect to any payment of interest under the Guarantee, the Guarantor is required to receive certain information relating to the Securities. If such information is not received by the Guarantor in a timely manner, the Guarantor will be required to apply Spanish withholding tax to any payment of interest (as this term is defined under "*Taxation — Spanish Tax — Payments made by the Guarantor*") in respect of the Securities.

Under Spanish Law 10/2014 and Royal Decree 1065/2007, as amended, payments of interest in respect of the Securities will be made without withholding tax in Spain provided that the Fiscal Agent provides the issuer (that is, the Guarantor with respect to any payments of interest under the Guarantee) in a timely manner with a certificate containing certain information in accordance with section 44 paragraph 5 of the Royal Decree 1065/2007 relating to the Securities.

This information must be provided by the Fiscal Agent to the Issuer (that is, the Guarantor with respect to any payments of interest under the Guarantee), before the close of business on the Business Day (as defined in the Conditions) immediately preceding the date on which any payment of interest, principal or of any amounts in respect of the early redemption of the Securities (each a "**Payment Date**") is due.

The Issuer, the Guarantor and the Fiscal Agent have arranged certain procedures to facilitate the collection of information concerning the Securities. If, despite these procedures, the relevant information is not received by the Guarantor on each Payment Date, the Guarantor will withhold tax at the then-applicable rate (as at the date of this Prospectus, 19 per cent.) from any payment of interest in respect of the Securities. Neither the Issuer nor the Guarantor will pay any additional amounts with respect to any such withholding.

The Fiscal Agency Agreement provides that the Fiscal Agent will, to the extent applicable, comply with the relevant procedures to deliver the required information concerning the Securities to the Guarantor in a timely manner.

These procedures may be modified, amended or supplemented, among other reasons, to reflect a change in applicable Spanish law, regulation, ruling or an administrative interpretation thereof. None of the Issuer, the Guarantor or the Joint Bookrunners assumes any responsibility therefore.

Royal Decree 1145/2011, of 29 July which amends Royal Decree 1065/2007, of 27 July provides that any payment of interest made under securities originally registered in a non-Spanish clearing and settlement entity recognised by Spanish legislation or by the legislation of another OECD country will be made with no withholding or deduction from Spanish taxes provided that the relevant paying agent submits in a timely manner certain information about the Securities to the issuer (that is, the Guarantor with respect to any payments of interest under the Guarantee). In the opinion of the Guarantor, any payment of interest under the Guarantee will be made without deduction or withholding of taxes in Spain provided that the relevant information about the Securities is timely submitted by the Fiscal Agent to the Guarantor, notwithstanding the information obligations of the Guarantor under general provisions of Spanish tax legislation, by virtue of which identification of Spanish tax resident investors may be provided to the Spanish tax authorities (see "*Taxation — Spanish Tax — Payments made by the Guarantor*").

#### **Risks related to the structure of the Securities**

##### ***The Issuer's obligations under the Securities and the Coupons are subordinated.***

The Issuer's obligations under the Securities will be unsecured and subordinated obligations of the Issuer and will rank junior to the claims of unsubordinated and other subordinated creditors of the Issuer, except for subordinated creditors whose claims are expressed to rank *pari passu* with the Securities. See Condition 2 (*Status and Subordination of the Securities and Coupons*) of the Securities. By virtue of such subordination, payments to a Holder of Securities will, in the event of an Issuer Winding-up (as described in the Conditions) only be made after, and any set-off by a Holder of Securities shall be excluded until, all obligations of the Issuer resulting from higher ranking claims have been satisfied. A Holder of Securities may therefore recover less than the holders of unsubordinated or other subordinated liabilities of the Issuer. Subject to applicable law, no Holder may exercise or claim any right of set-off in respect of any amount

owed to it by the Issuer arising under or in connection with the Securities and each Holder shall, by virtue of being the Holder of any Security, be deemed to have waived all such rights of set-off. Although subordinated debt securities may pay a higher rate of interest than comparable debt securities which are not subordinated, there is a real risk that an investor in subordinated securities such as the Securities will lose all or some of his investment should the Issuer become insolvent.

***The Guarantee is a subordinated obligation.***

The Guarantor's obligations under the Guarantee will be unsecured and subordinated obligations of the Guarantor. In the event of the Guarantor being declared in insolvency (*concurso*) under Spanish Insolvency Law (as defined below), the Guarantor's obligations under the Guarantee will be subordinated in right of payment to the prior payment in full of all other liabilities of the Guarantor, except for obligations which rank equally with or junior to the Guarantee. See Condition 3 (*Guarantee, Status and Subordination of the Guarantee*) of the Securities.

Holders of the Securities are advised that unsubordinated liabilities of the Guarantor may also arise out of events that are not reflected on the balance sheet of the Guarantor including, without limitation, the issuance of guarantees on an unsubordinated basis. Claims made under such guarantees will become unsubordinated liabilities of the Guarantor that in the insolvency of the Guarantor will need to be paid in full before the obligations under the Guarantee may be satisfied.

***There are no events of default under the Securities.***

The Conditions do not provide for events of default allowing acceleration of the Securities if certain events occur. Accordingly, if the Issuer or the Guarantor fails to meet any obligations under the Securities or the Guarantee, as the case may be, including the payment of any interest, investors will not have the right to require the early redemption of the Securities. Upon a payment default, the sole remedy available to the Holders for recovery of amounts owing in respect of any payment of principal or interest on the Securities will be the institution of proceedings to enforce such payment. Notwithstanding the foregoing, in no event shall the Issuer or the Guarantor, by virtue of the institution of any such proceedings, be obliged to pay any sum or sums sooner than the same would otherwise have been payable by it.

***The Securities are undated securities.***

The Securities are undated securities, with no specified maturity date. The Issuer is under no obligation to redeem or repurchase the Securities at any time and the Holders have no right to require redemption of the Securities. Therefore, prospective investors should be aware that they may be required to bear the financial risks of an investment in the Securities for an indefinite period of time and may not recover their investment in the foreseeable future.

***The Issuer may redeem the Securities under certain circumstances.***

Holders should be aware that the Securities may be redeemed at the option of the Issuer in whole, but not in part, at their principal amount (plus any accrued and outstanding interest and any outstanding Arrears of Interest) on any date during the Relevant Period and on any Interest Payment Date thereafter (in each case, as defined in the Conditions).

The redemption at the option of the Issuer may affect the market value of the Securities. During any period when the Issuer may elect to redeem the Securities, the market value of the Securities generally will not rise substantially above the price at which they can be redeemed.

The Issuer may be expected to redeem the Securities when its cost of borrowing is lower than the interest rate on the Securities. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Securities being redeemed and may only be able to do so at a significantly lower rate of return. Potential investors should consider reinvestment risk in light of other investments available at that time.

The Securities are also subject to redemption in whole, but not in part, at the Issuer's option upon the occurrence of an Accounting Event, a Capital Event, a Tax Event, a Withholding Tax Event or a Substantial Purchase Event (each as defined in Condition 17 (*Definitions*) of the Securities). The relevant redemption amount may be less than the then current market value of the Securities.

***The Issuer may redeem the Securities after a Tax Event relating to the intra-group loan.***

The net proceeds of the issue of the Securities will be on-lent by the Issuer to the Guarantor pursuant to a Subordinated Loan (as defined in the Conditions). The Issuer may redeem the Securities in certain circumstances, including if, as a result of a Tax Law Change (as defined in the Conditions), in respect of (i) the Issuer's obligation to make any payment under the Securities (including any Interest Payment) on the next following Interest Payment Date; or (ii) the obligation of the Guarantor to make any payment in favour of the Issuer under the Subordinated Loan on the next following due date for such payment, the Issuer or the Guarantor (as the case may be) would no longer be entitled to claim a deduction in respect of computing its tax liabilities in the Netherlands or in Spain (as the case may be), or such entitlement is materially reduced.

The direct connection between a Tax Event and the Subordinated Loan may limit the Issuer's ability to prevent the occurrence of a Tax Event, and may increase the possibility of the Issuer exercising its option to redeem the Securities upon the occurrence thereof.

***The current IFRS accounting classification of financial instruments such as the Securities as equity instruments may change which may result in the occurrence of an Accounting Event.***

In June 2018, the IASB (International Accounting Standards Board) published the discussion paper DP/2018/1 on "Financial Instruments with Characteristics of Equity" (the "**DP/2018/1 Paper**"). While the final timing and outcome are uncertain, if the proposals set out in the DP/2018/1 Paper are implemented in their current form, the IFRS equity classification of financial instruments such as the Securities may change. If such a change leads to an Accounting Event, the Issuer will have the option to redeem, in whole but not in part, the Securities pursuant to Condition 6(d) (*Redemption for Accounting Reasons*) of the Securities or substitute or vary the terms of the Securities pursuant to Condition 12(c) (*Substitution and Variation*) of the Securities.

The implementation of any of the proposals set out in the DP/2018/1 Paper or any other similar such proposals that may be made in the future, including the extent and timing of any such implementation, if at all, is uncertain. Accordingly, no assurance can be given as to the future classification of the Securities from an accounting perspective or whether any such change may result in the occurrence of an Accounting Event.

***The Issuer has the right to defer interest payments on the Securities.***

The Issuer may, at its discretion, elect to defer (in whole or in part) any payment of interest on the Securities. Any such deferral of interest payment shall not constitute a default for any purpose. See Condition 5 (*Optional Interest Deferral*) of the Securities. Any interest in respect of the Securities the payment of which is deferred will, so long as the same remains outstanding, constitute Arrears of Interest. Arrears of Interest will be payable as outlined in Conditions 5(b) (*Optional Interest Deferral – Optional Settlement of Arrears of Interest*) and 5(c) (*Optional Interest Deferral – Mandatory Settlement of Arrears of Interest*) of the Securities. While the deferral of payment of interest continues, the Issuer is not prohibited from making payments on any instrument ranking senior to the Securities and in such event, the Holders are not entitled to claim immediate payment of interest so deferred.

As a result of the interest deferral provision of the Securities, the market price of the Securities may be more volatile than the market prices of other debt securities on which original issue discount or interest payments are not subject to such deferrals and may be more sensitive generally to adverse changes in the Issuer's and/or the Guarantor's financial condition. Investors should be aware that any deferral of interest payments may have an adverse effect on the market price of the Securities.

***Substitution or variation of the Securities.***

There is a risk that, after the issue of the Securities, a Tax Event, a Withholding Tax Event, an Accounting Event or a Capital Event may occur which would entitle the Issuer, without any requirement for the consent or approval of the Holders, to substitute or vary the Securities (including the substitution of the Securities for securities issued by a wholly-owned finance subsidiary of the Guarantor resident in a taxing jurisdiction other than the Netherlands or Spain), subject to certain conditions intended to protect the interests of the Holders, so that after such substitution or variation the Securities remain or become, as the case may be, eligible for the same or (from the perspective of the Issuer or the Guarantor) more favourable tax,

accounting or ratings treatment than the treatment to which they were entitled prior to the relevant event occurring.

Furthermore, there is a risk that if at any time after the Issue Date, the Issuer is required to withhold on account of Taxes levied in the Netherlands on any payment under the Securities, the Issuer may, without any requirement for the consent of the Holders, substitute or vary the Securities.

Any such substitution or variation may have an adverse impact on the price of, and/or the market for, the Securities.

***Changes in rating methodologies may lead to the early redemption of the Securities.***

S&P, Moody's and Fitch (in each case as defined in the Conditions) may change their rating methodology or may apply a different set of criteria after the Issue Date (due to changes in the rating previously assigned to the Issuer and/or the Guarantor or to any other reasons), and as a result the Securities may no longer be eligible for the same or a higher amount of "equity credit" attributable to the Securities at the date of their issue, in which case the Issuer may redeem all of the Securities (but not some only), as provided in Condition 6(e) (*Redemption and Purchase – Redemption for Rating Reasons*) of the Securities.

***No limitation on issuing senior or pari passu securities or other liabilities.***

There is no restriction on the amount of securities or other liabilities which the Issuer or the Guarantor may issue, incur or guarantee and which rank senior to, or *pari passu* with, the Securities or the Guarantee (as the case may be). The issue of any such securities, the granting of any such guarantees or the incurrence of any such other liabilities may reduce the amount (if any) recoverable by Holders on the insolvency, winding-up, liquidation or dissolution of the Issuer or the Guarantor (as the case may be) and/or may increase the likelihood of a deferral of Interest Payments under the Securities.

If the Issuer's and/or the Guarantor's financial condition were to deteriorate, the Holders could suffer direct and materially adverse consequences, including loss of interest and, if the Issuer and/or the Guarantor were liquidated (whether voluntarily or not), the Holders could suffer loss of their entire investment.

***Fixed rate securities have a market risk.***

A holder of a security with a fixed interest rate is exposed to the risk that the price of such security falls as a result of changes in the current interest rate on the capital market (the "**Market Interest Rate**"). While the nominal interest rate of a security with a fixed interest rate is fixed during the life of such security or during a certain period of time, the Market Interest Rate typically changes on a daily basis. A change of the Market Interest Rate causes the price of such security to change. If the Market Interest Rate increases, the price of such security typically falls. If the Market Interest Rate falls, the price of a security with a fixed interest rate typically increases. Investors should be aware that movements of the Market Interest Rate can adversely affect the price of the Securities and can lead to losses for the Holders if they sell the Securities.

***Interest rate reset may result in a decline of yield.***

A Holder with a fixed interest rate that will be reset during the term of the Securities is exposed to the risk of fluctuating interest rate levels and uncertain interest income. Fluctuating interest rate levels make it impossible to determine the yield of such securities in advance.

***Any decline in the credit ratings of the Issuer and/or the Guarantor may affect the market value of the Securities.***

The Securities have been assigned a rating by S&P, Moody's and Fitch. The rating granted by each of S&P, Moody's and Fitch or any other rating assigned to the Securities may not reflect the potential impact of all risks related to structure, market and other factors that may affect the value of the Securities. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time. A credit rating is not a statement as to the likelihood of deferral of interest on the Securities. Holders have a greater risk of deferral of interest payments than persons holding other securities with similar credit ratings but no, or more limited, interest deferral provisions.

In addition, each of S&P, Moody's and Fitch, or any other rating agency may change its methodologies for rating securities with features similar to the Securities in the future. This may include the relationship

between ratings assigned to an issuer's senior securities and ratings assigned to securities with features similar to the Securities sometimes called "notching". If the rating agencies were to change their practices for rating such securities in the future and the ratings of the Securities were to be subsequently lowered, this may have a negative impact on the trading price of the Securities.

#### ***Risks relating to EURIBOR.***

The determination of the Subsequent Fixed Interest Rate in respect of the Securities is dependent upon the relevant 6-month Euro Interbank Offered Rate ("**EURIBOR**") administered by the European Money Markets Institute at the relevant time (as specified in the Conditions) and the 6 Year Swap Rate appearing on the Reuters Screen Page "ICESWAP2" provided by the ICE Benchmark Administration Limited.

EURIBOR and other interest rate or other types of rates and indices which are deemed to be benchmarks ("**benchmarks**") are the subject of ongoing national and international regulatory reform. Following the implementation of any such potential reforms, the manner of administration of benchmarks may change, with the result that they may perform differently than in the past, or benchmarks could be eliminated entirely, or there could be other consequences which cannot be predicted. Any such consequence could affect the manner in which interest determinations are required to be made pursuant to the Conditions, and have a material adverse effect on the value of and return on the Securities.

If a Benchmark Event (as defined in the Conditions) occurs, there is a possibility that the rate of interest could alternatively be set by the Issuer and an Independent Adviser (without a requirement for the consent or approval of the Holders), by reference to a successor rate or an alternative reference rate and that such successor rate or alternative reference rate may be adjusted (if required) in order to reduce or eliminate any economic prejudice or benefit (as applicable) to investors arising out of the replacement of the relevant benchmark. The use of a successor rate or an alternative reference rate may, however, result in interest payments that are lower than, or otherwise do not correlate over time with, the payments that could have been made on the Securities if the relevant benchmark continued to be available in its current form.

#### **Risks arising in connection with EU insolvency law**

From 26 June 2017, Regulation 2015/848 on insolvency proceedings (recast) (the "**EU Insolvency Regulation**") is applicable to all the EU countries except for Denmark. This means that this regulation shall be applicable to all those insolvency proceedings that are initiated in an EU country (except for Denmark), when the centre of main interest ("**COMI**") of the debtor is located in such countries.

Aside from new information duties between the countries (e.g. such countries must create an insolvency registry), the most relevant aspects of this regulation are as follows:

- (i) The type of proceedings to which this regulation applies (foreseen under Annex A of the EU Insolvency Regulation) has increased, and pre-insolvency proceedings are now included. With regards to Spain, the EU Insolvency Regulation includes homologation proceedings, extrajudicial payment proceedings, or anticipated arrangement proposals and with regards to the Netherlands includes the suspension of payments and bankruptcy.
- (ii) The determination on the judicial competence to declare the principal insolvency proceeding is explained in more detail. In this sense, the definition of COMI is now foreseen under article 3, which foresees that the centre of main interests shall be the place where the debtor conducts the administration of its interests on a regular basis and which is ascertainable by third parties. In the case of a company or legal person, the place of the registered office shall be presumed to be the centre of its main interests in the absence of proof to the contrary. That presumption shall only apply if the registered office has not been moved to another Member State within the 3-month period prior to the request for the opening of insolvency proceedings.
- (iii) A new chapter on the insolvency of companies that belong to the same group has been included. The EU Insolvency Regulation pretends to ensure more cooperation and coordination between the insolvency receivers, courts, etc., in charge of each proceeding, and has even included a new proceeding called "group coordination proceeding", which is voluntary and enables the insolvency proceedings of group companies to be processed jointly.

If the centre of main interests of a company is in one Member State (other than Denmark) under Article 3(2) of the EU Insolvency Regulation, the courts of another Member State (other than Denmark) have jurisdiction to open insolvency proceedings against that company only if such company has an "establishment" in the territory of such other Member State. An "establishment" is defined as any place of operations where a debtor carries out or has carried out in the 3-month period prior to the request to open main insolvency proceedings a non-transitory economic activity with human means and assets. The effects of those insolvency proceedings opened in that other Member State are restricted to the assets of the company situated in such other Member State.

Where main proceedings have been opened in the Member State in which the company has its centre of main interests, any proceedings opened subsequently in another Member State in which the company has an establishment shall be secondary proceedings. Where main proceedings in the Member State in which the company has its centre of main interests have not yet been opened, territorial insolvency proceedings can be opened in another Member State where the company has an establishment only where either: (a) insolvency proceedings cannot be opened in the Member State in which the company's centre of main interests is situated under that Member State's law; or (b) the opening of territorial insolvency proceedings is requested by:

- (i) a creditor whose claim arises from or is in connection with the operation of an establishment situated within the territory of the Member State where the opening of territorial proceedings is requested; or
- (ii) a public authority which, under the law of the Member State within the territory of which the establishment is situated, has the right to request the opening of insolvency proceedings.

Any judgment opening insolvency proceedings handed down by a court of a Member State which has jurisdiction pursuant to Article 3 shall be recognised in all other Member States from the moment that it becomes effective in the State of the opening of proceedings. This shall also apply where, on account of a debtor's capacity, insolvency proceedings cannot be brought against that debtor in other Member States.

Recognition of main proceedings shall not preclude the opening of a secondary proceeding. The insolvency receiver appointed by a court in a Member State that has jurisdiction to open main proceedings (because the company's centre of main interests is there) may exercise the powers conferred on it by the law of that Member State in another Member State (such as to remove assets of the company from that other Member State), subject to certain limitations, so long as no insolvency proceedings have been opened in that other Member State or any preservation measure taken to the contrary further to a request to open insolvency proceedings in that other Member State where the company has assets.

### **Risks arising in connection with the Dutch Insolvency Law**

Where a company (incorporated in the Netherlands or elsewhere) has its "centre of main interest" or an "establishment" in the Netherlands, it may be subjected to insolvency proceedings in this jurisdiction. This is particularly relevant for the Issuer, which has its corporate seat (*statutaire zetel*) in Amsterdam, the Netherlands, and is therefore presumed (subject to proof to the contrary) to have its "centre of main interests" in the Netherlands.

There are two primary insolvency regimes under Dutch law. The first, suspension of payments (*surseance van betaling*), is intended to facilitate the re-organisation of a debtor's indebtedness and enable the debtor to continue as a going concern. The second, bankruptcy (*faillissement*), is primarily designed to liquidate and distribute the proceeds of the assets of a debtor to its creditors. Both insolvency regimes are set forth in the Dutch Bankruptcy Act. The consequences of both proceedings are roughly equal from the perspective of a creditor, with creditors being treated on a *pari passu* basis subject to exceptions. A general description of the principles of both insolvency regimes is set forth below.

Under Dutch law secured creditors (and in case of suspension of payment also preferential creditors (including tax and social security authorities)) may enforce their rights against assets of the company to satisfy their claims as if there were no insolvency proceedings. A recovery under Dutch law could, therefore, involve a sale of assets that does not reflect the going concern value of the debtor. Consequently, a creditor's potential recovery could be reduced in Dutch insolvency proceedings.



Any pending executions of judgments against the debtor will be suspended by operation of law when suspension of payments is granted and terminate by operation of law when bankruptcy is declared. In addition, any attachment by a creditor on the debtor's assets will cease to have effect upon the suspension of payments having become definitive, a composition having been ratified by the court or the declaration of bankruptcy (as the case may be) subject to the ability of the court to set an earlier date for such termination.

In a suspension of payments or a bankruptcy, a composition (*akkoord*) may be offered to creditors. A composition will be binding on all unsecured and non-preferential creditors if it is (i) approved by a simple majority of the creditors being present or represented at the creditors' meeting, representing at least 50 per cent. of the amount of the claims that are admitted for voting purposes, and (ii) subsequently ratified (*gehomologeerd*) by the competent Dutch court. Consequently, Dutch insolvency laws could preclude or inhibit the ability of the holders of the Securities to effect a restructuring and could reduce the recovery of a holder of Securities.

Claims against a company subject to Dutch insolvency proceedings will have to be verified in the insolvency proceedings in order to be entitled to vote and, in a bankruptcy liquidation, to be entitled to distributions. "Verification" under Dutch law means, in the case of suspension of payments, that the treatment of a disputed claim for voting purposes is determined and, in the case of a bankruptcy, that the value of the claim is determined and whether and to what extent it will be admitted in the insolvency proceedings. The valuation of claims that would not otherwise have been payable at the time of the proceedings may be based on a net present value analysis. Unless secured by a pledge or a mortgage, interest accruing after the date on which insolvency proceedings are opened cannot be verified. Where interest accrues after the date of opening of the proceedings, it can be admitted *pro memoria*.

The existence, value and ranking of any claims submitted by the holders of the Securities may be challenged in the Dutch insolvency proceedings. Generally, in a creditors' meeting (*verificatievergadering*), the receiver in bankruptcy, the administrator in suspension of payments proceedings, the insolvent debtor and all verified creditors may dispute the verification of claims of other creditors. Creditors whose claims or value thereof are disputed in the creditors' meeting may be referred to separate court proceedings (*renvooiprocedure*) in bankruptcy, while in suspension of payments the court will decide how a disputed claim will be treated for voting purposes. These situations could cause holders of Securities to recover less than the principal amount of their Securities. *Renvooi* procedures could also cause payments to the holders of Securities to be delayed compared to holders of undisputed claims.

The Dutch Bankruptcy Act does not in itself recognise the concept of classes of creditors. Remaining amounts, if any, after satisfaction of the secured and the preferential creditors are distributed among the unsecured non-preferential creditors, who will be satisfied on a *pro rata* basis. Contractual subordination may to a certain extent be given effect in Dutch insolvency proceedings, with the actual effect largely depending on the way such subordination is construed.

Secured creditors may enforce their rights against assets of the debtor to satisfy their claims under a Dutch bankruptcy as if there is no bankruptcy. As in moratorium of payments proceedings, the court may order a "cooling down period" for a maximum of four months during which enforcement actions by secured creditors are barred unless such creditors have obtained leave for enforcement from the supervisory judge. Further, a receiver in bankruptcy can force a secured creditor to enforce its security interest within a reasonable period of time, failing which the receiver will be entitled to sell the secured assets, if any, and the secured creditor will have to share in the bankruptcy costs. Excess proceeds of enforcement must be returned to the bankrupt estate; they may not be set-off against an unsecured claim of the secured creditor in the bankruptcy. Such setoff is allowed prior to the bankruptcy, although a set-off prior to bankruptcy may be subject to clawback in the case of fraudulent conveyance or bad faith in obtaining the claim used for set-off.

Under Dutch law, a legal act performed by a debtor (including, without limitation, an agreement pursuant to which it guarantees the performance of the obligations of a third party or agrees to provide or provides security for any of its or a third party's obligations, enters into additional agreements benefiting from existing security and any other legal act having a similar effect) can be challenged in an insolvency proceeding or otherwise and may be nullified by any of the debtor's creditors or its receiver in bankruptcy, if (a) it performed such act without an obligation to do so (*onverplicht*), (b) the creditor concerned or, in the case of its bankruptcy, any creditor was prejudiced as a consequence of the act, and (c) at the time the act was performed both it and (unless the act was for no consideration (*om niet*)) the party with or towards

which it acted, knew or should have known that one or more of the debtor's creditors (existing or future) would be prejudiced. In addition, in the case of a person's bankruptcy, the receiver in bankruptcy may nullify its performance of any due and payable obligation (including (without limitation) an obligation under a guarantee or to provide security for any of its or a third party's obligations) if (i) the recipient of the payment or performance knew, at the time of the payment or performance, that a request for bankruptcy had been filed, or (ii) the performance of the obligation was the result of a consultation between the debtor and the payee with a view to give preference to the latter over the debtor's other creditors.

### **Risks arising in connection with the Spanish Insolvency Law**

#### ***Subordination of the claims of the Holders under the Guarantee as a result of a contractual subordination.***

The Law 22/2003 of 9 July, on Insolvency, as amended (the "**Spanish Insolvency Law**") regulates pre-insolvency and court insolvency proceedings, as opposed to out-of-court liquidation, which is only available when the debtor has sufficient assets to meet its liabilities.

The insolvency proceedings, which are called *concurso de acreedores*, are applicable to all persons or entities, except for public entities. These proceedings may lead either to the restructuring of the business or to the liquidation of the assets of the debtor.

A debtor (and in the case of a company, its directors) is required to apply for insolvency proceedings when it is not able to meet its current obligations (*insolvencia actual*) within the term of two months as from the moment that it knows that it is insolvent or as from the moment it should have known it is insolvent. The debtor is also entitled to apply for such insolvency proceedings when it expects that it will shortly be unable to do so (*insolvencia inminente*). Insolvency proceedings are available as a type of legal protection that the debtor may request in order to avoid the attachment of its assets by its creditors.

With regards to bilateral agreements with pending obligations for both parties, creditors will not be able to accelerate the maturity of their credits based only on the declaration of the insolvency (*declaración de concurso*) of the debtor. Any provision to the contrary will be null and void.

The court resolution declaring the insolvency proceedings (*auto de declaración de concurso*) contains an express request for the creditors to declare debts owed to them, within a one-month period as from the day after the publication of the insolvency proceeding in the Spanish Official Gazette (*Boletín Oficial del Estado*), providing documentation to justify such credits. Based on the documentation provided by the creditors and that is held by the debtor, the court receivers draw up an inventory and a list of acknowledged creditors and classify them according to the categories established under law: (i) debts against the insolvency estate, (ii) debt benefiting from special privileges, (iii) debt benefiting from general privileges, (iv) ordinary debt and (v) subordinated debt:

- (i) Debts against the insolvency estate (*créditos contra la masa*) are not considered part of the debtor's general debt and are payable when due according to their own terms (and, therefore, are paid before other debts under insolvency proceedings). Debt against the insolvency estate includes, among others, (i) certain amounts of the employee payroll, (ii) costs and expenses of the insolvency proceedings, (iii) certain amounts arising from services provided by the insolvent debtor under reciprocal contracts and outstanding obligations that remain in force after insolvency proceedings are declared and deriving from obligations to return and indemnify in cases of voluntary termination or breach by the insolvent debtor, (iv) those that derive from the exercise of a clawback action within the insolvency proceedings of acts performed by the insolvent debtor and correspond to a refund of consideration received by it (except in cases of bad faith), (v) certain amounts arising from obligations created by law or from the non-contractual liability of the insolvent debtor after the declaration of insolvency and until its conclusion, (vi) 50 per cent. of the funds lent under a refinancing arrangement entered into in compliance with the requirements set forth in Article 71 bis or Additional Provision 4 of the Spanish Insolvency Law (100 per cent. in the case that the funds are lent before 2 October 2016) and (vii) certain debts incurred by the debtor following the declaration of insolvency.
- (ii) Debts benefiting from special privileges, representing attachments on certain assets (basically *in rem* security). These privileges may entail separate proceedings, though subject to certain restrictions derived from a waiting period that may last up to one year (unless an arrangement with

the creditors that does not affect the specific security is agreed on, or the liquidation phase is initiated before such term elapses), or the consideration of the secured asset as necessary to the debtor's activity. However, within such waiting period or while any enforcement proceedings remain suspended under the Spanish Insolvency Law, the insolvency administrators shall have the option to pay the relevant claims against the insolvency estate under specific payment rules. Privileged creditors are not bound by a creditors arrangement, except if they give their express support by voting in favour of the arrangement or, even if they dissent or abstain from voting, if the applicable majority (which depends on the content of the arrangement) of the relevant class of the privileged creditors vote in favour of the arrangement. In the event of liquidation, they shall be the first to collect payment against the attached assets.

- (iii) Debts benefiting from general privileges, including among others certain labour debts and certain debts with public administrations. Other debts with public administrations corresponding to tax debts and social security obligations are recognised as privileged for half their amount, and debts held by the creditor applying for the corresponding insolvency proceedings, to the extent such application has been approved, up to a 50 per cent. of the amount of such debt. Funds under a refinancing arrangement entered into in compliance with the requirements set forth in Article 71.6 of Spanish Insolvency Law in the amount not admitted as a debt against the insolvency estate (*crédito contra la masa*) will also be credits with general privileges. The holders of general privileges are not to be affected by the restructuring except if they give their express support by voting in favour of the arrangement or, even if they dissent or abstain from voting, if the applicable majority (which depends on the content of the arrangement) of the relevant class of the privileged creditors vote in favour of the arrangement. In the event of liquidation, they are the first to collect payment, in the order established under the Spanish Insolvency Law.
- (iv) Ordinary debts (non-subordinated and non-privileged creditors). They will be paid on a pro-rata basis.
- (v) Subordinated debts (thus classified by virtue of law). Subordinated debts include, among others, those credits held by parties in special relationships with the debtor: in the case of an individual, his/her relatives; in the case of a legal entity, the administrators and any shareholders holding, directly or indirectly, more than 5 per cent. (for companies which have issued securities listed on an official secondary market) or 10 per cent. (for companies which have not issued securities listed on an official secondary market) of the share capital and companies pertaining to the same group as the debtor and their common shareholders, provided that such shareholders meet the minimum shareholding requirements set forth before. Likewise, credits which have been contractually subordinated with respect to all other credits against the debtor (such as claims under the Securities) are classified as subordinated credits.

As a general rule, insolvency proceedings are not compatible with other enforcement proceedings. When compatible, in order to protect the interests of the debtor and creditors, the law extends the jurisdiction of the court dealing with insolvency proceedings, which is, then, legally authorised to handle any enforcement proceedings or interim measures affecting the debtor's assets (whether based upon civil, labour or administrative law).

Creditors holding security *in rem*, that had been traditionally allowed to enforce their debts against the secured asset notwithstanding the initiation of insolvency proceedings, are also generally subject to certain restrictions in order to initiate separate enforcement proceedings (or to continue with such proceedings, if they were being carried out), and if the secured asset is deemed to be necessary for the debtor's activities, enforcement cannot be carried out outside the insolvency proceedings. In summary, enforcement by the creditor is subject to a delay of a maximum of one year if such asset is deemed to be necessary for the debtors activities in which case enforcement cannot be carried out outside the insolvency proceedings.

There are no prior transactions that automatically become void as a result of initiation of the insolvency proceedings. The court receivers may only challenge those transactions that could be deemed as having "damaged" the debtor's interests, provided that they have taken place within two years prior to the declaration of insolvency (transactions taking place earlier than two years before insolvency has been declared are subject to the general regime of rescission in accordance with Article 71.6 of the Spanish Insolvency Law). Those transactions that are executed in the ordinary course of business, according to the business of the debtor, are not subject to challenge.

"Damage" does not refer to the intention of the parties, but to the consequences of the transaction on the debtor's interests. In any case, the law refers to transactions that are somehow exceptional: damage exists (as a non-rebuttable presumption) in the case of donations and early payment of unsecured obligations maturing after the insolvency declaration, and damage is deemed to exist (as a rebuttable presumption) in the case of transactions entered into with special related persons and the creation of rights *in rem* in order to secure existing obligations or those incurred to replace existing obligations and the cancellation of obligations secured by an *in rem* security interest falling due after the declaration of insolvency; in the remaining cases, damage would have to be justified.

The agreements in relation to the Securities could be challenged only if those transactions were deemed to have caused damage, as explained above.

Holders should be aware (i) of the effects of a declaration of insolvency (*declaración de concurso*) of the Guarantor set out above, (ii) that their claims against the Guarantor would therefore be subordinated and (iii) subordinated creditors may not vote on an arrangement and have very limited chances of collection, according to the ranking established by the Spanish Insolvency Law.

### **Risks related to the Securities generally**

Set out below is a brief description of certain risks relating to the Securities generally:

#### ***Majority decisions bind all Holders.***

The Conditions contain provisions for calling meetings of Holders of the Securities to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Holders of the Securities including Holders of the Securities who did not attend and vote at the relevant meeting and Holders who voted in a manner contrary to the majority.

#### ***Change of law.***

The Conditions are based on laws in effect as at the date of this Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to relevant law or administrative practice after the date of this Prospectus.

#### ***There is no active trading market for the Securities.***

The Securities are new securities which may not be widely distributed and for which there is currently no active trading market. If the Securities are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Issuer and the Guarantor. Although applications have been made for the Securities to be admitted to listing on the Official List and to trading on the regulated market of Euronext Dublin, there is no assurance that such applications will be accepted or that an active trading market will develop. Accordingly, there is no assurance as to the development or liquidity of any trading market for the Securities.

#### ***Because the Global Securities are held by or on behalf of Euroclear and Clearstream, Luxembourg, investors will have to rely on their procedures for transfer, payment and communication with the Issuer and/or the Guarantor.***

The Securities will be represented by the Global Securities except in certain limited circumstances described in the Permanent Global Security. The Global Securities will be deposited with a common depository for Euroclear and Clearstream, Luxembourg. Except in certain limited circumstances described in the Permanent Global Security, investors will not be entitled to receive Definitive Securities. Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the Global Securities. While the Securities are represented by the Global Securities, investors will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg.

The Issuer and the Guarantor will discharge their payment obligations under the Securities by making payments to or to the order of the common depository for Euroclear and Clearstream, Luxembourg for distribution to their account holders. A holder of a beneficial interest in a Global Security must rely on the procedures of Euroclear and Clearstream, Luxembourg to receive payments under the Securities. The Issuer

and the Guarantor have no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Securities.

Holders of beneficial interests in the Global Securities will not have a direct right to vote in respect of the Securities. Instead, such holders will be permitted to act only to the extent that they are enabled by Euroclear and Clearstream, Luxembourg to appoint appropriate proxies.

*Exchange rate fluctuations may affect the value of the Securities.*

The Issuer will pay principal and interest on the Securities in euro. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than euro. These include the risk that exchange rates may significantly change (including changes due to devaluation of euro or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to euro would decrease (1) the Investor's Currency-equivalent yield on the Securities, (2) the Investor's Currency-equivalent value of the principal payable on the Securities and (3) the Investor's Currency equivalent market value of the Securities.

Government and monetary authorities may impose exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal. Any of the foregoing events could adversely affect the price of the Securities.

## OVERVIEW OF THE SECURITIES

*This overview must be read as an introduction to this Prospectus and any decision to invest in the Securities should be based on a consideration of the Prospectus as a whole, including the documents incorporated by reference.*

*Words and expressions defined in the "Terms and Conditions of the Securities" below or elsewhere in this Prospectus, have the same meanings in this overview.*

<b>Issuer:</b>	Telefónica Europe B.V.
<b>Guarantor:</b>	Telefónica, S.A.
<b>Description of Securities:</b>	EUR 1,300,000,000 Undated 6 Year Non-Call Deeply Subordinated Guaranteed Fixed Rate Reset Securities (the " <b>Securities</b> ").
<b>Joint Bookrunners:</b>	Banca IMI S.p.A., BNP Paribas, CaixaBank, S.A., Citigroup Global Markets Limited, MUFG Securities EMEA plc, NatWest Markets Plc, Société Générale and UniCredit Bank AG.
<b>Fiscal Agent:</b>	The Bank of New York Mellon, London Branch.
<b>Listing Agent:</b>	The Bank of New York Mellon SA/NV, Dublin Branch.
<b>Issue Price:</b>	100 per cent. of the principal amount.
<b>Issue Date:</b>	14 March 2019.
<b>Maturity Date:</b>	Undated.
<b>Interest:</b>	<p>The Securities will bear interest on their principal amount:</p> <ul style="list-style-type: none"><li>(i) from (and including) the Issue Date to (but excluding) the First Reset Date at a rate of 4.375 per cent. per annum, payable annually in arrear on each Interest Payment Date, commencing on 14 March 2020; and</li><li>(ii) from (and including) the First Reset Date, at the applicable 6 Year Swap Rate in respect of the relevant Reset Period plus:<ul style="list-style-type: none"><li>(A) in respect of the period commencing on the First Reset Date to (but excluding) 14 March 2029, 4.107 per cent. per annum;</li><li>(B) in respect of the period commencing on 14 March 2029 to (but excluding) 14 March 2045, 4.357 per cent. per annum; and</li><li>(C) from and including 14 March 2045, 5.107 per cent. per annum,</li></ul></li><li>(iii) all as determined by the Agent Bank, payable annually in arrear on each Interest Payment Date, commencing on 14 March 2020, subject to Condition 5 (<i>Optional Interest Deferral</i>), all as more particularly described in Condition 4 (<i>Interest Payments</i>) of the Conditions.</li></ul>
<b>Interest Payment Dates:</b>	Interest payments in respect of the Securities will be payable annually in arrear on 14 March in each year, commencing on 14 March 2020.
<b>Status of the Securities:</b>	The Securities and the Coupons constitute direct, unsecured and subordinated obligations of the Issuer (senior only to Junior Obligations of the Issuer) and will at all times rank <i>pari passu</i> and without any preference among themselves.

<b>Subordination of the Securities:</b>	<p>In the event of an Issuer Winding-up, the rights and claims of the Holders against the Issuer in respect of or arising under the Securities and the Coupons will rank (i) junior to the claims of all holders of Senior Obligations of the Issuer, (ii) <i>pari passu</i> with the claims of holders of all Parity Obligations of the Issuer and (iii) senior to the claims of holders of all Junior Obligations of the Issuer.</p> <p>Subject to applicable law, no Holder may exercise or claim any right of set-off in respect of any amount owed to it by the Issuer arising under or in connection with the Securities or the Coupons and each Holder shall, by virtue of being the Holder, be deemed to have waived all such rights of set-off. Condition 2(b) (<i>Status and Subordination of the Securities and Coupons – Subordination of the Securities</i>) of the Securities is an irrevocable stipulation (<i>derdenbeding</i>) for the benefit of the creditors of Senior Obligations of the Issuer and each such creditor may rely on and enforce Condition 2(b) (<i>Status and Subordination of the Securities and Coupons – Subordination of the Securities</i>) of the Securities under Section 6:253 of the Dutch Civil Code.</p>
<b>Guarantee and Status of Guarantee:</b>	<p>Payment of all sums expressed to be payable by the Issuer under the Securities and the Coupons will be unconditionally and irrevocably guaranteed by the Guarantor on a subordinated basis.</p> <p>The payment obligations of the Guarantor under the Guarantee constitute direct, unsecured and subordinated obligations of the Guarantor (senior only to Junior Obligations of the Guarantor) and will at all times rank <i>pari passu</i> and without preference among themselves.</p>
<b>Subordination of the Guarantee:</b>	<p>Subject to mandatory provisions of Spanish applicable law, in the event of the Guarantor being declared in insolvency (<i>concurso</i>) under Spanish Insolvency Law, the rights and claims of Holders against the Guarantor in respect of or arising under the Guarantee will rank (i) junior to the claims of the holders of all Senior Obligations of the Guarantor, (ii) <i>pari passu</i> with the claims of the holders of all Parity Obligations of the Guarantor, and (iii) senior to the claims of the holders of all Junior Obligations of the Guarantor.</p>
<b>Optional Interest Deferral:</b>	<p>The Issuer may, at its sole discretion, elect to defer (in whole or in part) any payment of interest on the Securities, as more particularly described in "<i>Terms and Conditions of the Securities – Optional Interest Deferral</i>". Non-payment of interest so deferred shall not constitute a default by the Issuer or Guarantor under the Securities or the Guarantee or for any other purpose. Any amounts so deferred, together with further interest accrued thereon (at the Prevailing Interest Rate applicable from time to time), shall constitute Arrears of Interest.</p>
<b>Optional Settlement of Arrears of Interest:</b>	<p>Arrears of Interest may be satisfied at the option of the Issuer, in whole or in part, at any given time upon giving not more than 14 and no less than seven Business Days' notice to the Holders, the Fiscal Agent and the Paying Agents prior to the relevant Optional Deferred Interest Settlement Date informing them of its election so to satisfy such Arrears of Interest (or part thereof) and specifying the relevant Optional Deferred Interest Settlement Date. See Condition 5(b) (<i>Optional Interest Deferral - Optional Settlement of Arrears of Interest</i>) of the Securities.</p>
<b>Mandatory Settlement of Arrears of Interest:</b>	<p>The Issuer shall pay any outstanding Arrears of Interest in whole, but not in part, on the first occurring Mandatory Settlement Date following the Interest Payment Date on which any outstanding Deferred Interest Payment was first deferred.</p>

"Mandatory Settlement Date" means the earliest of:

- (i) as soon as reasonably practicable (but no later than the fifth business day) following the date on which a Compulsory Arrears of Interest Settlement Event occurs;
- (ii) following any Deferred Interest Payment, on the next scheduled Interest Payment Date on which the Issuer does not elect to defer in whole the interest accrued in respect of the Interest Period;
- (iii) the date on which the Securities are redeemed or repaid in accordance with Condition 6 (*Redemption and Purchase*) of the Securities or become due and payable in accordance with Condition 9 (*Enforcement Events and No Events of Default*) of the Securities; and
- (iv) the date on which the Securities are substituted or varied in accordance with Condition 12(c) (*Substitution and Variation*) of the Securities.

Subject to certain exceptions, as more particularly described in Condition 5 (*Optional Interest Deferral*) of the Securities, a "Compulsory Arrears of Interest Settlement Event" shall have occurred if:

- (i) a Dividend Declaration is made in respect of any Junior Obligations or any Parity Obligations (other than in respect of any such dividend, distribution or payment paid or made exclusively in Ordinary Shares of the Guarantor); or
- (ii) the Guarantor or any of its subsidiaries has repurchased, redeemed or otherwise acquired any Junior Obligations or any Parity Obligations,

all as more particularly described in Condition 5 (*Optional Interest Deferral*) of the Securities.

*If a Mandatory Settlement Date does not occur prior to the calendar day which is the fifth anniversary of the Interest Payment Date on which the relevant Deferred Interest Payment was first deferred, it is the intention, though not an obligation, of the Issuer to pay all outstanding Arrears of Interest (in whole but not in part) on the next following Interest Payment Date.*

**Optional Redemption:**

The Issuer may redeem the Securities in whole, but not in part, on (i) any date during the Relevant Period under the Conditions and (ii) on any Interest Payment Date thereafter at their principal amount together with any accrued and unpaid interest up to (but excluding) the Redemption Date and any outstanding Arrears of Interest.

In addition, upon the occurrence of an Accounting Event, a Capital Event, a Tax Event, a Withholding Tax Event or a Substantial Purchase Event, the Securities will be redeemable (at the option of the Issuer) in whole, but not in part, at the prices set out, and as more particularly described, in Condition 6 (*Redemption and Purchase*) of the Securities.

**Events of Default:**

There are no events of default in respect of the Securities. However, if an Issuer Winding-up occurs, or an order is made or an effective resolution passed for the winding-up, dissolution or liquidation of the Guarantor, or the Guarantor becomes insolvent (*en estado de insolvencia*) pursuant to article 2 of the Spanish Insolvency Law, any Holder of a Security, in respect of such Security and provided that such Holder does not contravene an Extraordinary Resolution (if any) may, by written notice to the Issuer and the Guarantor, declare that such Security and all interest then accrued but unpaid on such Security shall be forthwith due and payable, whereupon the same shall become immediately due and payable, together with all interest accrued thereon.



In such case the Holder of a Security may, at its sole discretion, institute steps in order to obtain a judgment against the Issuer and/or the Guarantor for any amounts due in respect of the Securities, including the institution of proceedings for the declaration of insolvency (*declaración de concurso*) under Spanish Insolvency Law of the Guarantor and/or proving and/or claiming in an Issuer Winding-up or in the winding-up, dissolution, liquidation or insolvency proceeding of the Guarantor for such amount.

**Additional Amounts:** Payments in respect of the Securities and the Coupons by the Issuer or (as the case may be) the Guarantor under the Guarantee will be made without withholding or deduction for, or on account of, taxes of the Netherlands or the Kingdom of Spain, unless such withholding or deduction is required by law. In the event that any such withholding or deduction is made, additional amounts will be payable by the Issuer or, as the case may be, the Guarantor, subject to certain exceptions as are more fully described in Condition 8(a) (*Taxation - Additional Amounts*) of the Securities.

**Form:** The Securities will be in bearer form and will initially be represented by the Temporary Global Security, without interest coupons or talons, which will be deposited with a common depository on behalf of Euroclear and Clearstream, Luxembourg on or about the Issue Date. Interests in the Temporary Global Security will be exchangeable for interests in the Permanent Global Security as set out in the Temporary Global Security. The Permanent Global Security will be exchangeable for Definitive Securities in the circumstances set out in the Permanent Global Security. See "*Summary of Provisions relating to the Securities while in Global Form*".

**Substitution or Variation:** If at any time after the Issue Date, the Issuer and/or the Guarantor determines that a Tax Event, a Withholding Tax Event, an Accounting Event or a Capital Event has occurred, then the Issuer may, subject to Condition 12(c) of the Securities (without any requirement for the consent or approval of the Holders) and having given not less than 30 nor more than 60 days' notice to the Fiscal Agent and, in accordance with Condition 14 of the Securities, the Holders (which notice shall be irrevocable), on any applicable Interest Payment Date either (i) exchange the Securities for new securities of the Issuer, the Guarantor or any wholly-owned direct or indirect finance subsidiary of the Guarantor with a guarantee of the Guarantor or (ii) vary the terms of the Securities, so that after such substitution or variation the Securities remain or become, as the case may be, eligible for the same or (from the perspective of the Issuer or the Guarantor) more favourable tax, accounting or ratings treatment than the treatment to which they were entitled prior to the relevant event occurring.

If at any time after the Issue Date, the Issuer is required to withhold on account of Taxes levied in the Netherlands on any payment under the Securities, the Issuer may, subject to Condition 12(c) of the Securities (without any requirement for the consent of the Holders), on any applicable Interest Payment Date, without the consent of the Holders, (i) exchange the Securities into new securities of the Issuer, the Guarantor or any wholly-owned direct or indirect finance subsidiary of the Guarantor with a guarantee of the Guarantor, or (ii) vary the terms of the Securities.

**Denominations:** The Securities will be issued in the denomination of EUR 100,000.

**Governing Law:**

The Fiscal Agency Agreement, the Securities, the Coupons and the Guarantee and any non-contractual obligations arising out of or in connection with them are governed by and shall be construed in accordance with English law, other than the provisions of Condition 2(b) (*Status and Subordination of the Securities and Coupons – Subordination of the Securities*) of the Securities relating to the subordination of the Securities which are governed by and construed in accordance with the laws of the Netherlands, and the provisions of Conditions 3(b) (*Guarantee, Status and Subordination of the Guarantee – Status of the Guarantee*) of the Securities and Condition 3(c) (*Guarantee, Status and Subordination of the Guarantee – Subordination of the Guarantee*) of the Securities relating to the subordination of the Guarantee and the corresponding provisions of the Guarantee which are governed by and construed in accordance with the laws of the Kingdom of Spain. See Condition 16 (*Governing Law*) of the Securities.

**Replacement Intention:**

The Guarantor intends (without thereby assuming any obligation) at any time that it or the Issuer will redeem or repurchase the Securities only to the extent that the aggregate principal amount of the Securities to be redeemed or repurchased does not exceed such part of the net proceeds received by the Guarantor or any Subsidiary of the Guarantor on or prior to the date of such redemption or repurchase from the sale or issuance by the Guarantor or such Subsidiary to third party purchasers (other than group entities of the Guarantor) of securities which are assigned by S&P, at the time of sale or issuance, an aggregate "equity credit" (or such similar nomenclature used by S&P from time to time) that is equal to or greater than the "equity credit" assigned to the Securities to be redeemed or repurchased at the time of their issuance (but taking into account any changes in hybrid capital methodology or another relevant methodology or the interpretation thereof since the issuance of the Securities), unless:

- (i) the rating assigned by S&P to the Guarantor is at least "BBB" (or such similar nomenclature then used by S&P) and the Guarantor is of the view that such rating would not fall below this level as a result of such redemption or repurchase, or
- (ii) in the case of a repurchase, such repurchase is of less than (a) 10 per cent. of the aggregate principal amount of the Securities originally issued in any period of 12 consecutive months or (b) 25 per cent. of the aggregate principal amount of the Securities originally issued in any period of 10 consecutive years, or
- (iii) if the Securities are not assigned an "equity credit" by S&P (or such similar nomenclature then used by S&P at the time of such redemption or repurchase), or
- (iv) in the case of a repurchase, such repurchase relates to an aggregate principal amount of Securities which is less than or equal to the excess (if any) above the maximum aggregate principal amount of the Guarantor's hybrid capital to which S&P then assigns equity content under its prevailing methodology, or
- (v) the Securities are redeemed pursuant to a Tax Event, a Capital Event, a Substantial Purchase Event, an Accounting Event or a Withholding Tax Event, or
- (vi) such redemption or repurchase occurs on or after the Reset Date falling on 14 March 2045.

<b>Rating:</b>	The Securities will be rated BB+ by S&P, Ba2 by Moody's and BB+ by Fitch. Each of S&P, Moody's and Fitch is established in the European Union and registered under the CRA Regulation. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.
<b>Listing and Admission to Trading:</b>	This Prospectus has been approved by the Central Bank, which is the competent authority for the purposes of the Prospectus Directive as a prospectus issued for the purpose of giving information with regard to the issue of the Securities. Application has been made for the Securities to be admitted to listing on the Official List and to trading on the regulated market of Euronext Dublin. The regulated market is a regulated market for the purposes of MiFID II.
<b>Selling Restrictions:</b>	The United States and the EEA (including the United Kingdom, the Netherlands, the Kingdom of Spain and the Republic of Italy). See " <i>Subscription and Sale</i> ".  Category 2 selling restrictions will apply for the purposes of Regulation S under the Securities Act.
<b>Use of Proceeds:</b>	The aggregate net proceeds of the issue of the Securities, expected to amount to EUR 1,292,850,000, will be used for general corporate purposes of the Guarantor and its Group, including the preservation of the liquidity cushion and hybrid securities refinancing.
<b>Risk Factors:</b>	Prospective investors should carefully consider the information set out in " <i>Risk Factors</i> " in conjunction with the other information contained or incorporated by reference in this Prospectus.
<b>ISIN:</b>	XS1933828433.
<b>Common Code:</b>	193382843.

## INFORMATION INCORPORATED BY REFERENCE

The information set out in the table below shall be deemed to be incorporated in, and to form part of, this Prospectus **provided however that** any statement contained in any document incorporated by reference in, and forming part of, this Prospectus shall be deemed to be modified or superseded for the purpose of this Prospectus to the extent that a statement contained herein modifies or supersedes such statement.

Such documents will be made available, free of charge, during usual business hours at the specified offices of the Fiscal Agent, unless such documents have been modified or superseded. In addition the audited unconsolidated financial statements of Telefónica Europe B.V. for the year ended 31 December 2018 are available on [https://www.rns-pdf.londonstockexchange.com/rns/8900Q\\_1-2019-2-22.pdf](https://www.rns-pdf.londonstockexchange.com/rns/8900Q_1-2019-2-22.pdf); the audited unconsolidated financial statements of Telefónica Europe B.V. for the year ended 31 December 2017 are available on [https://www.rns-pdf.londonstockexchange.com/rns/2781G\\_-2018-2-28.pdf](https://www.rns-pdf.londonstockexchange.com/rns/2781G_-2018-2-28.pdf); the audited consolidated financial statements of Telefónica, S.A. for the year ended 31 December 2018 (the "**2018 Consolidated Financial Statements**") are available on [https://www.rns-pdf.londonstockexchange.com/rns/7202Q\\_2-2019-2-21.pdf](https://www.rns-pdf.londonstockexchange.com/rns/7202Q_2-2019-2-21.pdf); and the audited consolidated financial statements of Telefónica, S.A. for the year ended 31 December 2017 are available on [https://www.rns-pdf.londonstockexchange.com/rns/6302F\\_2-2018-2-22.pdf](https://www.rns-pdf.londonstockexchange.com/rns/6302F_2-2018-2-22.pdf).

For ease of reference, the tables below set out:

- (i) the relevant page references for the financial statements, the notes to the financial statements and the Auditors' reports for the years ended 31 December 2018 and 2017, for the Issuer.
- (ii) the relevant page references for the consolidated financial statements and, as applicable, the notes to the consolidated financial statements and the Auditors' reports for the years ended 31 December 2018 and 2017, for the Guarantor.

### **Telefónica Europe B.V.**

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### **Telefónica, S.A.**

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Where only certain parts of a document are incorporated by reference, the non-incorporated parts of the document are either not relevant to investors or are covered elsewhere in this Prospectus.

Any documents which are themselves incorporated by reference in the information incorporated by reference in this Prospectus will not form part of this Prospectus.

All documents incorporated by reference have been filed with the Central Bank.

## TERMS AND CONDITIONS OF THE SECURITIES

*The following are the terms and conditions in the form in which they will be endorsed on the Securities. Sentences in italics shall not form part of these terms and conditions.*

The issue of the Securities was authorised by a resolution of the Board of Managing Directors of the Issuer dated 20 December 2018 and the guarantee of the Securities was authorised by a resolution of the Executive Commission (*Comisión Delegada*) of the Guarantor dated 12 December 2018, acting upon a resolution of the Board of Directors of the Guarantor dated 9 June 2017 and a resolution of the shareholders acting through the General Shareholders' Meeting of the Guarantor dated 9 June 2017. A fiscal agency agreement dated 14 March 2019 (the "**Fiscal Agency Agreement**") has been entered into in relation to the Securities between the Issuer, the Guarantor, The Bank of New York Mellon, London Branch as fiscal agent, The Bank of New York Mellon, London Branch as agent bank and the paying agents named therein. The fiscal agent, the agent bank and the paying agents for the time being are referred to below respectively as the "**Fiscal Agent**", the "**Agent Bank**" and the "**Paying Agents**" (which expression shall include the Fiscal Agent). The Fiscal Agency Agreement includes the form of the Securities and the coupons relating to them (the "**Coupons**", which expression includes, where the context so permits, talons for further coupons (the "**Talons**")). Copies of the Fiscal Agency Agreement are available for inspection during normal business hours at the specified offices of the Paying Agents. The Holders of the Securities and the Holders of the Coupons (each as defined in Condition 1(b) (*Form Denomination and Title – Title*) below) (whether or not attached to the Securities) are deemed to have notice of all the provisions of the Fiscal Agency Agreement applicable to them.

### 1. **Form, Denomination and Title**

- (a) **Form and denomination:** The Securities are serially numbered and in bearer form in the denomination of EUR 100,000, each with Coupons attached on issue.
- (b) **Title:** Title to the Securities and Coupons passes by delivery. The holder of any Security or Coupon (a "**Holder**") will (except as otherwise required by applicable law or regulatory requirement) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it, any writing on it, or its theft or loss) and no person shall be liable for so treating the Holder.

### 2. **Status and Subordination of the Securities and Coupons**

- (a) **Status of the Securities and Coupons:** The Securities and the Coupons constitute direct, unsecured and subordinated obligations of the Issuer (senior only to Junior Obligations of the Issuer) and shall at all times rank *pari passu* and without any preference among themselves.
- (b) **Subordination of the Securities:** In the event of an Issuer Winding-up, the rights and claims of the Holders against the Issuer in respect of or arising under the Securities and the Coupons will rank (i) junior to the claims of all holders of Senior Obligations of the Issuer, (ii) *pari passu* with the claims of holders of all Parity Obligations of the Issuer and (iii) senior to the claims of holders of all Junior Obligations of the Issuer.

Subject to applicable law, no Holder may exercise or claim any right of set-off in respect of any amount owed to it by the Issuer arising under or in connection with the Securities or the Coupons and each Holder shall, by virtue of being the Holder, be deemed to have waived all such rights of set-off. This Condition 2(b) is an irrevocable stipulation (*derdenbeding*) for the benefit of the creditors of Senior Obligations of the Issuer and each such creditor may rely on and enforce this Condition 2(b) under Section 6:253 of the Dutch Civil Code.

### 3. **Guarantee, Status and Subordination of the Guarantee**

- (a) **Guarantee:** The Guarantor has unconditionally and irrevocably guaranteed the due payment of all sums expressed to be payable by the Issuer under the Securities and the Coupons on a subordinated basis. Its obligations in that respect (the "**Guarantee**") are set out in the deed of guarantee dated the Issue Date and made by the Guarantor for the benefit of the Holders.

- (b) **Status of the Guarantee:** The payment obligations of the Guarantor under the Guarantee constitute direct, unsecured and subordinated obligations of the Guarantor (senior only to Junior Obligations of the Guarantor) and shall at all times rank *pari passu* and without any preference among themselves.
- (c) **Subordination of the Guarantee:** Subject to mandatory provisions of Spanish applicable law, in the event of the Guarantor being declared in insolvency (*concurso*) under Spanish insolvency law, the rights and claims of Holders against the Guarantor in respect of or arising under the Guarantee will rank (i) junior to the claims of the holders of all Senior Obligations of the Guarantor, (ii) *pari passu* with the claims of the holders of all Parity Obligations of the Guarantor and (iii) senior to the claims of the holders of all Junior Obligations of the Guarantor.

#### 4. Interest Payments

- (a) **General**

The Securities bear interest at the Prevailing Interest Rate from (and including) 14 March 2019 (the "**Issue Date**") in accordance with the provisions of this Condition 4.

Subject to Condition 5 (*Optional Interest Deferral*), interest shall be payable on the Securities with respect to any Interest Period annually in arrear on each Interest Payment Date in each case as provided in this Condition 4.

- (b) **Interest Accrual**

The Securities will cease to bear interest from (and including) the date of redemption thereof pursuant to Condition 6 (*Redemption and Purchase*) or the date of any substitution thereof pursuant to Condition 12(c) (*Meetings of Holders of Securities and Modification, Substitution and Variation – Substitution and Variation*) unless, upon due presentation, payment of all amounts due in respect of the Securities is not made, in which event interest shall continue to accrue in respect of unpaid amounts on the Securities, both before and after judgment, and shall be payable, as provided in these Conditions up to (but excluding) the Relevant Date.

Interest in respect of any Security shall be calculated per EUR 100,000 in principal amount thereof (the "**Calculation Amount**"). The interest payable on each Security on any Interest Payment Date shall be calculated by multiplying the Prevailing Interest Rate for the Interest Period ending immediately prior to such Interest Payment Date by the Calculation Amount and rounding the resulting figure to the nearest cent (half a cent being rounded upwards). Interest in respect of any Security for any Interest Period and where it is necessary to compute an amount of interest in respect of any Security for a period which is less than a complete year, shall be calculated on the basis of the actual number of days in the relevant period from (and including) the first day of such period to (but excluding) the last day of such period divided by the actual number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Issue Date) to (but excluding) the next succeeding Interest Payment Date.

- (c) **Prevailing Interest Rate**

Unless previously redeemed or repurchased and cancelled in accordance with these Conditions and subject to the further provisions of this Condition 4, the Securities will bear interest on their principal amount as follows:

- (i) from (and including) the Issue Date to (but excluding) the First Reset Date, at the rate of 4.375 per cent. per annum, payable annually in arrear on each Interest Payment Date commencing on 14 March 2020; and

- (ii) from (and including) the First Reset Date, at the applicable 6 Year Swap Rate in respect of the relevant Reset Period plus:
  - (A) in respect of the period commencing on the First Reset Date to (but excluding) 14 March 2029, 4.107 per cent. per annum;
  - (B) in respect of the period commencing on 14 March 2029 to (but excluding) 14 March 2045, 4.357 per cent. per annum; and
  - (C) from and including 14 March 2045, 5.107 per cent. per annum,all as determined by the Agent Bank (each a "**Subsequent Fixed Interest Rate**"), payable annually in arrear on each Interest Payment Date, commencing on 14 March 2020, subject to Condition 5 (*Optional Interest Deferral*),

and where:

"**6 Year Swap Rate**" means, in respect of any Reset Period, the mid-swap rate as displayed on Reuters screen "ICESWAP2" or, if such rate is not displayed on such screen as at the relevant time, the mid-swap rate as displayed on a successor page (in each case, the "**Reset Screen Page**") as at 11:00 a.m. (Central European time) on the relevant Reset Interest Determination Date.

Subject to the operation of Condition 4(d) (*Interest Payments - Benchmark Replacement*), in the event that the relevant 6 Year Swap Rate does not appear on the Reset Screen Page on the relevant Reset Interest Determination Date, the 6 Year Swap Rate will be the Reset Reference Bank Rate on such Reset Interest Determination Date. "**Reset Reference Bank Rate**" means the percentage rate calculated by the Agent Bank on the basis of the 6 Year Swap Rate Quotations provided by five leading swap dealers in the interbank market (the "**Reset Reference Banks**") to the Issuer and the Agent Bank at approximately 11:00 a.m. (Central European time) on the relevant Reset Interest Determination Date. If (a) at least three quotations are provided, the 6 Year Swap Rate will be calculated by the Agent Bank on the basis of the arithmetic mean (or, if only three quotations are provided, the median) of the quotations provided, eliminating the highest quotation (or, in the event of equality one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest); (b) only two quotations are provided, the Reset Reference Bank Rate will be the arithmetic mean of the quotations provided; (c) only one quotation is provided, the Reset Reference Bank Rate will be the quotation provided; and (d) no quotations are provided, the Reset Reference Bank Rate for the relevant period will be: (i) in the case of each Reset Period other than the Reset Period commencing on the First Reset Date, the 6 Year Swap Rate in respect of the immediately preceding reset period, or (ii) in the case of the Reset Period commencing on the First Reset Date, 0.268 per cent. per annum.

The "**6 Year Swap Rate Quotations**" means, in relation to any Reset Period, the arithmetic mean of the bid and offered rates for the annual fixed leg (calculated on a 30/360 Day Count basis) of a fixed-for-floating euro interest rate swap which (i) has a term of 6 Years commencing on the relevant Reset Date, (ii) is in an amount that is representative of a single transaction in the relevant market at the relevant time with an acknowledged dealer of good credit in the swap market, and (iii) has a floating leg based on the 6-month EURIBOR rate (calculated on the basis of the actual number of days elapsed and a year of 360 days).

(d) **Benchmark Replacement**

Notwithstanding the provisions above in this Condition 4, if the Issuer (in consultation with the Agent Bank) determines that a Benchmark Event has occurred in relation to the Original Reference Rate when a component part of the 6 Year Swap Rate remains to be determined by reference to the Original Reference Rate, then the Issuer may elect to apply the following provisions:

- (i) The Issuer shall use its reasonable endeavours to appoint an Independent Adviser, as soon as reasonably practicable, with a view to the Issuer and the Independent



Adviser determining, no later than three Business Days prior to the relevant Reset Interest Determination Date, a Successor Rate, failing which an Alternative Rate (in accordance with paragraph (ii) below) and, in either case, an Adjustment Spread if any (in accordance with paragraph (iii) below) and any Benchmark Amendments (in accordance with paragraph (iv) below).

- (ii) If the Issuer and the Independent Adviser:
  - (A) agree that there is a Successor Rate, then such Successor Rate shall (subject to adjustment as provided in paragraph (iii) below) subsequently be used in place of the Original Reference Rate as a component part of determining the 6 Year Swap Rate for all future payments of interest on the Securities (subject to the subsequent operation of this Condition 4(d)); or
  - (B) agree that there is no Successor Rate but that there is an Alternative Rate, then such Alternative Rate shall (subject to adjustment as provided in paragraph (iii) below) subsequently be used in place of the Original Reference Rate as a component part of determining the 6 Year Swap Rate for all future payments of interest on the Securities (subject to the subsequent operation of this Condition 4(d)); or
  - (C) the Issuer and the Independent Adviser do not agree on the selection of a Successor Rate or an Alternative Rate, the fallback provisions set out in Condition 4(c) (*Interest Payments - Prevailing Interest Rate*) continue to apply.
- (iii) If the Issuer and the Independent Adviser agree (i) that an Adjustment Spread is required to be applied to the Successor Rate or the Alternative Rate (as the case may be) and (ii) the quantum of, or a formula or methodology for determining, such Adjustment Spread, then such Adjustment Spread shall be applied to the Successor Rate or the Alternative Rate (as the case may be).
- (iv) If any Successor Rate, Alternative Rate or Adjustment Spread is determined in accordance with this Condition 4(d) and the Issuer and the Independent Adviser agree: (i) that amendments to these Conditions and/or the Fiscal Agency Agreement are necessary to ensure the proper operation of such Successor Rate, Alternative Rate and/or Adjustment Spread (such amendments, the "**Benchmark Amendments**") and (ii) the terms of the Benchmark Amendments, then the Issuer shall, subject to giving notice thereof in accordance with paragraph (v) below, without any requirement for the consent or approval of the Holders, vary these Conditions and/or the Fiscal Agency Agreement to give effect to such Benchmark Amendments with effect from the date specified in such notice. In connection with any such variation in accordance with this paragraph, the Issuer shall comply with the rules of any stock exchange on which the Securities are for the time being listed or admitted to trading.
- (v) Any Successor Rate, Alternative Rate, Adjustment Spread and the specific terms of any Benchmark Amendments, determined under this Condition 4(d) will be notified promptly by the Issuer to the Fiscal Agent, the Agent Bank, the Paying Agents and, in accordance with Condition 14 (*Notices*), the Holders. Such notice shall be irrevocable and shall specify the effective date of the Benchmark Amendments, if any and will be binding on the Issuer, the Guarantor, the Fiscal Agent, the Agent Bank, the Paying Agents and the Holders.
- (vi) Without prejudice to the obligations of the Issuer under paragraphs (i) to (v) above, the Original Reference Rate and the fallback provisions provided for in Condition 4(c) (*Interest Payments - Prevailing Interest Rate*) will continue to apply unless and until the Agent Bank has been notified of the Successor Rate or the Alternative Rate (as the case may be), and any Adjustment Spread and Benchmark Amendments, in accordance with this Condition 4(d).

(e) ***Publication of Subsequent Fixed Interest Rates***

The Issuer shall cause notice of each Subsequent Fixed Interest Rate and the corresponding amount payable per Calculation Amount determined in accordance with this Condition 4 and the relevant dates scheduled for payment to be given to the Fiscal Agent, the Paying Agents, any stock exchange on which the Securities are for the time being listed or admitted to trading and, in accordance with Condition 14 (*Notices*), the Holders of the Securities and the Coupons, in each case as soon as practicable after its determination but in any event not later than the fourth Business Day thereafter.

The relevant Subsequent Fixed Interest Rate and the dates scheduled for payment so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of any extension or shortening of the relevant period in accordance with these Conditions.

(f) ***Agent Bank and Reset Reference Banks***

With effect from the first Reset Interest Determination Date, the Issuer will maintain an Agent Bank and the number of Reset Reference Banks provided above where the Prevailing Interest Rate is to be calculated by reference to them. The name of the initial Agent Bank is The Bank of New York Mellon, London Branch and its initial specified office is One Canada Square, London E14 5AL, United Kingdom.

The Issuer may from time to time replace the Agent Bank or any Reset Reference Bank with another leading financial institution. If the Agent Bank is unable or unwilling to continue to act as the Agent Bank or fails duly to determine the Prevailing Interest Rate in respect of any Reset Period as provided in Condition 4(c) (*Interest Payments - Prevailing Interest Rate*), the Issuer shall forthwith appoint another leading financial institution to act as such in its place. The Agent Bank may not resign its duties or be removed without a successor having been appointed as aforesaid.

(g) ***Determinations of Agent Bank Binding***

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 4 by the Agent Bank shall (in the absence of wilful default, fraud or manifest error) be binding on the Issuer, the Agent Bank, the Fiscal Agent, the Paying Agents and all Holders and (in the absence of negligence, wilful default or fraud) no liability to the Holders or the Issuer shall attach to the Agent Bank in connection with the exercise or non-exercise by it of any of its powers, duties and discretions.

5. **Optional Interest Deferral**

- (a) ***Deferral of Interest Payments:*** The Issuer may, subject as provided in Conditions 5(b) (*Optional Interest Deferral – Optional Settlement of Arrears of Interest*) and 5(c) (*Optional Interest Deferral – Mandatory Settlement of Arrears of Interest*) below, elect in its sole discretion to defer (in whole or in part) any Interest Payment that is otherwise scheduled to be paid on an Interest Payment Date by giving notice (a "**Deferral Notice**") of such election to the Holders in accordance with Condition 14 (*Notices*), the Fiscal Agent and the Paying Agents not more than 14 and not less than 7 Business Days prior to the relevant Interest Payment Date. Any Interest Payment that the Issuer has elected to defer pursuant to this Condition 5(a) and that has not been satisfied is referred to as a "**Deferred Interest Payment**".

If any Interest Payment is deferred pursuant to this Condition 5(a) then such Deferred Interest Payment shall itself bear interest (such further interest together with the Deferred Interest Payment, being "**Arrears of Interest**"), at the relevant Prevailing Interest Rate applicable from time to time, from (and including) the date on which (but for such deferral) the Deferred Interest Payment would otherwise have been due to be made to (but excluding) the date on which such Deferred Interest Payment is paid in accordance with Condition 5(b) (*Optional Interest Deferral – Optional Settlement of Arrears of Interest*)

or Condition 5(c) (*Optional Interest Deferral – Mandatory Settlement of Arrears of Interest*) (as applicable), in each case such further interest being compounded on each Interest Payment Date.

Non-payment of interest deferred pursuant to this Condition 5(a) shall not constitute a default by the Issuer or the Guarantor under the Securities or the Guarantee or for any other purpose.

- (b) **Optional Settlement of Arrears of Interest:** Arrears of Interest may be satisfied at the option of the Issuer, in whole or in part, at any given time (the "**Optional Deferred Interest Settlement Date**") following delivery of a notice to such effect given by the Issuer to the Holders in accordance with Condition 14 (*Notices*), the Fiscal Agent and the Paying Agents not more than 14 and no less than 7 Business Days prior to the relevant Optional Deferred Interest Settlement Date informing them of its election so to satisfy such Arrears of Interest (or part thereof) and specifying the relevant Optional Deferred Interest Settlement Date.
- (c) **Mandatory Settlement of Arrears of Interest:** Notwithstanding the provisions of Condition 5(b) (*Optional Interest Deferral – Optional Settlement of Arrears of Interest*), the Issuer shall pay any outstanding Arrears of Interest in whole, but not in part, on the first occurring Mandatory Settlement Date following the Interest Payment Date on which any outstanding Deferred Interest Payment was first deferred.

Notice of the occurrence of any Mandatory Settlement Date shall be given to the Holders in accordance with Condition 14 (*Notices*), the Fiscal Agent and the Paying Agents not more than 14 and no less than 7 Business Days prior to the relevant Mandatory Settlement Date.

*If a Mandatory Settlement Date does not occur prior to the calendar day which is the fifth anniversary of the Interest Payment Date on which the relevant Deferred Interest Payment was first deferred, it is the intention, though not an obligation, of the Issuer to pay all outstanding Arrears of Interest (in whole but not in part) on the next following Interest Payment Date.*

"**Mandatory Settlement Date**" means the earliest of:

- (i) as soon as reasonably practicable (but not later than the fifth business day) following the date on which a Compulsory Arrears of Interest Settlement Event occurs;
- (ii) following any Deferred Interest Payment, on the next scheduled Interest Payment Date on which the Issuer does not elect to defer in whole the interest accrued in respect of the relevant Interest Period;
- (iii) the date on which the Securities are redeemed or repaid in accordance with Condition 6 (*Redemption and Purchases*) or become due and payable in accordance with Condition 9 (*Enforcement Events and No Events of Defaults*); and
- (iv) the date on which the Securities are substituted or varied in accordance with Condition 12(c).

A "**Compulsory Arrears of Interest Settlement Event**" shall have occurred if:

- (i) a Dividend Declaration is made in respect of any Junior Obligations or any Parity Obligations (other than in respect of any such dividend, distribution or payment paid or made exclusively in Ordinary Shares of the Guarantor); or
- (ii) the Guarantor or any of its subsidiaries has repurchased, redeemed or otherwise acquired any Junior Obligations or any Parity Obligations,

save, in the case of (a) any such Dividend Declaration or such redemption, repurchase or acquisition that is mandatory under the terms of any such Parity Obligations; (b) any Dividend Declaration in respect of any such dividend, distribution or payment by the Issuer to the Guarantor, (c) any Dividend Declaration or repurchase which is required to be validly resolved on, declared, paid or made in respect of, share option, or free share allocation plan in each case reserved for directors, officers and/or employees of the Guarantor or any of its Affiliates or any associated liquidity agreements or any associated hedging transactions; (d) any purchase of Ordinary Shares of the Guarantor by or on behalf of the Guarantor as part of an intra-day transaction that does not result in an increase in the aggregate number of Ordinary Shares of the Guarantor held by or on behalf of the Guarantor as treasury shares at 8:30 a.m. Madrid time on the Interest Payment Date on which any outstanding Deferred Interest Payment was first deferred; (e) any repurchase or acquisition of Parity Obligations that is made for a consideration less than the aggregate nominal or par value of such Parity Obligations that are purchased or acquired; (f) any repurchase or acquisition of Ordinary Shares of the Guarantor resulting from mandatory obligations or hedging of any convertible securities issued by the Issuer or the Guarantor; or (g) any repurchase or acquisition of Ordinary Shares of the Guarantor resulting from the settlement of existing equity derivatives after the Interest Payment Date on which any outstanding Deferred Interest Payment was first deferred.

**"Dividend Declaration"** means the authorisation by resolution of the general meeting of shareholders or the board of directors or other competent corporate body (as the case may be) of the Issuer or the Guarantor (as applicable) of the payment, or the making of, a dividend or other distribution or payment (or, if no such authorisation is required, the payment, or the making of, a dividend or other distribution or payment).

## 6. **Redemption and Purchase**

- (a) **Final redemption:** Subject to any early redemption described below, the Securities are undated securities with no specified maturity date. The Securities may not be redeemed at the option of the Issuer other than in accordance with Conditions 6(b) (*Redemption and Purchase – Issuer's Call Option*), 6(c) (*Redemption and Purchase – Redemption for Taxation Reasons*), 6(d) (*Redemption and Purchase – Redemption for Accounting Reasons*), 6(e) (*Redemption and Purchase – Redemption for Rating Reasons*), or 6(f) (*Redemption and Purchase – Redemption following a Substantial Purchase Event*).
- (b) **Issuer's Call Option:** The Issuer may, by giving not less than 30 nor more than 60 days' notice to the Fiscal Agent, the Paying Agents and, in accordance with Condition 14 (*Notices*), the Holders (which notice shall be irrevocable), redeem the Securities in whole, but not in part, (i) on any date during the Relevant Period, or (ii) on any Interest Payment Date thereafter at their principal amount together with any accrued and unpaid interest up to (but excluding) the Redemption Date and any outstanding Arrears of Interest.
- (c) **Redemption for Taxation Reasons:** If, immediately prior to the giving of the notice referred to below, a Tax Event or a Withholding Tax Event has occurred and is continuing, then the Issuer may, subject to having given not less than 30 nor more than 60 days' notice to the Fiscal Agent, the Paying Agents and, in accordance with Condition 14 (*Notices*), the Holders (which notice shall be irrevocable) and subject to Condition 6(g) (*Redemption and Purchase – Preconditions to Redemption*), redeem the Securities in whole, but not in part, in accordance with these Conditions at any time, in each case at (i) their Early Redemption Amount (in the case of a Tax Event if the Redemption Date falls prior to the start of the Relevant Period) or (ii) their principal amount (in the case of (a) a Withholding Tax Event or (b) a Tax Event if the Redemption Date falls on or after the First Reset Date), together, in each case, with any accrued and unpaid interest up to (but excluding) the Redemption Date and any outstanding Arrears of Interest. Upon the expiry of such notice, the Issuer shall redeem the Securities.
- (d) **Redemption for Accounting Reasons:** If, immediately prior to the giving of the notice referred to below, an Accounting Event has occurred and is continuing, then the Issuer may, subject to having given not less than 30 nor more than 60 days' notice to the Fiscal Agent, the Paying Agent and, in accordance with Condition 14 (*Notices*), the Holders

(which notice shall be irrevocable) and subject to Condition 6(g) (*Redemption and Purchase – Preconditions to Redemption*), redeem the Securities in accordance with these Conditions in whole, but not in part, at any time, in each case (i) at their Early Redemption Amount if the Redemption Date falls before the start of the Relevant Period, or (ii) at their principal amount if the Redemption Date falls on or after the First Reset Date, together with any accrued and unpaid interest up to (but excluding) the Redemption Date and any outstanding Arrears of Interest. Upon the expiry of such notice, the Issuer shall redeem the Securities.

- (e) **Redemption for Rating Reasons:** If, immediately prior to the giving of the notice referred to below, a Capital Event has occurred and is continuing, then the Issuer may, subject to having given not less than 30 nor more than 60 days' notice to the Fiscal Agent, the Paying Agent and, in accordance with Condition 14 (*Notices*), the Holders (which notice shall be irrevocable) and subject to Condition 6(g) (*Redemption and Purchase – Preconditions to Redemption*), redeem the Securities in accordance with these Conditions in whole, but not in part, at any time, in each case (i) at their Early Redemption Amount if the Redemption Date falls before the start of the Relevant Period, or (ii) at their principal amount if the Redemption Date falls on or after the First Reset Date, together with any accrued and unpaid interest up to (but excluding) the Redemption Date and any outstanding Arrears of Interest. Upon the expiry of such notice, the Issuer shall redeem the Securities.
- (f) **Redemption following a Substantial Purchase Event:** If, immediately prior to the giving of the notice referred to below, a Substantial Purchase Event has occurred, then the Issuer may, subject to having given not less than 30 nor more than 60 days' notice to the Fiscal Agent, the Paying Agents and, in accordance with Condition 14 (*Notices*), the Holders (which notice shall be irrevocable) and subject to Condition 6(g) (*Redemption and Purchase – Preconditions to Redemption*), redeem the Securities in whole, but not in part, in accordance with these Conditions at any time, in each case at their principal amount, together with any accrued and unpaid interest up to (but excluding) the Redemption Date and any outstanding Arrears of Interest. Upon expiry of such notice, the Issuer shall redeem the Securities.
- (g) **Preconditions to Redemption:** Prior to serving any notice of redemption pursuant to this Condition 6 (other than Condition 6(b) (*Redemption and Purchase – Issuer's Call Option*)), the Guarantor shall
  - (i) deliver to the Fiscal Agent a certificate signed by two directors of the Guarantor stating that the relevant requirement or circumstance giving rise to the right to redeem is satisfied;
  - (ii) in the case of a Tax Event or Withholding Tax Event deliver to the Fiscal Agent an opinion of independent legal or other tax advisers to the effect set out in paragraph (i) above;
  - (iii) in the case of an Accounting Event, deliver to the Fiscal Agent the relevant opinion from the relevant accountancy firm; and
  - (iv) in the case of a Capital Event, deliver to the Fiscal Agent the relevant confirmation from the relevant Rating Agency.
- (h) **Purchase:** Each of the Issuer, the Guarantor and their respective subsidiaries may at any time purchase Securities in the open market or otherwise at any price (provided that, if they should be cancelled pursuant to this Condition 6(h), they are purchased together with all unmatured Coupons and all unexchanged Talons relating to them). The Securities so purchased may be held, re-issued or re-sold or, at the option of the relevant purchaser, surrendered to the Fiscal Agent for cancellation, but while held by or on behalf of the Issuer, the Guarantor or any such subsidiary, shall not entitle the holder to vote at any meetings of the Holders of Securities and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Holders of Securities or for the purposes of Condition 12 (*Meetings of Holders of Securities and Modification*).

- (i) **Cancellation:** All Securities so redeemed and any unmatured Coupons attached to or surrendered with them will be cancelled and may not be re-issued or re-sold.

The Guarantor intends (without thereby assuming any obligation) at any time that it or the Issuer will redeem or repurchase the Securities only to the extent that the aggregate principal amount of the Securities to be redeemed or repurchased does not exceed such part of the net proceeds received by the Guarantor or any subsidiary of the Guarantor on or prior to the date of such redemption or repurchase from the sale or issuance by the Guarantor or such subsidiary to third party purchasers (other than group entities of the Guarantor) of securities which are assigned by S&P, at the time of sale or issuance, an aggregate "equity credit" (or such similar nomenclature used by S&P from time to time) that is equal to or greater than the "equity credit" assigned to the Securities to be redeemed or repurchased at the time of their issuance (but taking into account any changes in hybrid capital methodology or another relevant methodology or the interpretation thereof since the issuance of the Securities), unless:

- (i) the rating assigned by S&P to the Guarantor is at least "BBB" (or such similar nomenclature then used by S&P) and the Guarantor is of the view that such rating would not fall below this level as a result of such redemption or repurchase, or
- (ii) in the case of a repurchase, such repurchase is of less than (a) 10 per cent. of the aggregate principal amount of the Securities originally issued in any period of 12 consecutive months or (b) 25 per cent. of the aggregate principal amount of the Securities originally issued in any period of 10 consecutive years, or
- (iii) if the Securities are not assigned an "equity credit" by S&P (or such similar nomenclature then used by S&P at the time of such redemption or repurchase), or
- (iv) in the case of a repurchase, such repurchase relates to an aggregate principal amount of Securities which is less than or equal to the excess (if any) above the maximum aggregate principal amount of the Guarantor's hybrid capital to which S&P then assigns equity content under its prevailing methodology, or
- (v) the Securities are redeemed pursuant to a Tax Event, a Capital Event, an Accounting Event, a Substantial Purchase Event or a Withholding Tax Event, or
- (vi) such redemption or repurchase occurs on or after the Reset Date falling on 14 March 2045.

## 7. **Payments**

- (a) **Method of Payment:** Payments of principal and interest will be made against presentation and surrender (or, in the case of a partial payment, endorsement) of Securities or the appropriate Coupons (as the case may be) at the specified office of any Paying Agent by transfer to a euro account maintained by the payee with a bank in city in which banks have access to the TARGET System. Payments of interest due in respect of any Security other than on presentation and surrender of matured Coupons shall be made only against presentation and either surrender or endorsement (as appropriate) of the relevant Security.
- (b) **Payments subject to fiscal laws:** All payments are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 8 (*Taxation*). No commissions or expenses shall be charged to the Holders in respect of such payments.
- (c) **Unmatured Coupons:** Upon the due date for redemption of any Security, unmatured Coupons relating to such Security (whether or not attached) shall become void and no payment shall be made in respect of them. Where any Security is presented for redemption without all unmatured Coupons relating to it, redemption shall be made only against the provision of such indemnity as the Issuer and the Guarantor may require.
- (d) **Exchange of Talons:** On or after the Interest Payment Date for the final Coupon forming part of a Coupon sheet issued in respect of any Securities, the Talon forming part of such

Coupon sheet may be surrendered at the specified office of the Fiscal Agent in exchange for a further Coupon sheet (and another Talon for a further Coupon sheet) (but excluding any Coupons that may have become void pursuant to Condition 10 (*Prescription*)).

- (e) **Payments on business days:** A Security or Coupon may only be presented for payment on a day which is a business day in the place of presentation (and, in the case of payment by transfer to a euro account, a day that is a Business Day). No further interest or other payment will be made as a consequence of the day on which the relevant Security or Coupon may be presented for payment under this Condition 7 falling after the due date. In this Condition "**business day**" means a day on which commercial banks and foreign exchange markets settle payments and are open in the relevant city.
- (f) **Paying Agents:** The initial Paying Agents and their initial specified offices are listed below. The Issuer and the Guarantor reserve the right at any time to vary or terminate the appointment of any Paying Agent and appoint additional or other Paying Agents, provided that they will maintain (i) a Fiscal Agent, (ii) a Paying Agent (which may be the Fiscal Agent) having specified offices in London and (iii) a Paying Agent with a specified office in a European Union member state. Notice of any change in the Paying Agents or their specified offices will promptly be given to the Holders in accordance with Condition 14 (*Notices*).

## 8. **Taxation**

- (a) **Additional Amounts:** All payments of principal and interest in respect of the Securities and the Coupons by the Issuer or (as the case may be) the Guarantor under the Guarantee will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges (collectively, "**Taxes**") of whatever nature imposed or levied by or on behalf of the Netherlands or the Kingdom of Spain or, in each case, any authority therein or thereof having power to tax (each a "**Taxing Authority**"), unless the withholding or deduction of such Taxes is required by law.

In that event, the Issuer or, as the case may be, the Guarantor will pay such additional amounts ("**Additional Amounts**") as may be necessary in order that the net amounts received by the Holders after such withholding or deduction of Taxes shall equal the respective amounts of principal and interest which would have been received in respect of the Securities or (as the case may be) Coupons, in the absence of such withholding or deduction of Taxes; except that no Additional Amounts shall be payable with respect to any payment in respect of any Security or Coupon or (as the case may be) under the Guarantee:

- (i) to, or to a third party on behalf of, a Holder or to the beneficial owner of any Security or Coupon who is liable for Taxes in respect of such Security or Coupon by reason of his having some connection with the Netherlands or the Kingdom of Spain other than the mere holding of the Security or Coupon;
- (ii) presented for payment more than 30 days after the Relevant Date except to the extent that the relevant Holder or the beneficial owner thereof would have been entitled to such Additional Amounts on presenting the same for payment on the thirtieth such day;
- (iii) in relation to any estate, inheritance, gift, sales, transfer or similar Taxes;
- (iv) to, or to a third party on behalf of, a Holder or to the beneficial owner of any Security or Coupon if the Issuer or the Guarantor does not receive in a timely manner a duly executed and completed certificate from the Fiscal Agent, pursuant to the First Additional Provision of Law 10/2014, and Royal Decree 1065/2007 of 27 July, as amended by Royal Decree 1145/2011 of 29 July, and any implementing legislation or regulation;
- (v) where such withholding or deduction of Taxes is imposed, withheld or deducted by reason of the failure of the Holder or the beneficial owner of any Security or

Coupon to comply with the Issuer's or the Guarantor's request addressed to the Holder or the beneficial owner to make any necessary claim or to comply with any certification, identification or other requirements concerning the nationality, residence, identity or connection with the taxing jurisdiction of such Holder or beneficial owner if such claim or compliance is required by the applicable tax laws and regulations of the relevant Taxing Authority as a precondition to exemption from, or reduction in the rate of deduction or withholding of, Taxes imposed by such relevant Taxing Authority;

- (vi) presented for payment in the Kingdom of Spain;
- (vii) presented for payment by or on behalf of a Holder who would have been able to avoid such withholding or deduction by presenting the relevant Security to another Paying Agent in a Member State of the European Union; or
- (viii) any taxes that are imposed or withheld pursuant to Sections 1471 through 1474 of the Internal Revenue Code of 1986 (FATCA) (or any amended or successor version of such sections that is substantively comparable and not materially more onerous to comply with), any regulations promulgated thereunder, any official interpretations thereof or any agreements entered into in connection with the implementation thereof.

In addition, Additional Amounts will not be payable with respect to (i) any Taxes that are imposed in respect of any combination of the items set forth above and to (ii) any Holder of any Security who is a fiduciary, a partnership, a limited liability company or other than the sole beneficial owner of that payment, to the extent that payment would be required by the laws of the relevant Taxing Authority to be included in the income, for tax purposes, of a beneficiary or settlor with respect to the fiduciary, a member of that partnership, an interest holder in that limited liability company or a beneficial owner who would not have been entitled to the Additional Amounts had it been the Holder.

- (b) **Tax Credit Payment:** If any Additional Amounts are paid by the Issuer or, as the case may be, the Guarantor under this Condition for the benefit of any Holder and such Holder, in its sole discretion, determines that it has obtained (and has derived full use and benefit from) a credit against, a relief or remissions for, or repayment of, any tax, then, if and to the extent that such Holder, in its sole opinion, determines that (i) such credit, relief, remission or repayment is in respect of or calculated with reference to the Additional Amounts paid pursuant to this Condition; and (ii) its tax affairs for its tax year in respect of which such credit, relief, remission or repayment was obtained have been finally settled, such Holder shall, to the extent that it can do so without prejudice to the retention of the amount of such credit, relief, remission or repayment, pay to the Issuer or, as the case may be, the Guarantor such amount as such Holder shall in its sole opinion, determine to be the amount which will leave such Holder (after such payment) in no worse after tax position than it would have been in had the additional payment in question not been required to be made by the Issuer or, as the case may be, the Guarantor.
- (c) **Tax Credit Clawback:** If any Holder makes any payment to the Issuer or, as the case may be, the Guarantor pursuant to this Condition and such Holder subsequently determines in its sole opinion, that the credit, relief, remission or repayment in respect of which such payment was made was not available or has been withdrawn or that it was unable to use such credit, relief, remission or repayment in full, the Issuer or, as the case may be, the Guarantor shall reimburse such Holder such amount as such Holder determines, in its sole opinion, is necessary to place it in the same after tax position as it would have been in if such credit, relief, remission or repayment had been obtained and fully used and retained by such Holder, such amount not exceeding in any case the amount paid by the Holder to the Issuer or, as the case may be, the Guarantor.
- (d) **Tax Affairs:** Nothing in Conditions 8(b) (*Taxation – Tax Credit Payment*) and 8(c) (*Taxation – Tax Credit Clawback*) above shall interfere with the right of any Holder to arrange its tax or any other affairs in whatever manner it thinks fit, oblige any Holder to claim any credit, relief, remission or repayment in respect of any payment made under this



Condition in priority to any credit, relief, remission or repayment available to it nor oblige any Holder to disclose any information relating to its tax or other affairs or any computations in respect thereof.

- (e) **Definitions:** References in these Conditions to (i) "Principal" shall be deemed to include all amounts in the nature of principal payable pursuant to Condition 7 (*Payments*) or any amendment or supplement to it; (ii) "interest" shall be deemed to include all Arrears of Interest and all other amounts payable pursuant to Condition 4 (*Interest Payments*) or any amendment or supplement to it; and (iii) "principal" and/or "interest" shall be deemed to include any Additional Amounts.
- (f) **Applicable law for Spanish tax purposes:** The Guarantor will apply the First Additional Provision of Law 10/2014 to the Securities for Spanish tax purposes.

Payments in respect of the Securities and the Coupons by the Guarantor under the Guarantee will be exempt from Spanish Non-Resident Income Tax to the extent that the Holder or beneficial owner is not acting through a permanent establishment in Spain.

The Guarantor will comply with the reporting obligations set out in Section 4 of the First Additional Provision of Law 10/2014 in respect of Holders or beneficial owners who are taxpayers of the Spanish Individual Income Tax or taxpayers of the Spanish Corporation Tax, as well as taxpayers of the Spanish Non-resident Income Tax who hold the Securities through a permanent establishment located in Spanish territory.

- (g) **Substitute taxing jurisdiction:** If, pursuant to the Issuer's option under Condition 12(c) (*Substitution and Variation*), the Securities are exchanged for new securities of any wholly-owned direct or indirect finance subsidiary of the Guarantor that is subject to any taxing jurisdiction other than the Netherlands or Spain, respectively, references in these Conditions to the Netherlands or Spain shall be construed as references to the Netherlands or (as the case may be) Spain and/or such other jurisdiction.

## 9. Enforcement Events and No Events of Default

There are no events of default in respect of the Securities.

However, if an Issuer Winding-up occurs, or an order is made or an effective resolution passed for the winding-up, dissolution or liquidation of the Guarantor, or the Guarantor becomes insolvent (*en estado de insolvencia*) pursuant to article 2 of the Spanish insolvency law, any Holder of a Security, in respect of such Security and provided that such Holder does not contravene a previously adopted Extraordinary Resolution (if any) may, by written notice to the Issuer and the Guarantor, declare that such Security and all interest then accrued but unpaid on such Security shall be forthwith due and payable, whereupon the same shall become immediately due and payable, together with all interest accrued thereon.

In such case the Holder of a Security may, at its sole discretion, institute steps in order to obtain a judgment against the Issuer and/or the Guarantor for any amounts due in respect of the Securities, including the institution of proceedings for the declaration of insolvency (*declaración de concurso*) under Spanish insolvency law of the Guarantor and/or proving and/or claiming in an Issuer Winding-up or in the winding-up, dissolution, liquidation or insolvency proceeding of the Guarantor for such amount.

Each Holder may, at its discretion and without further notice, institute such proceedings as it may think fit to enforce any term or condition binding on the Issuer or the Guarantor under the Securities or the Guarantee but in no event shall the Issuer or the Guarantor by the virtue of such proceedings be obliged to pay any sum or sums sooner than the same would otherwise have been payable by it.

No remedy against the Issuer or the Guarantor, other than as referred to in this Condition 9 shall be available to the Holders, whether for the recovery of amounts owing in respect of the Securities or the Guarantee or in respect of any other breach by the Issuer or the Guarantor of any of their respective other obligations under or in respect of the Securities or the Guarantee.

10. **Prescription**

Claims in respect of principal and interest or any other amount will become void unless presentation for payment is made as required by Condition 7 (*Payments*) within a period of 10 years in the case of principal (or any other amount in the nature of principal) and five years in the case of interest (or any other amount in the nature of interest, including Arrears of Interest) from the appropriate Relevant Date.

11. **Replacement of Securities and Coupons**

If any Security or Coupon is lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Fiscal Agent subject to all applicable laws and stock exchange or other relevant authority requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer, the Guarantor and the Fiscal Agent may require (provided that the requirement is reasonable in the light of prevailing market practice). Mutilated or defaced Securities or Coupons must be surrendered before replacements will be issued. In case any such lost, stolen, mutilated, defaced or destroyed Coupon has become or is about to become due and payable, the Issuer in its discretion may, instead of delivering replacements therefore, pay such Coupon when due.

12. **Meetings of Holders of Securities and Modification, Substitution and Variation**

- (a) **Meetings of Holders of Securities:** The Fiscal Agency Agreement contains provisions for convening meetings of Holders of Securities to consider matters affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Fiscal Agency Agreement) of a modification of any of these Conditions. Such a meeting may be convened by Holders of Securities holding not less than one twentieth in principal amount of the Securities for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution will be one or more persons holding or representing at least two thirds of the aggregate principal amount of the Securities for the time being outstanding, or at any adjourned meeting one or more persons being or representing Holders of Securities whatever the principal amount of the Securities held or represented. Any Extraordinary Resolution duly passed shall be binding on Holders of Securities (whether or not they were present at the meeting at which such resolution was passed) and on all Holders of Coupons.

The Fiscal Agency Agreement provides that a resolution in writing signed by or on behalf of the holders of not less than 90 per cent. in principal amount of the Securities outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Holders of Securities duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Holders of Securities.

- (b) **Modification:** The Securities, these Conditions, the Deed of Covenant and the Deed of Guarantee may be amended without the consent of the Holders of Securities to correct a manifest error or in accordance with Condition 4(d) (*Interest Payments - Benchmark Replacement*). No other modification may be made to the Securities, these Conditions the Deed of Covenant or the Deed of Guarantee except with the sanction of a resolution of the Holders of the Securities.

In addition, the parties to the Fiscal Agency Agreement may agree to modify any provision thereof, but the Issuer shall not agree, without the consent of the Holders of Securities, to any such modification unless, in the opinion of the Issuer and the Guarantor, (i) it is of a formal, minor or technical nature; (ii) it is made to correct a manifest error; or (iii) it is not materially prejudicial to the interests of the Holders of Securities.

- (c) **Substitution and Variation:** If at any time after the Issue Date the Issuer and/or the Guarantor determines that a Tax Event, a Withholding Tax Event, an Accounting Event or a Capital Event has occurred, the Issuer may, as an alternative to an early redemption of the Securities, on any applicable Interest Payment Date, without the consent of the

Holders, (i) exchange the Securities (the "**Exchanged Securities**") into new securities of the Issuer, the Guarantor or any wholly-owned direct or indirect finance subsidiary of the Guarantor (a "**Substitute Issuer**") with a guarantee of the Guarantor, or (ii) vary the terms of the Securities (the "**Varied Securities**"), so that in either case (A) in the case of a Tax Event, in respect of (I) the Issuer's (or Substitute Issuer's) obligation to make any payment of interest under the Exchanged Securities or Varied Securities; or (II) the obligation of the Guarantor to make any payment of interest in favour of the Issuer (or Substitute Issuer) under the Subordinated Loan (or any replacement thereof between the Guarantor and Substitute Issuer), the Issuer, the Guarantor or the Substitute Issuer (as the case may be) is entitled to claim a deduction or a higher deduction (as the case may be) in respect of interest paid when computing its tax liabilities in the Netherlands, in Spain or in the taxing jurisdiction of the Substitute Issuer (as the case may be), as compared with the entitlement after the occurrence of the relevant Tax Event, (B) in the case of a Withholding Tax Event, in making any payments in respect of the Exchanged Securities or Varied Securities or the Exchanged or Varied Guarantee (as defined below) the Issuer, the Guarantor or the Substitute Issuer are not required to pay a greater amount of Additional Amounts in respect of the Exchanged Securities or Varied Securities or the Exchanged or Varied Guarantee, (C) in the case of an Accounting Event, the aggregate nominal amount of the Exchanged Securities or Varied Securities (as the case may be) is recorded as "equity" pursuant to IFRS-EU or any other accounting standards that may replace IFRS-EU for the purposes of the consolidated financial statements of the Guarantor, or (D) in the case of a Capital Event, the aggregate nominal amount of the Exchanged Securities or Varied Securities (as the case may be) is assigned "equity credit" (or such other nomenclature that the relevant Rating Agency may then use to describe the degree to which an instrument exhibits the characteristics of an ordinary share) by the relevant Rating Agency that is equal to or greater than that which was assigned to the Securities on the Issue Date.

Any such exchange or variation shall be subject to the following conditions:

- (i) the Issuer giving not less than 30 nor more than 60 days' notice to the Fiscal Agent and the Holders in accordance with Condition 14 (*Notices*);
- (ii) the Issuer complying with the rules of any stock exchange (or any other relevant authority) on which the Securities are for the time being admitted to trading, and (for so long as the rules of such exchange require) the publication of any appropriate supplement, listing particulars or offering circular in connection therewith, and the Exchanged Securities or Varied Securities continue to be admitted to trading on the same stock exchange as the Securities if they were admitted to trading immediately prior to the relevant exchange or variation;
- (iii) the Issuer paying any outstanding Arrears of Interest in full prior to such exchange or variation;
- (iv) the Exchanged Securities or Varied Securities shall: (A) rank at least *pari passu* with the ranking of the Securities prior to the exchange or variation, (B) have the benefit of a guarantee (the "**Exchanged or Varied Guarantee**") from the Guarantor on terms not less favourable to Holders than the terms of the Guarantee (as reasonably determined by the Issuer or Substitute Issuer and the Guarantor) and (C) benefit from the same or more favourable interest rates and the same Interest Payment Dates, the same First Reset Date and early redemption rights (provided that the relevant exchange or variation may not itself trigger any early redemption right), the same rights to accrued interest or Arrears of Interest and any other amounts payable under the Securities which, in each case, has accrued to the Holders and has not been paid, the same rights to principal and interest, and, if publicly rated by S&P, Moody's and/or Fitch immediately prior to such exchange or variation, at least the same credit rating immediately after such exchange or variation by each of S&P, Moody's and/or Fitch (as the case may be), as compared with the relevant rating(s) immediately prior to such exchange or variation (as determined by the Issuer or Substitute Issuer and the Guarantor using reasonable measures available to it including discussions with S&P, Moody's and/or Fitch to the extent practicable) (D) shall not contain terms providing for

the mandatory deferral of interest and (E) not contain terms providing for loss absorption through principal write-down or conversion to shares;

- (v) the preconditions to redemption set out in Condition 6(g) having been satisfied and the terms of the exchange or variation (in the sole opinion of the Issuer or Substitute Issuer or the Guarantor, as the case may be) not being prejudicial to the interests of the Holders, including compliance with (iv) above, as certified to the benefit of the Holders by two directors of the Guarantor, having consulted with an independent investment bank of international standing, and any such certificate shall, absent fraud or manifest error, be final and binding on all parties. However, a change in the governing law of the provisions of Condition 2(b) (*Status and Subordination of the Securities and Coupons – Subordination of the Securities*) to the laws of the jurisdiction of incorporation of the Substitute Issuer, in connection with any substitution pursuant to Condition 12(c) (*Substitution and Variation*), shall be deemed not to be prejudicial to the interests of the Holders; and
  - (vi) the issue of legal opinions addressed to the Fiscal Agent (and which shall be made available to the Holders at the specified offices of the Fiscal Agent during usual office hours) from one or more international law firms of good reputation selected by the Issuer or the Guarantor and confirming (x) that each of the Issuer and the Guarantor has capacity to assume all rights, duties and obligations under the Exchanged Securities or Varied Securities and the Exchanged or Varied Guarantee (as the case may be) and has obtained all necessary corporate or governmental authorisation to assume all such rights and obligations and (y) the legality, validity and enforceability of the Exchanged Securities or Varied Securities.
- (d) Notwithstanding Condition 8(a) (*Taxation – Additional Amounts*), if at any time after the Issue Date, the Issuer is required to withhold on account of Taxes imposed or levied in the Netherlands on any payment under the Securities, the Issuer may on any applicable Interest Payment Date, without the consent of the Holders, (i) exchange the Securities into new securities of the Issuer, the Guarantor or any wholly-owned direct or indirect finance subsidiary of the Guarantor with a guarantee of the Guarantor, or (ii) vary the terms of the Securities.
- (e) Any such exchange or variation set out in paragraph (d) above shall be subject to the fulfilment of the same conditions as described under Condition 12(c) (*Substitution and Variation*) in relation to Exchanged Securities or Varied Securities if a Tax Event, a Withholding Tax Event, an Accounting Event or a Capital Event has occurred, except that the fulfilment of the preconditions to redemption set out in Condition 6(g) (*Pre-Conditions to Redemption*) as required by Condition 12(c)(v) above shall be replaced by the delivery by the Guarantor to the Fiscal Agent of a certificate signed by two directors of the Guarantor and an opinion of independent tax advisers, in each case stating the Issuer is required to withhold on account of Taxes imposed or levied in the Netherlands on a payment under the Securities.

### 13. Further Issues

The Issuer may from time to time without the consent of the Holders create and issue further securities either having the same terms and conditions as the Securities in all respects (or in all respects except for the first payment of interest on them) and so that such further issue shall be consolidated and form a single series with the outstanding securities of any series (including the Securities) or upon such terms as the Issuer may determine at the time of their issue. References in these Conditions to the Securities include (unless the context requires otherwise) any other securities issued pursuant to this Condition and forming a single series with the Securities.

### 14. Notices

Notices to Holders of Securities will be deemed to be validly given if published in a leading daily newspaper having general circulation in London (which is expected to be

the *Financial Times*) or, if such publication is not practicable, if published in a leading English language daily newspaper having general circulation in Europe. The Issuer shall also ensure that all notices are duly published in a manner which complies with the rules and regulations of any stock exchange or other relevant authority on which the Securities are for the time being listed and/or admitted to trading. Any such notice shall be deemed to have been validly given on the date of the first such publication or, if published more than once on the first date on which publication is made.

Notwithstanding the above, while all the Securities are represented by a Security in global form and such global form Security is deposited with a common depository for Euroclear and/or Clearstream, Luxembourg, notices to Holders of Securities may be given by delivery of the relevant notice to Euroclear or Clearstream, Luxembourg in accordance with their respective rules and operating procedures, and such notices shall be deemed to have been given to Holders on the date of delivery to Euroclear and/or Clearstream, Luxembourg. Holders of Coupons will be deemed for all purposes to have notice of the contents of any notice given to the Holders of Securities in accordance with this Condition.

15. **Contracts (Rights of Third Parties) Act 1999**

No person shall have any right to enforce any term or condition of the Securities under the Contracts (Rights of Third Parties) Act 1999.

16. **Governing Law**

- (a) **Governing Law:** The Fiscal Agency Agreement, the Securities, the Coupons and the Guarantee and any non-contractual obligations arising out of or in connection with them are governed by and shall be construed in accordance with English law, other than the provisions of Condition 2(b) (*Status and Subordination of the Securities and Coupons – Subordination of the Securities*) which are governed by and construed in accordance with the laws of the Netherlands, and the provisions of Conditions 3(b) (*Guarantee, Status and Subordination of the Guarantee – Status of the Guarantee*) and 3(c) (*Guarantee, Status and Subordination of the Guarantee – Subordination of the Guarantee*), and the corresponding provisions of the Guarantee, which are governed by and construed in accordance with the laws of the Kingdom of Spain.
- (b) **Jurisdiction:** The courts of England have exclusive jurisdiction to settle any dispute (a "**Dispute**") arising from or connected with the Securities or the Coupons (including a dispute relating to the existence, validity or termination of the Securities or any non-contractual obligations arising out of or in connection with the Securities or the consequences of their nullity). The Issuer agrees that the courts of England are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue to the contrary. This Condition is for the benefit of the Holders only. As a result, nothing in this Condition 16 prevents any Holder from taking proceedings relating to a Dispute ("**Proceedings**") in any other courts with jurisdiction. To the extent allowed by law, Holders may take concurrent Proceedings in any number of jurisdictions.
- (c) **Agent for Service of Process:** The Issuer agrees that the documents which start any Proceedings and any other documents required to be served in relation to those Proceedings may be served on it by being delivered to Telefónica Digital Limited, 20 Air Street, London W1B 5AN, United Kingdom, or, if different, its registered office for the time being or at any address of the Issuer in England at which process may be served on it. If such person is not or ceases to be effectively appointed to accept service of process on behalf of the Issuer, the Issuer shall forthwith appoint a further person in England to accept service of process on its behalf in England and notify the name and address of such person to the Fiscal Agent and, failing such appointment within 15 days, any Holder shall be entitled to appoint such a person by written notice addressed to the Issuer and delivered to the Issuer or to the specified office of the Fiscal Agent. Nothing in this paragraph shall affect the right of any Holder to serve process in any other manner permitted by law. This Condition applies to Proceedings in England.

17. **Definitions**

In these Conditions:

"**2013 Non-Call Securities**" means the September 2013 8 Year Non-Call Securities and the November 2013 7 Year Non-Call Securities;

"**2014 Non-Call Securities**" means the March 2014 6 Year Non-Call Securities, the March 2014 10 Year Non-Call Securities and the December 2014 5 Year Non-Call Securities;

"**2016 Non-Call Securities**" means the EUR 1,000,000,000 Undated 5.5 Year Non-Call Deeply Subordinated Guaranteed Fixed Rate Reset Securities (ISIN: XS1490960942) issued by the Issuer on 15 September 2016 and unconditionally and irrevocably guaranteed on a subordinated basis by the Guarantor;

"**2017 Non-Call Securities**" means the EUR 1,000,000,000 Undated 5.5 Year Non-Call Deeply Subordinated Guaranteed Fixed Rate Reset Securities (ISIN: XS1731823255) issued by the Issuer on 7 December 2017 and unconditionally and irrevocably guaranteed on a subordinated basis by the Guarantor;

"**2018 Non-Call Securities**" means the EUR 1,250,000,000 Undated 5.7 Year Non-Call Deeply Subordinated Guaranteed Fixed Rate Reset Securities (ISIN: XS1795406575) issued by the Issuer on 22 March 2018 and unconditionally and irrevocably guaranteed on a subordinated basis by the Guarantor and the EUR 1,000,000,000 Undated 8.5 Year Non-Call Deeply Subordinated Guaranteed Fixed Rate Reset Securities (ISIN: XS1795406658) issued by the Issuer on 22 March 2018 and unconditionally and irrevocably guaranteed on a subordinated basis by the Guarantor;

"**30/360 Day Count**" means, in respect of any period, the number of days in the relevant period, from (and including) the first day in such period to (but excluding) the last day in such period (such number of days being calculated on the basis of a 360 day year consisting of 12 months of 30 days each), divided by 360;

"**6 Year Swap Rate**" has the meaning given to it in Condition 4(c) (*Interest Payments – Prevailing Interest Rate*);

"**6 Year Swap Rate Quotations**" has the meaning given to it in Condition 4(c) (*Interest Payments – Prevailing Interest Rate*);

an "**Accounting Event**" shall be deemed to occur if the Issuer or the Guarantor has received, and notified the Holders in accordance with Condition 14 (*Notices*) that it has so received, an opinion of a recognised accountancy firm of international standing, stating that, as a result of a change in the accounting rules or methodology effective after the Issue Date, the Securities must not or must no longer be recorded as "equity" pursuant to IFRS-EU or any other accounting standards that may replace IFRS-EU for the purposes of the consolidated financial statements of the Guarantor;

"**Additional Amounts**" has the meaning given to it in Condition 8(a) (*Taxation – Additional Amounts*);

"**Adjustment Spread**" means either a spread (which may be positive or negative), or the formula or methodology for calculating a spread, in either case, which the Issuer, following consultation with the Independent Adviser and acting in good faith, determines is required to be applied to the Successor Rate or the Alternative Rate (as the case may be) to reduce or eliminate, to the extent reasonably practicable in the circumstances, any economic prejudice or benefit (as the case may be) to Holders as a result of the replacement of the Original Reference Rate with the Successor Rate or the Alternative Rate (as the case may be) and is the spread, formula or methodology which:

- (i) in the case of a Successor Rate, is formally recommended in relation to the replacement of the Original Reference Rate with the Successor Rate by any Relevant Nominating Body; or (if no such recommendation has been made, or in the case of an Alternative Rate);

- (ii) the Issuer determines, following consultation with the Independent Adviser and acting in good faith, is recognised or acknowledged as being the industry standard for over-the-counter derivative transactions or is in customary market usage in the debt capital market for transactions which reference the Original Reference Rate, where such rate has been replaced by the Successor Rate or the Alternative Rate (as the case may be); (or if the Issuer determines that no such industry standard is recognised or acknowledged); or
- (iii) the Issuer, in its discretion, following consultation with the Independent Adviser and acting in good faith, determines to be appropriate;

"**Alternative Rate**" means an alternative benchmark or screen rate which the Issuer determines, following consultation with the Independent Adviser, has replaced the Original Reference Rate in customary market usage in the international swap markets for the purposes of determining rates of interest (or the relevant component part thereof) for the same interest period and in euros;

"**Affiliates**" means an entity that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, the Guarantor;

"**Arrears of Interest**" has the meaning given to it in Condition 5(a) (*Optional Interest Deferral – Deferral of Interest Payments*);

"**Benchmark Event**" means:

- (i) the Original Reference Rate ceasing to be published for a period of at least 5 Business Days or ceasing to exist; or
- (ii) a public statement by the administrator of the Original Reference Rate that it will cease publishing the Original Reference Rate permanently or indefinitely (in circumstances where no successor administrator has been appointed that will continue publication of the Original Reference Rate); or
- (iii) a public statement by the supervisor of the administrator of the Original Reference Rate that the Original Reference Rate has been or will be permanently or indefinitely discontinued; or
- (iv) a public statement by the supervisor of the administrator of the Original Reference Rate that means the Original Reference Rate will be prohibited from being used or that its use will be subject to restrictions or adverse consequences; or
- (v) it has or will become unlawful for any Paying Agent, Fiscal Agent, Agent Bank, the Issuer, the Guarantor or other party to calculate any payments due to be made to any Holder using the Original Reference Rate.

"**business day**" has the meaning given to it in Condition 7(e) (*Payments – Payments on business days*);

"**Business Day**" means a day, other than a Saturday, Sunday or public holiday, on which the Target System is operating;

"**Calculation Amount**" has the meaning given to it in Condition 4(b) (*Interest Payments – Interest Accrual*);

a "**Capital Event**" shall be deemed to occur if the Issuer or the Guarantor has received (directly or via publication by such Rating Agency), and notified the Holders in accordance with Condition 14 (*Notices*) that it has so received, confirmation from any Rating Agency that, due to any amendment to, clarification of, or change in hybrid capital methodology or a change in the interpretation thereof, in each case occurring or becoming effective after the Issue Date; the Securities will no longer be eligible for the same or a higher amount of "equity credit" (or such other nomenclature that the relevant Rating Agency may then use to describe the degree to which an instrument exhibits the characteristics of an ordinary share) attributed to the Securities at the Issue Date (or, if "equity credit" is not assigned to the Securities by the relevant Rating Agency on the Issue Date, at the date on which "equity credit" is assigned by such Rating Agency for the first time);

"**Compulsory Arrears of Interest Settlement Event**" has the meaning given to it in Condition 5(c) (*Optional Interest Deferral – Mandatory Settlement of Arrears of Interest*);

"**Condition**" means the terms and conditions of the Securities;

"**December 2014 5 Year Non-Call Securities**" means the EUR 850,000,000 Undated 5 Year Non-Call Deeply Subordinated Guaranteed Fixed Rate Reset Securities (ISIN: XS1148359356) issued by the Issuer on 4 December 2014 and unconditionally and irrevocably guaranteed on a subordinated basis by the Guarantor;

"**Deferral Notice**" has the meaning given to it in Condition 5(a) (*Optional Interest Deferral – Deferral of Interest Payments*);

"**Deferred Interest Payment**" has the meaning given to it in Condition 5(a) (*Optional Interest Deferral – Deferral of Interest Payments*);

"**Dividend Declaration**" has the meaning given to it in Condition 5(c) (*Optional Interest Deferral – Mandatory Settlement of Arrears of Interest*);

"**Early Redemption Amount**" means in respect of a redemption of the Securities following the occurrence of a Tax Event, an Accounting Event or a Capital Event, 101 per cent. of the principal amount of such Securities;

"**First Reset Date**" means 14 March 2025;

"**Fitch Ratings**" means Fitch Ratings Limited;

"**Further Securities**" means any Securities issued pursuant to Condition 13 (*Further Issues*) and forming a single series with the outstanding Securities;

"**Guarantor**" means Telefónica, S.A.;

"**Holder**" has the meaning given to it in Condition 1(b) (*Form, Denomination and Title – Title*);

"**IFRS-EU**" means International Financial Reporting Standards, as adopted by the European Union;

"**Independent Adviser**" means an independent financial institution of international repute or an independent financial adviser with appropriate expertise appointed by the Issuer (at its own expense) under Condition 4(d) (*Interest Payments - Benchmark Replacement*);

"**Interest Payment**" means, in respect of an interest payment on an Interest Payment Date, the amount of interest payable on the presentation and surrender of the relevant Coupon for the relevant Interest Period in accordance with Condition 4 (*Interest Payments*);

"**Interest Payment Date**" means 14 March in each year;

"**Interest Period**" means the period beginning on (and including) the Issue Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date;

"**Issue Date**" means 14 March 2019;

"**Issuer**" means Telefónica Europe B.V.;

"**Issuer Winding-up**" means a situation where (i) an order is made or a decree or resolution is passed for the winding-up, liquidation or dissolution of the Issuer, except for the purposes of a solvent merger, reconstruction or amalgamation, or (ii) a trustee (*curator*) is appointed by the competent District Court in the Netherlands in the event of bankruptcy (*faillissement*) affecting the whole or a substantial part of the undertaking or assets of the Issuer and such appointment is not discharged within 30 days;



**"Junior Obligations"** means the Junior Obligations of the Guarantor and the Junior Obligations of the Issuer;

**"Junior Obligations of the Guarantor"** means all obligations of the Guarantor issued or incurred directly or indirectly by it which rank or are expressed to rank junior to the Guarantee, including Ordinary Shares of the Guarantor and any other shares (*acciones*) in the capital of the Guarantor (and, if divided into classes, each class thereof);

**"Junior Obligations of the Issuer"** means all obligations of the Issuer, issued or incurred directly or indirectly by it, which rank or are expressed to rank junior to the Securities, including (i) Ordinary Shares of the Issuer and (ii) Preferred Shares of the Issuer, if any;

**"Law 10/2014"** means Law 10/2014 of 26 June 2014, on regulation, supervision and solvency of credit entities (*Ley 10/2014, de 26 de junio, de ordenación, supervisión y solvencia de entidades de crédito*);

**"March 2014 6 Year Non-Call Securities"** means the EUR 750,000,000 Undated 6 Year Non-Call Deeply Subordinated Guaranteed Fixed Rate Reset Securities (ISIN: XS1050460739) issued by the Issuer on 31 March 2014 and unconditionally and irrevocably guaranteed on a subordinated basis by the Guarantor;

**"March 2014 10 Year Non-Call Securities"** means the EUR 1,000,000,000 Undated 10 Year Non-Call Deeply Subordinated Guaranteed Fixed Rate Reset Securities (ISIN: XS1050461034) issued by the Issuer on 31 March 2014 and unconditionally and irrevocably guaranteed on a subordinated basis by the Guarantor;

**"Mandatory Settlement Date"** has the meaning given to it in Condition 5(c) (*Optional Interest Deferral – Mandatory Settlement of Arrears of Interest*);

**"Moody's"** means Moody's Investors Service Limited;

**"November 2013 7 Year Non-Call Securities"** means the £600,000,000 Undated 7 Year Non-Call Deeply Subordinated Guaranteed Fixed Rate Reset Securities (ISIN: XS0997326441) issued by the Issuer on 26 November 2013 and unconditionally and irrevocably guaranteed on a subordinated basis by the Guarantor, as amended by an Extraordinary Resolution of the holders adopted at a meeting held on 10 July 2014;

**"Ordinary Shares of the Guarantor"** means ordinary shares in the capital of the Guarantor, having at the Issue Date a nominal value of EUR 1.00 each;

**"Ordinary Shares of the Issuer"** means ordinary shares in the capital of the Issuer, having on the Issue Date a nominal amount of EUR 460.00 each;

**"Original Reference Rate"** means EURIBOR;

**"Parity Obligations"** means the Parity Obligations of the Guarantor and the Parity Obligations of the Issuer;

**"Parity Obligations of the Guarantor"** means any and all present or future series of preferred securities (*participaciones preferentes*) issued directly by the Guarantor or indirectly through a wholly-owned subsidiary with the guarantee of the Guarantor in accordance with the First Additional Provision of Law 10/2014, obligations equivalent to preferred securities (*participaciones preferentes*) issued directly by the Guarantor or indirectly through a wholly-owned subsidiary with the guarantee of the Guarantor (whether issued under the First Additional Provision of Law 10/2014 or any other law or regulation of Spain or of any other jurisdiction) and obligations of the Guarantor, issued directly by it or indirectly through a wholly-owned subsidiary with the guarantee of the Guarantor, which rank or are expressed to rank *pari passu* with the Guarantee (which include the guarantees granted by the Guarantor in connection with the 2018 Non-Call Securities, the 2017 Non-Call Securities, the 2016 Non-Call Securities, the 2014 Non-Call Securities and the 2013 Non-Call Securities);

**"Parity Obligations of the Issuer"** means any obligations of the Issuer, issued or incurred directly or indirectly by it, which rank, or are expressed to rank, *pari passu* with the Securities including (i) the 2018 Non-Call Securities, (ii) the 2017 Non-Call Securities, (iii) the 2016 Non-Call Securities, (iv) the 2014 Non-Call Securities and (v) the 2013 Non-Call Securities;

**"Preferred Shares of the Issuer"** means any preference shares in the capital of the Issuer (and, if divided into classes, each class thereof);

**"Prevailing Interest Rate"** means the rate of interest payable on the Securities applicable from time to time pursuant to Condition 4 (*Interest Payments*);

**"Proceedings"** has the meaning given to it in Condition 16(b) (*Governing Law – Jurisdiction*);

**"Rating Agency"** means S&P, Moody's or Fitch Ratings or, in each case, any successor to the rating agency business thereof;

**"Redemption Date"** means the date fixed for redemption of the Securities pursuant to Condition 6 (*Redemption and Purchase*);

**"Relevant Date"** means (i) in respect of any payment other than a sum to be paid by the Issuer or the Guarantor in a winding-up or administration of the Issuer or Guarantor, as the case may be, the date on which such payment first becomes due and payable, but if the full amount of moneys payable on such date has not been received by the Fiscal Agent on or prior to such date, the Relevant Date means the date on which such moneys shall have been so received and notice to that effect shall have been given to the Holders of Securities in accordance with Condition 14 (*Notices*) and (ii) in respect of a sum to be paid by the Issuer or the Guarantor in a winding-up or administration of the Issuer or the Guarantor, as the case may be, the date that is one day prior to the date on which an order is made or a resolution is passed for the winding-up, or in the case of an administration, one day prior to the date on which any dividend is distributed;

**"Relevant Nominating Body"** means, in respect of a benchmark or screen rate (as applicable):

- (i) the central bank for the currency to which the benchmark or screen rate (as applicable) relates, or any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable); or
- (ii) any working group or committee sponsored by, chaired or co-chaired by or constituted at the request of (a) the central bank for the currency to which the benchmark or screen rate (as applicable) relates, (b) any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable), (c) a group of the aforementioned central banks or other supervisory authorities or (d) the Financial Stability Board or any part thereof;

**"Relevant Period"** means the period commencing on (and including) 14 December 2024 and ending on (and including) the First Reset Date;

**"Reset Date"** means the First Reset Date and each date falling on the sixth anniversary thereafter;

**"Reset Interest Determination Date"** means, in respect of any Reset Period, the day falling two Business Days prior to the beginning of the relevant Reset Period;

**"Reset Period"** means each period from and including the First Reset Date to but excluding the next following Reset Date and thereafter from and including each Reset Date to but excluding the next following Reset Date;

**"Reset Reference Banks"** has the meaning given to it in Condition 4(c) (*Interest Payments – Prevailing Interest Rate*);

**"Reset Reference Bank Rate"** has the meaning given to it in Condition 4(c) (*Interest Payments – Prevailing Interest Rate*);

"**Reset Screen Page**" has the meaning given to it in Condition 4(c) (*Interest Payments – Prevailing Interest Rate*);

"**S&P**" means S&P Global Ratings Europe Limited;

"**Senior Obligations of the Guarantor**" means all obligations of the Guarantor, including subordinated obligations of the Guarantor according to Spanish insolvency law, other than Parity Obligations of the Guarantor and Junior Obligations of the Guarantor;

"**Senior Obligations of the Issuer**" means all obligations of the Issuer, including subordinated obligations of the Issuer according to Dutch insolvency law, other than Parity Obligations of the Issuer and Junior Obligations of the Issuer;

"**September 2013 8 Year Non-Call Securities**" means the EUR 625,000,000 Undated 8 Year Non-Call Deeply Subordinated Guaranteed Fixed Rate Reset Securities (ISIN: XS0972588643) issued by the Issuer on 18 September 2013 and unconditionally and irrevocably guaranteed on a subordinated basis by the Guarantor, as amended by an Extraordinary Resolution of the holders adopted at a meeting held on 10 July 2014;

"**Subordinated Loan**" means the subordinated loan made by the Issuer to the Guarantor dated 14 March 2019, pursuant to which the proceeds of the issue of the Securities are on-lent to the Guarantor;

a "**Substantial Purchase Event**" shall be deemed to have occurred if at least 75 per cent. of the aggregate principal amount of the Securities originally issued (which for these purposes shall include any Further Securities) is purchased by the Issuer, the Guarantor or any subsidiary of the Guarantor (and in each case is cancelled in accordance with Condition 6(i) (*Redemption and Purchase – Cancellation*));

"**Successor Rate**" means a successor to or replacement of the Original Reference Rate which is formally recommended by any Relevant Nominating Body;

"**Target System**" means the Trans-European Automated Real-Time Gross Settlement Express Transfer payment system which utilises a single shared platform and which was launched on 19 November 2007;

a "**Tax Event**" shall be deemed to have occurred if, as a result of a Tax Law Change, in respect of (i) the Issuer's obligation to make any payment under the Securities (including any Interest Payment) on the next following Interest Payment Date; or (ii) the obligation of the Guarantor to make any payment in favour of the Issuer under the Subordinated Loan on the next following due date for such payment, the Issuer or the Guarantor (as the case may be) would no longer be entitled to claim a deduction in respect of computing its tax liabilities in the Netherlands or in Spain (as the case may be), or such entitlement is materially reduced.

For the avoidance of doubt, a Tax Event shall not occur if payments of interest under the Subordinated Loan by the Guarantor are not deductible in whole or in part for Spanish corporate income tax purposes solely as a result of general tax deductibility limits set forth by Article 16 of Law 27/2014 dated 27 November 2014, on Corporate Income Tax, as at 6 March 2019;

"**Tax Law Change**" means a change in or proposed change in, or amendment to, or proposed amendment to, the laws or regulations of the Netherlands or Spain or, in either case, any political subdivision or any authority thereof or therein having power to tax, including, without limitation, any treaty to which the Netherlands or Spain is a party, or any change in the official or generally published interpretation of such laws or regulations, including a decision of any court or tribunal, or any interpretation or pronouncement by any relevant tax authority that provides for a position with respect to such laws or regulations or interpretations thereof that differs from the previously generally accepted position in relation to similar transactions, which change, amendment or interpretation becomes or would become, effective after 6 March 2019;

"**Taxes**" has the meaning given to it in Condition 8(a) (*Taxation – Additional Amounts*);

**"Taxing Authority"** has the meaning given to it in Condition 8(a) (*Taxation – Additional Amounts*); and

a **"Withholding Tax Event"** shall be deemed to occur if as a result of a Tax Law Change, in making any payments in respect of the Securities or the Guarantee the Issuer or the Guarantor has paid or will or would on the next Interest Payment Date be required to pay Additional Amounts in respect of the Securities or the Guarantee that cannot be avoided by the Issuer or the Guarantor, as the case may be, taking measures reasonably available to it.

## SUMMARY OF PROVISIONS RELATING TO THE SECURITIES IN GLOBAL FORM

The Securities will initially be in the form of the Temporary Global Security which will be deposited on or around the Closing Date with a common depository for Euroclear and Clearstream, Luxembourg.

The Securities are not intended to be held in a manner which would allow Eurosystem eligibility.

The Temporary Global Security will be exchangeable in whole or in part for interests in the Permanent Global Security not earlier than 40 days after the Closing Date upon certification as to non-US beneficial ownership. No payments will be made under the Temporary Global Security unless exchange for interests in the Permanent Global Security is improperly withheld or refused. In addition, interest payments in respect of the Securities cannot be collected without such certification of non-US beneficial ownership.

The Permanent Global Security will become exchangeable in whole, but not in part, for Securities in definitive form ("**Definitive Securities**") in the denomination of EUR 100,000 each at the request of the bearer of the Permanent Global Security if (a) Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or (b) if principal in respect of any of the Securities is not paid when due and payable.

Whenever the Permanent Global Security is to be exchanged for Definitive Securities, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Securities, duly authenticated and with Coupons and Talons attached, in an aggregate principal amount equal to the principal amount of the Permanent Global Security to the bearer of the Permanent Global Security against the surrender of the Permanent Global Security to or to the order of the Fiscal Agent within 30 days of the bearer requesting such exchange.

If:

- (a) the Temporary Global Security is not duly exchanged, whether in whole or in part, for the Permanent Global Security by 5.00 p.m. (London time) on the thirtieth day after the time at which the preconditions to such exchange are first satisfied; or
- (b) Definitive Securities have not been delivered by 5.00 p.m. (London time) on the thirtieth day after the bearer has duly requested exchange of the Permanent Global Security for Definitive Securities; or
- (c) the Temporary or Permanent Global Security (or any part of it) has become due and payable in accordance with the Conditions or the date for final redemption of the Securities has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer in accordance with the terms of the Temporary or Permanent Global Security on the due date for payment,

then the relevant Global Security (including the obligation to deliver Definitive Securities) will become void at 5.00 p.m. (London time) on such thirtieth day (in the case of (a) and (b) above) or at 5.00 p.m. (London time) on such due date (in the case of (c) above), and the bearer of such Global Security will have no further rights thereunder (but without prejudice to the rights which the bearer of the Global Security or others may have under a deed of covenant dated 14 March 2019 (the "**Deed of Covenant**") executed by the Issuer). Under the Deed of Covenant, persons shown in the records of Euroclear and/or Clearstream, Luxembourg as being entitled to an interest in the relevant Global Security will acquire directly against the Issuer all those rights to which they would have been entitled if, immediately before such Global Security becomes void, they had been the holders of Definitive Securities in an aggregate principal amount equal to the principal amount of Securities they were shown as holding in the records of Euroclear and/or (as the case may be) Clearstream, Luxembourg.

In addition, the Temporary Global Security and the Permanent Global Security will contain provisions which modify the Conditions as they apply to such Temporary Global Security and Permanent Global Security. The following is a summary of certain of those provisions:

**Payments:** All payments in respect of the Temporary Global Security and the Permanent Global Security will be made against presentation and (in the case of payment of principal in full with all interest accrued thereon) surrender of the Temporary Global Security or (as the case may be) the Permanent Global Security

to or to the order of any Paying Agent and will be effective to satisfy and discharge the corresponding liabilities of the Issuer in respect of the Securities. On each occasion on which a payment of principal or interest is made in respect of the Temporary Global Security or (as the case may be) the Permanent Global Security, the Issuer shall procure that the payment is entered *pro rata* in the records of Euroclear and Clearstream, Luxembourg.

**Payments on business days:** In the case of all payments made in respect of the Temporary Global Security or the Permanent Global Security "**business day**" means any day on which the TARGET System is open.

**Notices:** While all the Securities are represented by the Permanent Global Security (or by the Temporary Global Security) and the Permanent Global Security (or the Temporary Global Security) is deposited with a common depository for Euroclear and Clearstream, Luxembourg, notices to Holders of the Securities: (i) may be given by delivery of the relevant notice to Euroclear and Clearstream, Luxembourg and, in any case, such notices shall be deemed to have been given to the Holders in accordance with Condition 14 (*Notices*) of the Securities on the date of delivery to Euroclear and Clearstream, Luxembourg, and (ii) shall also be published (if such publication is required) in a manner which complies with the rules and regulations of any stock exchange or other relevant authority on which the Securities are listed/and or admitted to trading.

## FORM OF GUARANTEE

*The text of the Deed of Guarantee is as follows:*

This Deed of Guarantee is made on 14 March 2019

### BY

- (1) TELEFÓNICA, S.A. (the "**Guarantor**")

### IN FAVOUR OF

- (2) THE HOLDERS of any Security or Securities (as defined below) or the coupons relating to them;  
and
- (3) THE RELEVANT ACCOUNT HOLDERS (as defined in the Deed of Covenant described below).

### WHEREAS

- (A) Telefónica Europe B.V. (the "**Issuer**") proposes to issue EUR 1,300,000,000 Undated 6 Year Non-Call Deeply Subordinated Guaranteed Fixed Rate Reset Securities (the "**Securities**", which expression shall, if the context so admits, include the Global Securities (whether in temporary or permanent form)) in connection with which, the Issuer and Guarantor have become parties to a fiscal agency agreement (the "**Fiscal Agency Agreement**") dated 14 March 2019 between, inter alios, the Issuer, the Guarantor and The Bank of New York Mellon, London Branch in its various capacities as set out therein relating to the Securities, and the Issuer has executed and delivered a deed of covenant (the "**Deed of Covenant**") dated 14 March 2019.
- (B) The Guarantor has duly authorised the giving of a guarantee on a subordinated basis in respect of the Securities and the Deed of Covenant.

### THIS DEED WITNESSES as follows:

#### 1. Interpretation

- 1.1 All terms and expressions which have defined meanings in the Conditions (as defined in the Deed of Covenant), the Fiscal Agency Agreement or the Deed of Covenant shall have the same meanings in this Deed of Guarantee except where the context requires otherwise or unless otherwise stated.
- 1.2 Any reference in this Deed of Guarantee to a Clause is, unless otherwise stated, to a clause hereof.
- 1.3 All references in this Deed of Guarantee to an agreement, instrument or other document (including the Conditions, the Fiscal Agency Agreement and the Deed of Covenant) shall be construed as a reference to that agreement, instrument or other document as the same may be amended, supplemented, replaced or novated from time to time.
- 1.4 Any reference in this Deed of Guarantee to any legislation (whether primary legislation or regulations or other subsidiary legislation made pursuant to primary legislation) shall be construed as a reference to such legislation as the same may have been, or may from time to time be, amended or re-enacted.
- 1.5 Clause headings are for ease of reference only.

#### 2. Guarantee and Indemnity

- 2.1 The Guarantor hereby unconditionally and irrevocably guarantees on a subordinated basis:
- 2.1.1 to each Holder the due and punctual payment of all sums expressed to be payable from time to time by the Issuer in respect of any Security as and when the same become due and payable and accordingly undertakes to pay to such Holder, forthwith in the manner and currency prescribed by the Conditions for payments by the Issuer thereunder, any and every sum or sums which the Issuer is at any time liable to pay in respect of such Security

in accordance with the Conditions of the Securities and which the Issuer has failed to pay;  
and

2.1.2 to each Relevant Account Holder the due and punctual payment of all sums which become payable from time to time by the Issuer to such Relevant Account Holder in respect of the Direct Rights as and when the same become due and payable and accordingly undertakes to pay to such Relevant Account Holder, forthwith in the manner and currency prescribed by the Conditions of the Securities for payments by the Issuer thereunder, any and every sum or sums which the Issuer is at any time liable to pay to such Relevant Account Holder in respect of the Direct Rights in accordance with the Deed of Covenant and which the Issuer has failed to pay.

2.2 The Guarantor undertakes to each Holder and each Relevant Account Holder that, should any amount referred to in Clause 2.1 not be recoverable from the Guarantor thereunder for any reason whatsoever (including, without limitation, by reason of any Security, any provision of any Security, the Deed of Covenant or any provision thereof being or becoming void, unenforceable or otherwise invalid under any applicable law) then, notwithstanding that the same may have been known to such Holder or Relevant Account Holder, the Guarantor will, forthwith upon demand by such Holder or Relevant Account Holder, pay such sum by way of a full indemnity in the manner and currency prescribed by the Securities or (as the case may be) the Deed of Covenant. This indemnity constitutes a separate and independent obligation from the other obligations under this Guarantee and shall give rise to a separate and independent cause of action.

### 3. **Taxes**

The Guarantor covenants in favour of each Holder and each Relevant Account Holder that it will duly perform and comply with its obligations expressed to be undertaken by it in Condition 8 (*Taxation*).

### 4. **Preservation of Rights**

4.1 The obligations of the Guarantor herein contained shall be deemed to be undertaken as principal debtor.

4.2 The obligations of the Guarantor herein contained shall be continuing obligations notwithstanding any settlement of account or other matters or things whatsoever and, in particular but without limitation, shall not be considered satisfied by any intermediate payment or satisfaction of all or any of the Issuer's obligations under any Security or the Deed of Covenant and shall continue in full force and effect until all sums due from the Issuer in respect of the Securities and under the Deed of Covenant have been paid, and all other obligations of the Issuer thereunder or in respect thereof have been satisfied, in full.

4.3 Neither the obligations expressed to be assumed by the Guarantor herein contained nor the rights, powers and remedies conferred upon the Holders, the Relevant Account Holders or any of them by this Deed of Guarantee or by law shall be discharged, impaired or otherwise affected by:

4.3.1 the winding up, bankruptcy, moratorium or dissolution of the Issuer or analogous proceeding in any jurisdiction or any change in its status, function, control or ownership;  
or

4.3.2 any of the obligations of the Issuer under any of the Securities or the Deed of Covenant being or becoming illegal, invalid or unenforceable; or

4.3.3 time or other indulgence being granted or agreed to be granted to the Issuer in respect of its obligations under any of the Securities or the Deed of Covenant; or

4.3.4 any amendment to, or any variation, waiver or release of, any obligation of the Issuer under any of the Securities or the Deed of Covenant; or any other act, event or omission which, but for this Clause 4.3, might operate to discharge, impair or otherwise affect the obligations expressed to be assumed by the Guarantor herein or any of the rights, powers or remedies conferred upon the Holders, the Relevant Account Holders or any of them by this Deed of Guarantee or by law.



- 4.4 Any settlement or discharge between the Guarantor and the Holders, the Relevant Account Holders or any of them shall be conditional upon no payment to the Holders, the Relevant Account Holders or any of them by the Issuer or any other person on the Issuer's behalf being avoided or reduced by virtue of any provisions or enactments relating to bankruptcy, insolvency or liquidation for the time being in force and, in the event of any such payment being so avoided or reduced, the Holders and the Relevant Account Holders shall each be entitled to recover the amount by which such payment is so avoided or reduced from the Guarantor subsequently as if such settlement or discharge had not occurred.
- 4.5 No Holder or Relevant Account Holder shall be obliged before exercising any of the rights, powers or remedies conferred upon it by this Deed of Guarantee or by law:
- 4.5.1 to make any demand of the Issuer, other than (in the case of a Holder) the presentation of the relevant Security; or
- 4.5.2 to take any action or obtain judgment in any court against the Issuer; or
- 4.5.3 to make or file any claim or proof in a winding-up or dissolution of the Issuer and, save as aforesaid, the Guarantor hereby expressly waives, in respect of each Security, presentment, demand and protest and notice of dishonour.
- 4.6 The Guarantor agrees that so long as any amounts are or may be owed by the Issuer under any of the Securities or the Deed of Covenant or the Issuer is under any actual or contingent obligations thereunder, the Guarantor shall not exercise rights which the Guarantor may at any time have by reason of performance by the Guarantor of its obligations hereunder:
- 4.6.1 to claim any contribution from any other guarantor of the Issuer's obligations under the Securities or the Deed of Covenant; and/or
- 4.6.2 to take the benefit, in whole or in part, of any security enjoyed in connection with, any of the Securities or the Deed of Covenant issued by the Issuer, by any Holder or Relevant Account Holder; and/or
- 4.6.3 to be subrogated to the rights of any Holder or Relevant Account Holder against the Issuer in respect of amounts paid by the Guarantor under this Deed of Guarantee.

5. **Conditions, Status and Subordination**

- 5.1 The Guarantor undertakes to comply with and be bound by those provisions of the Conditions which relate to it and which are expressed to relate to it.
- 5.2 The Guarantor undertakes that its obligations hereunder rank, and will at all times rank, as described in Condition 3(b) (*Guarantee, Status and Subordination of the Guarantee – Status of the Guarantee*).
- 5.3 In the event of the Guarantor being declared in insolvency ("*concurso*") under Spanish insolvency law, the provisions of Condition 3(c) (*Guarantee, Status and Subordination of the Guarantee – Subordination of the Guarantee*) shall apply.

6. **Delivery of Deed of Guarantee**

A duly executed original of this Guarantee shall be delivered promptly after execution to the Fiscal Agent and such original shall be held to the exclusion of the Guarantor until the date on which complete performance by the Guarantor of the obligations contained in this Guarantee and in the Securities occurs. A certified copy of this Guarantee may be obtained by any Holder or any Relevant Account Holder from the Fiscal Agent at its specified office at the expense of such Holder or Relevant Account Holder. Any Holder or Relevant Account Holder may protect and enforce his rights under this Guarantee (in the courts specified in Clause 11 below) upon the basis described in the Deed of Covenant (in the case of a Relevant Account Holder) and a copy of this Guarantee certified as being a true copy by a duly authorised officer of the Issue and Paying Agent without the need for production in any court of the actual records described in the Deed of Covenant or this Guarantee. Any such certification shall be binding, except in the case of manifest error or as may

be ordered by any court of competent jurisdiction, upon the Guarantor and all Holders and Relevant Account Holders. This Clause shall not limit any right of any Holder or Relevant Account Holder to the production of the originals of such records or documents or this Guarantee in evidence.

7. **Deed Poll; Benefit of Guarantee**

7.1 This Deed of Guarantee shall take effect as a Deed Poll for the benefit of the Holders and the Relevant Account Holders from time to time.

7.2 The obligations expressed to be assumed by the Guarantor herein shall enure for the benefit of each Holder and Relevant Account Holder, and each Holder and each Relevant Account Holder shall be entitled severally to enforce such obligations against the Guarantor.

7.3 The Guarantor may not assign or transfer all or any of its rights, benefits and obligations hereunder except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation of the Guarantor on terms approved by an Extraordinary Resolution of the Holders.

8. **Provisions Severable**

If at any time any provision hereof is or becomes illegal, invalid or unenforceable in any respect under the laws of any jurisdiction, neither the legality, validity or enforceability of the remaining provisions hereof nor the legality, validity or enforceability of such provision under the laws of any other jurisdiction shall in any way be affected or impaired thereby

9. **Notices**

9.1 All communications to the Guarantor hereunder shall be made in writing (by letter, telex or fax) and shall be sent to the Guarantor at:

Address: Distrito Telefónica  
Edificio Central  
c/ Ronda de la Comunicación, s/n  
28050 Madrid  
Spain

Fax: + 34 91 727 1397  
Attention: Carlos David Maroto Sobrado

or to such other address or fax number or for the attention of such other person or department as the Guarantor has notified to the Holders in the manner prescribed for the giving of notices in connection with the Securities.

9.2 Every communication sent in accordance with Clause 9.1 shall be effective upon receipt by the Guarantor; and **provided, however, that** any such notice or communication which would otherwise take effect after 4.00 p.m. on any particular day shall not take effect until 10.00 a.m. on the immediately succeeding business day in the place of the Guarantor.

10. **Law and Jurisdiction**

10.1 **Governing Law:** This Deed of Guarantee and all non-contractual obligations arising from or connected with it, are governed by and shall be construed in accordance with English law, except for the provisions of Conditions 3(b) (*Guarantee, Status and Subordination of the Guarantee – Status of the Guarantee*) and 3(c) (*Guarantee, Status and Subordination of the Guarantee – Subordination of the Guarantee*) referred to in Clauses 5.2 and 5.3, respectively, which shall be governed by and construed in accordance with Spanish law.

10.2 **English courts:** The courts of England have exclusive jurisdiction to settle any dispute (a "**Dispute**"), arising from or connected with this Deed of Guarantee (including a dispute regarding the existence, validity or termination of this Deed of Guarantee) or the consequences of its nullity.

10.3 **Appropriate forum:** The Guarantor agrees that the courts of England are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue to the contrary.

10.4 **Rights of the Holders and Relevant Account Holders:** Clause 10.2 (*English courts*) is for the benefit of the Holders and the Relevant Account Holders only. As a result, nothing in this Clause 10 (*Law and jurisdiction*) prevents the Holders and Relevant Account Holders from taking proceedings relating to a Dispute ("**Proceedings**") in any other courts with jurisdiction. To the extent allowed by law, the Holders and Relevant Account Holders may take concurrent Proceedings in any number of jurisdictions.

10.5 **Process agent:** The Guarantor agrees that the documents which start any Proceedings and any other documents required to be served in relation to those Proceedings may be served on it by being delivered to, Telefónica Digital Limited, 20 Air Street, London W1B 5AN, United Kingdom or, if different, its registered office for the time being or at any address of the Guarantor in the United Kingdom at which process may be served on it in accordance with Part 34 of the Companies Act 2006. If such person is not or ceases to be effectively appointed to accept service of process on behalf of the Guarantor, the Guarantor shall, on the written demand of any Holder or Relevant Account Holder addressed and delivered to the Guarantor appoint a further person in England to accept service of process on its behalf and, failing such appointment within 15 days, any Holder or Relevant Account Holder shall be entitled to appoint such a person by written notice addressed to the Guarantor and delivered to the Guarantor. Nothing in this paragraph shall affect the right of any Holder or Relevant Account Holder to serve process in any other manner permitted by law. This clause applies to Proceedings in England.

**IN WITNESS** whereof this Deed has been signed as a deed by the Guarantor and is hereby delivered on the date first above written.

**SIGNED** as a **DEED** and **DELIVERED** )  
on behalf of Telefónica, S.A. )  
a company incorporated in the Kingdom of Spain )  
by: )  
..... )  
being a person who, in accordance with )  
the laws of that territory are acting under )  
the authority of the company )

## **USE OF PROCEEDS**

The net proceeds of the issue of the Securities, expected to amount to EUR 1,292,850,000, will be used for general corporate purposes of the Guarantor and its Group, including the preservation of the liquidity cushion and hybrid securities refinancing.

## DESCRIPTION OF THE ISSUER

### Introduction

Telefónica Europe B.V. (the "**Issuer**") was incorporated for an indefinite period on 31 October 1996 in the Netherlands as a private company with limited liability (*besloten vennootschap met beperkte aansprakelijkheid*) under the laws of the Netherlands and in accordance with Book 2 of the Dutch Civil Code (*Burgerlijk Wetboek*). Its statutory seat is at Amsterdam, the Netherlands, and its business address is at Zuidplein 112, H Tower, 13th floor, 1077XV Amsterdam, the Netherlands. The Issuer's telephone number is +31(0)20 575 3370. Telefónica Europe B.V. is registered with the trade register of the Dutch Chamber of Commerce under number 24269798. The authorised share capital of the Issuer is EUR 46,000 represented by 100 ordinary shares having a nominal value of EUR 460 each. The share capital of the Issuer is fully subscribed and paid up by Telefónica, S.A. as the sole shareholder.

### Business

Telefónica Europe B.V. is a wholly-owned subsidiary of the Guarantor and one of its principal purposes is acting as a holding company and raising finance for the Telefónica Group. The Issuer raises funds primarily by issuing negotiable, and non-negotiable, instruments into the capital and money markets.

### Directors

The Directors of the Issuer are as follows:

<u>Name</u>	<u>Principal occupation</u>	<u>Principal External Activities</u>
Carlos David Maroto Sobrado.....	Director	Head of Financing at the Guarantor Director of Telefónica Participaciones, S.A.U. Director of Telefónica Emisiones, S.A.U.
Javier Campillo Diaz.....	Director	Head of International Securities Markets at the Guarantor
Maria Christina van der Sluijs-Plantz.....	Director	Director of Soualiga B.V.
Jose Miguel Hernández Rabbat.....	Director	Managing Director of Telfisa Global B.V.

The business address of each of the directors of the Issuer is Zuidplein 112, H Tower, 13th floor, 1077XV Amsterdam, the Netherlands.

There are no potential conflicts of interest between any duties owed by the directors of the Issuer to the Issuer and their respective private interests and/or other duties.

### Auditors

The unconsolidated financial statements of the Issuer for the years ended 31 December 2018 and 31 December 2017 were audited by the current auditors of the Issuer, PricewaterhouseCoopers Accountants N.V., with its registered address at Thomas R. Malthusstraat, 5, 1066 JR, Amsterdam, the Netherlands. PricewaterhouseCoopers Accountants N.V. is registered with the Chamber of Commerce with registration number 34180285. The auditor that signed the auditor's report on behalf of PricewaterhouseCoopers Accountants N.V. is a member of the Netherlands Institute of Chartered Accountants (*Nederlandse Beroepsorganisatie van Accountants*).

## DESCRIPTION OF THE GUARANTOR

### Introduction

Telefónica, S.A. ("**Telefónica**" or the "**Guarantor**") is a corporation duly organised and existing under the laws of the Kingdom of Spain, incorporated on 19 April 1924. The Guarantor is governed by the Restated Spanish Companies Act (*Texto Refundido de la Ley de Sociedades de Capital*), approved by Royal Legislative Decree 1/2010, of 2 July 2010 (*Real Decreto Legislativo 1/2010, de 2 de julio, por el que se aprueba el texto refundido de la Ley de Sociedades de Capital*), as amended. The registered office of the Guarantor is at Gran Vía 28, 28013 Madrid, Spain, its tax identification number is A-28015865 and its telephone number is +34 91 482 34 33. The Telefónica Group is:

- a diversified telecommunications group which provides a comprehensive range of services through one of the world's largest and most modern telecommunications networks;
- focused on providing telecommunications services; and
- present principally in Europe and Latin America.

Telefónica has been assigned long term credit ratings of BBB (stable outlook), Baa3 (stable outlook), BBB (stable outlook), respectively, by S&P, Moody's and Fitch. Telefónica has been assigned short term credit ratings of A2, P3 and F3, respectively, by S&P, Moody's and Fitch. Each of S&P, Moody's and Fitch is established in the European Union and is registered under the CRA Regulation.

### Recent Developments

The principal events that have occurred since 31 December 2018, are set forth below:

- On 23 January 2019, Telefónica announced that Telefónica UK Limited had agreed non-binding heads of terms with Vodafone Limited to strengthen their existing network sharing partnership in the United Kingdom. The parties plan to extend the term of their existing network sharing partnership and include 5G capacity at joint radio network sites, and to upgrade transmission networks to support 5G technology. They also intend to devolve more activities to their joint venture company, Cornerstone Telecommunications Infrastructure Limited, which manages passive tower infrastructure.
- On 23 January 2019, Telefónica announced that it was notified of a resolution issued by the Spanish Central Economic-Administrative Tax Court (*Tribunal Económico-Administrativo Central*) partially upholding the claims filed against the assessments relating to the 2008-2011 Corporate Income Tax Audit. Final execution on this resolution will most likely lead to a tax refund related to overpayments made by Telefónica in those tax years. This resolution is not final. At this point in time, it is not possible to quantify the exact amount of the expected refunds since, as pointed out by the Central Economic-Administrative Court's resolution, the final amount shall only be settled once the resolution is duly executed by the Spanish Tax Authorities. For further information see "*Tax Proceedings – Inspections in the tax group in Spain*" below.
- On 24 January 2019, Telefónica Centroamérica Inversiones, S.L. (60 per cent. of which is owned, directly and indirectly, by Telefónica and 40 per cent. of which is owned by Corporación Multi Inversiones), reached an agreement with América Móvil, S.A.B. de C.V. for the sale of the entire share capital of Telefónica Móviles Guatemala, S.A. and 99.3 per cent. of Telefónica Móviles El Salvador, S.A. de C.V. The closing of the Telefónica Móviles El Salvador sale is subject to applicable regulatory conditions while the sale of Telefónica Móviles Guatemala was completed on such date.

The aggregate consideration for both companies (enterprise value) is U.S.\$648 million (approximately EUR 570 million at the exchange rate on the date of the agreement, EUR 293 million of which corresponds to Telefónica Móviles Guatemala and EUR 277 million of which corresponds to Telefónica Móviles El Salvador).

- On 5 February 2019, Telefónica Emisiones, S.A.U. issued EUR 1,000 million notes guaranteed by the Guarantor under its Guaranteed Euro Programme for the Issuance of Debt Instruments (the

"EMTN Programme"). These notes are due on 5 February 2024, pay an annual coupon of 1.069 per cent. and were issued at par (100 per cent.). The net proceeds of the notes are to be allocated towards projects aiming to improve energy efficiency in the network transformation from copper to fiber optic in Spain.

- On 8 February 2019, Telefónica announced that, within the framework of its portfolio management policy, based on a strategy of value creation and strategic positioning, it is studying the potential sale of some of its data centres, which may result in one or several transactions, related to either all or some of those assets.
- On 14 February 2019, once the pertinent regulatory approvals were obtained, Telefónica transferred to Grupo Catalana Occidente 100 per cent. of Antares' share capital for a total amount of EUR 161 million. On the closing of the sale, Telefónica and Grupo Catalana Occidente executed an agreement pursuant to which Grupo Catalana Occidente will continue to manage the insurance policies of the Telefónica Group on an exclusive basis for the next 10 years.
- On 20 February 2019, Telefónica reached an agreement with Millicom International Cellular, S.A. for the sale of the entire share capital of Telefónica de Costa Rica TC, S.A., and for the sale by Telefónica's subsidiary Telefónica Centroamérica Inversiones, S.L. (60 per cent. of which is owned, directly and indirectly, by Telefónica and 40 per cent. of which is owned by Corporación Multi Inversiones) of the entire share capital of Telefónica Móviles Panamá, S.A. and Telefónica Celular de Nicaragua, S.A. The closing of the sale of these three companies is subject to the applicable regulatory conditions and will take place for each transaction once those conditions are satisfied.

The aggregate amount of the transaction (enterprise value) for the three companies is U.S.\$1,650 million (approximately EUR 1,455 million at the current exchange rate on the date of the agreement, EUR 503 million of which corresponds to Telefónica Costa Rica, EUR 573 million to Telefónica Panama and EUR 379 million to Telefónica Nicaragua).

- On 1 March 2019, Telefónica Emisiones S.A.U. issued U.S.\$1,250 million notes guaranteed by the Guarantor under its US Debt Registered Program (filed with the United States Securities and Exchange Commission on 20 April 2018). These notes are due on 1 March 2049, with a coupon of 5.520 per cent., payable semi-annually, issued at par (100 per cent.)

## Business Overview

### Highlights

Telefónica's total accesses reached 356.2 million as of 31 December 2018, decreasing by 0.5 per cent. year-on-year, mainly as a result of the reduction of the prepay base in Telefónica Brazil (-14.2 per cent. year-on-year) and Telefónica Hispam Sur (-7.5 per cent. year-on-year) due to the strong market competition and, to a lesser extent, in Telefónica Germany (-6.1 per cent. year-on-year), as a result of the adoption of the requirement that identification be provided by customers for pre-paid SIM cards since July 2017. During 2018, the relative weight of high value services continued to increase, as reflected in the sustained growth of post-pay (smartphones and LTE), fiber and Pay TV accesses.

The below table shows the evolution of Group accesses for the year ended 31 December 2018 compared to the year ended 31 December 2017:

Accesses	2017	2018	Change year-on-year
	<i>(thousands)</i>		<i>(per cent.)</i>
Fixed telephony accesses <sup>(1)</sup> .....	36,898.6	34,941.4	(4.3)
Internet and data accesses <sup>(2)</sup> .....	21,864.6	22,087.5	1.0
Broadband <sup>(3)</sup> .....	21,417.5	21,645.2	1.1
FTTx/Cable.....	10,961.6	13,213.1	20.5
Mobile accesses.....	271,766.9	270,814.9	(0.4)
Prepay.....	155,868.5	147,062.0	(5.6)
Contract.....	115,898.4	123,752.9	6.8
M2M.....	16,137.2	19,483.0	20.7
Pay TV.....	8,467.7	8,875.4	4.8
<b>Final Clients Accesses</b> .....	<b>338,997.9</b>	<b>336,719.3</b>	<b>(0.7)</b>
<b>Wholesale Accesses</b> .....	<b>19,124.9</b>	<b>19,520.0</b>	<b>2.1</b>
Fixed wholesale accesses.....	4,460.2	3,951.5	(11.4)

Accesses	2017	2018	Change year-on-year
	<i>(thousands)</i>		<i>(per cent.)</i>
Mobile wholesale accesses <sup>(4)</sup> .....	14,664.7	15,568.5	6.2
<b>Total Accesses</b> .....	358,122.8	356,239.4	(0.5)

<sup>(1)</sup> Includes "fixed wireless" and VoIP accesses.

<sup>(2)</sup> Also referred to as fixed broadband accesses.

<sup>(3)</sup> Includes DSL, satellite, optic fiber, cable modem and broadband circuits.

<sup>(4)</sup> Mobile wholesale accesses information has been included in total accesses since the first quarter 2018. 2017 figures have been revised accordingly for comparative purposes.

**Mobile accesses** totaled 270.8 million at 31 December 2018, down 0.4 per cent. compared to 31 December 2017. Lower prepaid accesses (-5.6 per cent. year-on-year) more than offset the increase in mobile contract accesses, which grew by 6.8 per cent. year-on-year and continued increasing their weight over total mobile accesses reaching 45.7 per cent. (+3.1 percentage points year-on-year).

**Smartphone accesses** grew by 5.7 per cent. year-on-year, totaling 167.7 million accesses and representing 67.5 per cent. of total mobile accesses (+4.5 percentage points year-on-year), reflecting Telefónica's strategic focus on its data services growth.

**Fixed broadband accesses** stood at 21.6 million at 31 December 2018, up 1.1 per cent. year-on-year. Fiber accesses stood at 13.2 million at 31 December 2018 compared to 11.0 million in 2017, growing 20.5 per cent. year-on-year.

**Pay TV accesses** totaled 8.9 million at 31 December 2018, growing 4.8 per cent. year-on-year, due to the growth in Telefónica Spain (6.3 per cent. year-on-year) and Telefónica Peru (+11.8 per cent. year-on-year).



## SEGMENT RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018 AND 2017

### Telefónica Spain

The below table shows the evolution of accesses in Telefónica Spain during the years ended 31 December 2018 and 31 December 2017:

Accesses	2017	2018	Change year- on-year
	<i>(thousands)</i>		<i>(per cent.)</i>
Fixed telephony accesses <sup>(1)</sup> .....	9,304.7	9,029.1	(3.0)
Internet and data accesses <sup>(2)</sup> .....	6,039.6	6,129.6	1.5
Broadband .....	6,020.3	6,113.5	1.5
FTTx/Cable.....	3,423.7	3,940.6	15.1
Mobile accesses.....	17,576.5	18,384.4	4.6
Prepay.....	1,793.4	1,440.1	(19.7)
Contract.....	15,783.1	16,944.3	7.4
M2M.....	2,015.6	2,333.2	15.8
Pay TV .....	3,847.6	4,091.3	6.3
<b>Final Clients Accesses</b> .....	<b>36,768.5</b>	<b>37,634.4</b>	<b>2.4</b>
Wholesale Accesses .....	4,221.1	3,912.9	(7.3)
<b>Total Accesses</b> .....	<b>40,989.6</b>	<b>41,547.3</b>	<b>1.4</b>

<sup>(1)</sup> Includes "fixed wireless" and VoIP accesses.

<sup>(2)</sup> Also referred to as fixed broadband accesses.

In 2018, commercial activity continued to leverage the differentiated assets of Telefónica, principally through the convergent offer (which means the offer of more than a single service for a single price) "Movistar Fusión+" and through the "Más por Más" strategy. Telefónica continued to modify the above mentioned offer and to adapt it to incremental customer demand, mainly through: (i) an increase in data to all mobile lines offered in "Movistar Fusión"; and (ii) the doubling of fiber speed, from 50 Mb per second to 100 Mb per second in low speed bundles, and from 300 Mb per second to 600 Mb per second in high speed bundles. In addition, in June 2018, O2, a new operator of the Group, was created in Spain to respond to a customer segment that demands only voice services and which requires a simple offer with a premium service. The new operator targets this premium service segment with a simple offer which consists of two tariffs: mobile and fiber-mobile. Additionally, in late October 2018, Telefónica launched a new "Movistar Fusión" portfolio, which seeks, on one hand, to simplify and reduce the number of offers available to customers, which decreased from ten to six, and, on the other hand, to facilitate access to what is among the most requested content by Telefónica's customers, namely, football. Finally, in December 2018, Telefónica added Netflix to its offer, and created new packages with more GBs and an additional mobile line.

Telefónica Spain had 41.5 million accesses as of 31 December 2018 (+1.4 per cent. compared to 31 December 2017), changing the downward trend of previous years, mainly as a result of the increase in higher value accesses: mobile contract accesses, fiber accesses and TV accesses.

**The consumer convergent offer** had a customer base of 4.6 million customers with 4.7 million additional wireless lines associated with such customer base, as of 31 December 2018, increasing by 4.2 per cent. and 27.0 per cent. year-on-year, respectively, and contributing 87.6 per cent. of the fixed retail broadband customer base (+2.1 percentage points year-on-year) and 83.9 per cent. of the wireless contract customer base (+4.5 percentage points year-on-year). There was significant growth in the penetration of the high value services of the convergent offer, with 39.5 per cent. of the customer base already using 600 Mb per second ultra-fast broadband (+1.1 percentage points year-on-year) and 80.4 per cent. of the customer base having Pay TV as of 31 December 2018 (+4.8 percentage points year-on-year), as well as growth in mobile lines (each main Fusión package had 2.0 mobile lines on average compared to 1.8 in 2017). In 2018, the consumer "Movistar Fusión" convergent offer churn stood at 1.5 per cent., the same as last year despite the high commercial competition in the market during the year.

**Fixed accesses** decreased 3.0 per cent. year-on-year, with a net loss of 276 thousand accesses in 2018.

**Retail broadband accesses** increased by 93.2 thousand accesses in 2018, totaling 6.1 million accesses at 31 December 2018 (+1.5 per cent. year-on-year) due to the increase in gross adds (+13.8 per cent. year-on-year) and churn stability (1.7 per cent., +0.02 percentage points year-on-year).

**Fiber accesses** progressed in terms of net adds, reaching 3.9 million customers at 31 December 2018 (up 15.1 per cent. compared to 31 December 2017), representing 64.5 per cent. of broadband accesses (+7.6 percentage points year-on-year), with 516.9 thousand new accesses in 2018. Ultra-speed fiber accesses with 600 Mb per second (with higher ARPU) reached 2.4 million accesses (60.2 per cent. of total fiber accesses). At 31 December 2018 the fiber deployment reached 21.3 million premises, 2.1 million more than at 31 December 2017, and continues to be the largest in Europe.

Total **mobile accesses** stood at 18.4 million as of 31 December 2018, increasing by 4.6 per cent. compared to 31 December 2017, as a result of the increase in contract accesses, which more than offset the decrease in prepay accesses (-19.7 per cent. year-on-year), reflecting the success of the convergent offer and the positive evolution of the prepay to postpay migration in the third and fourth quarters of 2018. The contract access base accelerated its growth during 2018, growing by 7.4 per cent. year-on-year. Smartphone penetration as of 31 December 2018 stood at 80.5 per cent. of the mobile voice base (+4.1 percentage points year-on-year) and significantly boosted data traffic growth to 68.1 per cent. year-on-year due to the higher number of customers with superior data packages.

LTE network rollout continued to progress well, and coverage reached approximately 97.7 per cent. of the population (based on the calculation criteria used by competitors (pursuant to which all inhabitants of the cities that have some LTE coverage are considered)) at 31 December 2018, increasing by 0.7 percentage points compared to 2017. The LTE customer base reached 8.8 million customers as of 31 December 2018, +15.1 per cent. compared to 31 December 2017 with penetration of 55.1 per cent. (+5.7 percentage points year-on-year) over the total mobile base.

**Pay TV accesses** reached 4.1 million at 31 December 2018, growing by 6.3 per cent. compared to 31 December 2017 driven by the inclusion of TV services in all "Fusión" portfolio convergent packages since July 2017 and the good performance of such packages in 2018.

**Wholesale accesses** stood at 3.9 million at 31 December 2018, decreasing by 7.3 per cent. year-on-year. However, the net adds of NEBA and fiber accesses increased to 1.5 million accesses, representing 38.9 per cent. of the total wholesale accesses (+18.8 percentage points year-on-year), reflecting the positive evolution of the network due to the use of superior technologies.

## Telefónica United Kingdom

The table below shows the evolution of accesses in Telefónica United Kingdom during the years ended 31 December 2018 and 31 December 2017:

Accesses	2017	2018	Change year- on-year
	<i>(thousands)</i>		<i>(per cent.)</i>
Fixed telephony accesses <sup>(1)</sup> .....	283.9	306.9	8.1
Internet and data accesses <sup>(2)</sup> .....	25.3	28.1	11.2
Broadband .....	25.3	28.1	11.2
Mobile accesses.....	25,003.9	25,044.1	(0.2)
Prepay.....	9,203.7	8,742.6	(5.0)
Contract <sup>(3)</sup> .....	15,800.2	16,301.4	3.2
M2M.....	3,358.9	3,578.0	6.5
<b>Final Clientes Accesses</b> .....	<b>25,313.1</b>	<b>25,379.1</b>	<b>0.3</b>
Wholesale Accesses .....	7,162.0	7,599.2	6.1
<b>Mobile wholesale accesses<sup>(4)</sup></b> .....	<b>7,162.0</b>	<b>7,599.2</b>	<b>6.1</b>
<b>Total Accesses</b> .....	<b>32,475.1</b>	<b>32,978.3</b>	<b>1.5</b>

<sup>(1)</sup> Includes "fixed wireless" and VoIP accesses.

<sup>(2)</sup> Also referred to as fixed broadband accesses.

<sup>(3)</sup> Includes the disconnection of 228 thousand inactive contract accesses in the first quarter 2017.

<sup>(4)</sup> Mobile wholesale accesses information has been included in total accesses since the first quarter 2018. 2017 figures have been revised accordingly for comparative purposes.

In 2018, despite the competitive environment, Telefónica United Kingdom remained as a major telecommunications operator in United Kingdom, a position underpinned by the strength of the O2 brand, customer loyalty and successful commercial propositions such as the "Custom Plan", which provides customers with flexibility and choice by allowing them to customise their plans by choosing the contract terms (up to 36 months), the amount of payment upfront and the data plan. Such propositions have allowed Telefónica to achieve continuous customer growth in a competitive market.

**Total accesses** grew by 1.5 per cent. year-on-year, standing at 33.0 million at 31 December 2018.

**Mobile net additions** reached 40 thousand accesses in 2018, driven by contract mobile accesses, which grew by 3.2 per cent. year-on-year to 16.3 million and increased their proportion over the total mobile accesses to 65.1 per cent.

**Prepay accesses** decreased by 5.0 per cent. year-on-year to 8.7 million at 31 December 2018 due to disconnections of inactive customer accesses and market dynamics, including prepay to postpay migration. Smartphone penetration over the total mobile base rose 2.4 percentage points year-on-year up to 79.0 per cent. The base of LTE customers base reached 13.5 million at 31 December 2018 with a 4.7 per cent. year-on-year growth and 62.9 per cent. penetration over the mobile base.

## Telefónica Germany

The below table shows the evolution of accesses in Telefónica Germany during the years ended 31 December 2018 and 31 December 2017:

Accesses	2017	2018	Change year-on-year
	<i>(thousands)</i>		<i>(per cent.)</i>
Fixed telephony accesses <sup>(1)</sup> .....	1,979.6	1,996.0	0.8
Internet and data accesses <sup>(2)</sup> .....	2,281.5	2,274.7	(0.3)
Broadband <sup>(3)</sup> .....	2,072.2	2,079.8	0.4
VDSL.....	1,151.6	1,441.3	25.2
Mobile accesses.....	43,154.7	42,818.8	(0.8)
Prepay.....	21,880.9	20,542.9	(6.1)
Contract.....	21,273.8	22,275.9	4.7
M2M.....	1,027.0	1,187.9	15.7
<b>Final Clients Accesses</b> .....	<b>47,415.8</b>	<b>47,089.5</b>	<b>(0.7)</b>
<b>Wholesale Accesses</b> .....	<b>188.1</b>	<b>0.0</b>	<b>(100.0)</b>
<b>Total Accesses</b> .....	<b>47,603.9</b>	<b>47,089.5</b>	<b>(1.1)</b>

<sup>(1)</sup> Includes "fixed wireless" and VoIP accesses.

<sup>(2)</sup> Also referred to as fixed broadband accesses.

In 2018, Telefónica Germany continued to show a strong operational momentum. In a dynamic market environment, Telefónica Germany remained focused on profitable growth by stimulating data usage, leveraging the well-received O2 Free tariff portfolio and the unique O2 Connect option to share high-speed data volumes on up to 10 devices. During 2018 Telefónica Germany largely finalised its network integration, with significant quality improvements, delivering the first milestone of its "Mobile Customer and Digital Champion" strategy.

The **total access** base fell 1.1 per cent. year-on-year and stood at 47.1 million at 31 December 2018, mainly driven by the decrease in the prepay mobile base.

The **contract mobile access** base grew 4.7 per cent. year-on-year and reached 22.3 million accesses, at 31 December 2018, increasing the share over the total mobile base up to 52.0 per cent. Net adds reached 1.0 million accesses on the back of the O2 Free tariff portfolio and solid contribution of partners (second brands), which represented 60 per cent. of gross adds in 2018. Smartphone penetration reached 66.0 per cent. of the total mobile access base, up 5.1 percentage points year-on-year driven by the continued growth of LTE customers (+17.0 per cent. year-on-year) reaching 18.4 million customers at 31 December 2018. LTE penetration reached 44.3 per cent. of the total mobile access base.

The **prepay mobile access** base decreased 6.1 per cent. year-on-year to 20.5 million, at 31 December 2018, due to the lower demand after the implementation of certain regulatory changes introduced in 2017 (mainly the need for a legitimisation check in connection with SIM cards). Prepay posted a net loss of 1.3 million accesses in 2018.

The **retail broadband access** base increased by 7.6 thousand accesses in 2018, experiencing strong demand for VDSL, with net adds of 289.7 thousand accesses in 2018 (accesses went up 25.2 per cent. year-on-year). The planned wholesale DSL customer migration (which was required for the planned shutdown of Telefónica Germany's legacy infrastructure) was completed at the end of September 2018. This migration is the result of Telefónica Germany's decision, in 2013, to stop investing in its own ADSL-based infrastructure and enter into a wholesale partnership (*Kontingentmodell*) with Deutsche Telekom AG.

## Telefónica Brazil

The below table shows the evolution of accesses in Telefónica Brazil during the years ended 31 December 2018 and 31 December 2017:

Accesses	2017	2018	Change year-on-year
	<i>(thousands)</i>		<i>(per cent.)</i>
Fixed telephony accesses <sup>(1)</sup> .....	13,837.3	13,004.6	(6.0)
Internet and data accesses <sup>(2)</sup> .....	7,534.5	7,564.7	0.4
Broadband.....	7,466.1	7,485.2	0.3
FTTx/Cable.....	4,541.0	4,991.1	9.9
Mobile accesses.....	74,931.3	73,151.3	(2.4)
Prepay.....	38,168.1	32,754.4	(14.2)
Contract.....	36,763.2	40,396.9	9.9
M2M.....	6,312.5	8,203.3	30.0
Pay TV.....	1,587.7	1,566.6	(1.3)
<b>Final Clients Accesses</b> .....	<b>97,890.8</b>	<b>95,287.2</b>	<b>(2.7)</b>
<b>Wholesale Accesses</b> .....	<b>14.3</b>	<b>14.8</b>	<b>4.2</b>
<b>Total Accesses</b> .....	<b>97,905.1</b>	<b>95,302.0</b>	<b>(2.7)</b>

<sup>(1)</sup> Includes "fixed wireless" and VoIP accesses.

<sup>(2)</sup> Also referred to as fixed broadband accesses.

In 2018, Telefónica Brazil maintained its leadership in the higher value mobile segment, which permitted the operator to capture consistent revenue growth in that segment. In the fixed business, there was continued focus on fiber, which allowed the operator to capture high-value clients in the Pay TV business. This allowed Telefónica Brazil to offset in part the downturn in the traditional fixed business.

Telefónica Brazil reached 95.3 million **accesses** as of 31 December 2018, down 2.7 per cent. as compared to 31 December 2017, mainly as a result of the decrease in the prepay customer base (which was adversely affected by political uncertainty and macroeconomic deterioration) and in the fixed telephony accesses base (which continued to be adversely affected by the migration to mobile, which was further supported by the existence of multiple voice offers in the market). However, there was an improvement in the high-value customer mix, supported by the higher weight of postpaid, UBB and IPTV products.

In the **mobile business**, the strategic focus remained on gaining and retaining high-value customers, and it had a market share of 40.5 per cent. in the contract segment as of 31 December 2018 (source: ANATEL). Telefónica Brazil maintained its market leadership in terms of total accesses with a market share of 31.9 per cent. as of 31 December 2018 (source: ANATEL). The growth in the contract accesses (+9.9 per cent. year-on-year) substantially compensated the decrease in prepay accesses (-14.2 per cent. year-on-year). Commercial offers focused on data plans that allow data to be accumulated, shared or duplicated, and such plans are focused on the use of social networks and music and video apps. These plans also offer value-added services (as opposed to voice services), with unlimited off-net minutes plans and international roaming plans. High-value offers also focus on family plans comprising OTT services (such as Netflix and Vivo Music).

In the **fixed business**, Telefónica Brazil maintained its strategic focus on fiber deployment, with 19.8 million premises passed with FTTx at 31 December 2018 and 5.0 million homes connected, growing by 9.9 per cent. year-on-year. This growth helped to offset the negative evolution of ADSL accesses. Retail broadband customers totaled 7.5 million customers in 2018, up 0.3 per cent. year-on-year. Fixed telephony accesses decreased by 6.0 per cent. year-on-year due to the fixed-mobile migration. Pay TV customers stood at 1.6 million, decreasing 1.3 per cent. year-on-year due to a more selective commercial activity directed to capture IPTV clients, which increased 52.1 per cent. year-on-year, representing 37 per cent. of the total Pay TV accesses.

## Telefónica Hispam Norte

The below table shows the evolution of accesses in Telefónica Hispam Norte during the years ended 31 December 2018 and 31 December 2017:

Accesses	2017 <sup>(*)</sup>	2018	Change year-on-year
	(thousands)		(per cent.)
Fixed telephony accesses <sup>(1)</sup> .....	3,554.7	3,169.8	(10.8)
Internet and data accesses <sup>(2)</sup> .....	1,229.2	1,337.1	8.8
Broadband.....	1,199.9	1,305.6	8.8
FTTx/Cable.....	126.8	303.7	139.5
Mobile accesses.....	66,788.6	68,041.1	1.9
Prepay.....	57,190.7	58,010.4	1.4
Contract.....	9,597.9	10,030.7	4.5
M2M.....	1,686.7	1,922.8	14.0
Pay TV.....	982.1	1,007.6	2.6
<b>Final Clients Accesses</b> .....	<b>72,554.6</b>	<b>73,555.6</b>	<b>1.4</b>
<b>Total Accesses</b> .....	<b>72,565.4</b>	<b>73,556.1</b>	<b>1.4</b>

(\*) Revised data. In 2018 Telefónica Hispanoamérica was split into two new segments in order to more effectively manage the different market situations: Telefónica Hispam Norte and Telefónica Hispam Sur. 2017 figures have been revised accordingly for comparative purposes.

(1) Includes "fixed wireless" and VoIP accesses.

(2) referred to as fixed broadband accesses.

The table above includes accesses for Guatemala (3.2 million and 2.8 million total accesses as of 31 December 2017 and 2018, respectively) and El Salvador (2.0 million and 2.1 million total accesses as of 31 December 2017 and 2018, respectively).

On 24 January 2019, Telefónica reached an agreement for the sale of Telefónica Móviles Guatemala, S.A. and Telefónica Móviles El Salvador, S.A. de C.V. The closing of the Telefónica Móviles El Salvador sale is subject to applicable regulatory conditions while the sale of Telefónica Móviles Guatemala was completed on such date. The table also includes accesses for Costa Rica (2.2 million and 2.2 million total accesses as of 31 December 2017 and 2018, respectively), Panama (1.6 million and 1.6 million total accesses as of 31 December 2017 and 2018, respectively) and Nicaragua (4.4 million and 4.0 million total accesses as of 31 December 2017 and 2018, respectively). On 20 February 2019, Telefónica reached an agreement for the sale of Telefónica de Costa Rica TC, S.A., and for the sale by Telefónica's subsidiary Telefónica Centroamérica Inversiones, S.L. (60 per cent. of which is owned, directly or indirectly, by Telefónica and 40 per cent. of which is owned, directly or indirectly, by Corporación Multi Inversiones) of the entire share capital of Telefónica Móviles Panamá, S.A. and Telefónica Celular de Nicaragua, S.A. The closing of the sale of these three companies is subject to the applicable regulatory conditions and will take place for each transaction once those conditions are satisfied. For additional information, see "– Recent Developments" above.

**Total accesses** reached 73.6 million at 31 December 2018 (+1.4 per cent. year-on-year).

**Mobile accesses** increased by 1.9 per cent. year-on-year to 68.0 million customers as at 31 December 2018.

- **Contract** accesses increased 4.5 per cent. year-on-year as at 31 December 2018, due to the good performance in almost all the countries in the region as a result in part of the Group's continued focus on attracting high-value customers. Contract accesses grew in Mexico (+8.0 per cent.), Central America (+15.1 per cent.), Colombia (+2.7 per cent.) and Venezuela (+0.3 per cent.). Only Ecuador experienced a decrease in contract accesses (-1.6 per cent.).
- **Prepay** accesses increased 1.4 per cent. year-on-year, with positive net adds of 820 thousand accesses at 31 December 2018, mainly as a result of the evolution in Colombia (+1.0 million accesses) and Mexico (+1.1 million accesses), which were partially offset by Central America (-791 thousand accesses) and Venezuela (-637 thousand accesses).
- **The smartphone** customer base increased 7.6 per cent. year-on-year, reaching 32.0 million accesses at 31 December 2018 (+2.3 million compared to 31 December 2017) with a mobile access penetration of 47.6 per cent. (+2.4 percentage points year-on-year), mainly due to Colombia (+15.2 per cent.), Central America (+22.5 per cent.) and Venezuela (+5.7 per cent.), which offset the

evolution of Mexico (-1.9 per cent.). In addition, accesses with 4G handsets increased by 43.2 per cent., reaching 19.5 million accesses at 31 December 2018.

**Fixed accesses** stood at 3.2 million at 31 December 2018 (-10.8 per cent. year-on-year) with negative net adds of 385 thousand customers due to the erosion of the traditional fixed business.

**Fixed broadband** accesses reached 1.3 million at 31 December 2018 (+8.8 per cent. year-on-year), mainly due to Mexico and Ecuador's launch of the "Movistar al hogar" offer and a slight increase in FBB accesses in Colombia (+0.9 per cent.). The penetration of FBB accesses over fixed accesses stood at 41.2 per cent. (+7.4 percentage points year-on-year), as a result of the focus on UBB deployment mainly in Colombia, reaching 1.1 million real estate units and 304 thousand connected accesses at 31 December 2018 (177 thousand of them connected in 2018). The penetration of UBB accesses over fixed broadband accesses stood at 23.3 per cent. (+12.7 percentage points year-on-year).

**Pay TV** accesses stood at 1.0 million, increasing +2.6 per cent. year-on-year, as a result of positive net adds in Colombia (+18 thousand accesses) and Central America (+24 thousand accesses) which offset net negative adds in Venezuela (-16.5 thousand accesses). "Movistar Play", a TV service rendered through the Internet, was launched in Colombia, Central America and Ecuador and accounted for 455 thousand accesses as of 31 December 2018.

## Telefónica Hispam Sur

The below table shows the evolution of accesses in Telefónica Hispam Sur during the years ended 31 December 2018 and 31 December 2017:

Accesses	2017 <sup>(*)</sup>	2018	Change year-on-year
	<i>(thousands)</i>		<i>(per cent.)</i>
Fixed telephony accesses <sup>(1)</sup> .....	7,938.5	7,435.2	(6.3)
Internet and data accesses <sup>(2)</sup> .....	4,656.1	4,669.7	0.3
Broadband.....	4,535.4	4,549.5	0.3
FTTx/Cable.....	1,656.2	2,490.8	50.4
Mobile accesses.....	43,775.1	42,575.1	(2.7)
Prepay.....	27,631.8	25,571.6	(7.5)
Contract.....	16,143.3	17,003.5	5.3
M2M.....	1,199.8	1,457.7	21.5
Pay TV.....	2,050.3	2,209.9	7.8
<b>Final Clients Accesses</b> .....	<b>58,419.9</b>	<b>56,889.9</b>	<b>(2.6)</b>
<b>Total Accesses</b> .....	<b>58,445.9</b>	<b>56,913.1</b>	<b>(2.6)</b>

<sup>(\*)</sup> Revised data. In 2018 Telefónica Hispanoamérica was split into two new segments in order to more effectively manage the different market situations: Telefónica Hispam Norte and Telefónica Hispam Sur. 2017 figures have been revised accordingly for comparative purposes.

<sup>(1)</sup> Includes "fixed wireless" and VoIP accesses.

<sup>(2)</sup> Also referred to as fixed broadband accesses.

**Total accesses** reached 56.9 million at 31 December 2018 (-2.6 per cent. year-on-year).

**Mobile accesses** fell by 2.7 per cent. year-on-year to 42.6 million customers at 31 December 2018, mainly due to a lower prepaid customer base.

- **Contract** accesses increased 5.3 per cent. year-on-year at 31 December 2018, with growth in all countries in the region, as a result in part of the Group's continued focus on attracting high-value customers. Contract accesses grew in Chile (+12.5 per cent.), Argentina (+2.9 per cent.), Peru (+4.8 per cent.) and Uruguay (+1.7 per cent.).
- **Prepay** accesses decreased 7.5 per cent. year-on-year, with negative net adds of 2.1 million accesses at 31 December 2018, mainly as a result of the evolution in Chile (-892 thousand accesses) and Argentina (-810 thousand accesses), with Uruguay and Peru also reducing their accesses to a lesser extent. This evolution was mainly the result of intense market competition and the Group's continued focus on attracting high-value customers.
- The **smartphone** customer base decreased 1.3 per cent. year-on-year at 31 December 2018, reaching 21.4 million accesses (-280 thousand compared to 31 December 2017) with a mobile access penetration of 51.3 per cent. (+0.6 percentage points year-on-year). The decrease was mainly attributable to the evolution in Peru (-4.5 per cent. year-on-year) and Argentina (-1.9 per cent. year-on-year), which more than offset the growth in Chile (+7.5 per cent. year-on-year) and Uruguay (+3.1 per cent. year-on-year). In addition, accesses with 4G handsets increased 27.5 per cent. year-on-year, reaching 16.0 million accesses by 31 December 2018.

**Fixed accesses** stood at 7.4 million at 31 December 2018 (-6.3 per cent. year-on-year) with negative net adds of 503 thousand customers, due to the erosion of the traditional fixed business.

**Fixed broadband** accesses reached 4.5 million at 31 December 2018 (+0.3 per cent. year-on-year), mainly as a result of the positive results in Peru (+10.1 per cent. year-on-year), which more than offset the decreases in accesses in Argentina (-9.1 per cent. year-on-year) and Chile (-1.1 per cent. year-on-year), as both operators focused on fiber (high-value customers), which negatively affected the growth in the copper business. The penetration of FBB accesses over fixed accesses stood at 61.2 per cent. (+4.0 percentage points year-on-year), as a result of the focus on UBB deployment in the region, reaching 8.3 million real estate units and 2.5 million connected accesses (+50.4 per cent. year-on-year). The penetration of UBB accesses over fixed broadband accesses stood at 54.7 per cent. (+18.2 percentage points year-on-year).

**Pay TV accesses** stood at 2.2 million (+7.8 per cent. year-on-year) with net adds of 160 thousand accesses mainly due to positive results in Peru (+11.8 per cent. year-on-year). "Movistar Play", a TV service rendered



through the Internet, was launched in the region and accounted for 490 thousand accesses as of 31 December 2018.

### **Telefónica's services and products**

New digital technologies are the main driving force of social and economic transformation today. This premise is the basis upon which Telefónica builds its vision: it wants to provide access to digital life, using the best technology and without leaving anyone behind.

Connectivity is Telefónica's ally in reducing the digital divide and, due to the Group's fixed and mobile network infrastructure and the services the Group develops around it, Telefónica can aid progress in the communities in which the Group operates.

To move towards this vision, Telefónica works on three basic fronts:

- (1) Providing access to technology through digital inclusion, in other words, by means of network roll-out and an accessible and affordable offer for all sectors of the population.
- (2) Developing innovative services that add value to the Group's connectivity and which the Group develops through innovation: Big Data, the IoT, eHealth, digital education and eFinances.
- (3) Incorporating sustainability principles across all of the Group's product development processes.

### **Mobile business**

Telefónica offers a wide variety of mobile and related services and products to personal and business customers. Although they vary from country to country, Telefónica's principal services and products are as follows:

- **Mobile voice services:** Telefónica's principal service in all of its markets is mobile voice telephony.
- **Value added services:** Customers in most of the markets have access to a range of enhanced mobile calling features, including voice mail, call on hold, call waiting, call forwarding and three-way calling.
- **Mobile data and Internet services:** Current data services offered include SMS and MMS, which allow customers to send messages with images, photographs, sound recordings and video recordings. Customers may also receive selected information, such as news, sports scores and stock quotes. Telefónica also provides mobile broadband connectivity and Internet access. Through mobile Internet access, customers are able to send and receive e-mail, browse the Internet, download games, purchase goods and services in m-commerce transactions and use Telefónica's other data and software services.
- **Wholesale services:** Telefónica has signed network usage agreements with several MVNOs in different countries.
- **Corporate services:** Telefónica provides business solutions, including mobile infrastructure in offices, private networking and portals for corporate customers that provide flexible online billing.
- **Roaming:** Roaming agreements allow Telefónica customers to use their mobile handsets when they are outside their service territories, including on an international basis.
- **Fixed wireless:** Telefónica provides fixed voice telephony services through mobile networks in Brazil, Venezuela, Argentina, Peru, Mexico, Ecuador, El Salvador and Nicaragua. Until 24 January 2019, Telefónica also provided these services in Guatemala. In addition, the completion of the sale of Telefónica's operations in El Salvador and Nicaragua is currently pending. For additional information, see "*Recent Developments*" above.
- **Trunking and paging:** Telefónica provides digital mobile services for closed user groups of clients and paging services in Spain and most of the regions in which it operates in Latin America.

## Fixed-line telephony business

The principal services Telefónica offers in its fixed businesses in Europe and Latin America are:

- **Traditional fixed telecommunication services:** Telefónica's principal traditional fixed telecommunication services include PSTN lines; ISDN accesses; public telephone services; local, domestic and international long-distance and fixed-to-mobile communications services; corporate communications services; supplementary value added services (including call waiting, call forwarding, voice and text messaging, advanced voicemail services and conference-call facilities); video telephony; business oriented value-added services; intelligent network services; leasing and sale of handset equipment; and telephony information services.
- **Internet and broadband multimedia services:** the principal Internet and broadband multimedia services include Internet provider service; portal and network services; retail and wholesale broadband access through ADSL, narrowband switched access and other technologies. Telefónica also offers high-speed Internet services through fiber to the home (FTTH) in certain markets (primarily Spain, Brazil and Chile) and VDSL-based services (primarily Spain and Germany). Telefónica also offers VoIP services in some markets.
- **Data and business-solutions services:** the data and business-solutions services principally include leased lines; virtual private network, or VPN, services; fiber optics services; the provision of hosting and application, including web hosting, managed hosting, content delivery and application, and security services; outsourcing and consultancy services, including network management, or CGP; and desktop services and system integration and professional services.
- **Wholesale services for telecommunication operators:** the wholesale services for telecommunication operators principally include domestic interconnection services; international wholesale services; leased lines for other operators; and local loop leasing under the unbundled local loop regulation framework. It also includes bit stream services, wholesale line rental accesses and leased ducts for other operators' fiber deployment.

## Digital services

The main highlights in services developed by Telefónica Digital are:

- **Video/TV services:** IPTV services (Internet protocol), over-the-top network television services, and cable and satellite TV. In some markets, advanced pay TV services are also offered, such as high-definition TV (HDTV), Multiroom (allowing clients to watch different TV channels in different rooms), Digital Video Recording (DVR), Multiscreen (all contents in everywhere), CatchUp content, third party contents and Cloud Video Services (such as Last 7 days, Restart TV and Cloud DVR). In addition, Telefónica offers accessible content in Spain with subtitles, audio description and sign language functionalities through the Movistar+ 5s service, the aim of which is to contribute toward the inclusion of disabled people across the country.
- **IoT (Internet of Things):** Telefónica's Global IoT portfolio includes:
  - **Smart Connectivity:** connectivity services for machines, mainly handled through the Kite platform (formerly Smart M2M platform).
  - **Smart Services:** end-to-end solutions that include "device + connectivity + application". These business to business solutions are mainly aimed at (i) the mobility management of vehicles, assets and/or people, (ii) the support of the retail and industrial sectors and (iii) the efficient management of energy consumption.
  - **Consumer IoT:** products focused on the business to customer segment, including end-to-end services around the person (e.g. connected cars, trackers).
- **Financial services and other payment services:** These services allow customers to make money transfers, payments and mobile recharges, among other transactions, through prepay accounts or bank accounts.

- **Security services:** Telefónica Global Security portfolio includes:
  - **Electronic Security:** services designed to guard the security and integrity of a customer's physical assets, mostly corporate assets (such as nodes and communications networks in malls, corporate and representative buildings, etc.).
  - **Information Security:** tools protecting information in end-user devices and communications, fixed and mobile, networks, as well as protecting customers' digital identity. These services include the in-house services developed by 11Paths.
- **Cloud computing services:** Telefónica offers private, public and hybrid cloud services designed to allow any size of business to manage its IT infrastructure more effectively, supporting it at every stage of the IT life cycle. In particular, the Group has a complete value proposition which comprises its: (i) Virtual Data Center service, based on Vmware, which facilitates the migration to cloud of existing applications; (ii) Open Cloud service, based on Open Stack, which enables the development of cloud applications with low latency; and (iii) hyperscalers (AWS and Azure) which offer Public Cloud services in a reselling model.

With regards to cloud-based applications, the Group's solutions are designed to enable businesses to improve their digital presence, create marketing campaigns, enhance customer relationships and to boost the efficiency and productivity of their employees (in conjunction with products such as Office 365, Cloud Drive and Unified Comms).

The Group's cloud computing services are integrated with Telefónica's corporate secure communications services.

- **Advertising:** A portfolio of marketing channels that third party brands can use to acquire and engage with customers. Traditional channels such as SMS/MMS messaging may be used alongside with new channels like programmatic display and sponsored connectivity. All of which leverage on the Group's customer data in order to send messages to the correct target as well as to generate post-campaign brand analysis.
- **Big Data:** Includes products and services designed to enable companies and governments to make AI-powered data-driven decisions. The Group's Big Data offer comprises of three main categories: (i) "business insights", which provides information for decision-making based on analysis from advanced analytical products developed on top of data generated in the Group's network and systems; (ii) "consulting and analytics", which includes specialist professional services focused on data strategy, data science, data architecture and data engineering; and (iii) "tools and infrastructure", which provides advanced technology for data management, storage and exploitation.
- **Digital Telco Experience:** Includes "Novum", the global solution that aims to provide an E2E digital (end to end) experience to the Group's customers. Its main features include account Management, eCare, Cloudphone and Aura interaction.
- **Aura:** Aura is Telefónica's new cognitive intelligence-based customer relationship model designed to build trust and enable new forms of engagement and interactivity with the Group's customers in real time through a simple voice interface, the aim of which is to: (i) make the Group's customers' lives easier; (ii) enrich the Group's customers' experience with the use of personalisation, contextual information and cognitive intelligence for predictive use cases, (iii) empower the Group's customers through increasing transparency and control over their data; and (iv) to enable the Group's customers to discover relevant Group or third-party services.

Aura may be used to resolve billing queries, consult and manage balances, top ups, and data usage, provides information to the customer on "understanding my bundle" and "make the most of my TV", enables issue management, and facilitates other services in relation to communications, home connectivity and smart home.

Aura resolves queries from telco domains and is in the process of being expanded to non-telco domains.

Aura is currently available in Argentina, Brazil, Chile, Germany, Spain and in the United Kingdom.

- **Movistar Home:** Telefónica launched Movistar Home in Spain on 18 October 2018, a new device designed around the functionality of Aura and targeted at the Group's Movistar and Pay TV customers. Movistar Home is designed to strengthen Telefónica's position by enabling highly-converged services and experiences that differentiate us from the Group's competitors. Movistar Home aims to provide the Group's customers with an enhanced TV experience on IPTV, increased landline functionality (which enables videoconferencing), the Group's smart home package and games in addition to third-party services.

## **Sales and Marketing**

The Group's sales and marketing strategy is aimed toward reinforcing its market position, generating brand awareness, promoting customer growth and achieving customer satisfaction. The Group uses a variety of marketing initiatives and programmes, including those that focus on customer value, with in-depth market segmentation; programmes to promote customer loyalty; pricing initiatives aimed toward stimulating usage, including segmented packages and innovative tariff options; and initiatives that are responsive to the latest market trends, including those aimed toward boosting demand for the Group's mobile Internet and mobile broadband offerings. In connection with these and the Group's other sales and marketing initiatives, the Group markets its products through a broad range of channels, including television, radio, billboards, telemarketing, direct mail and Internet advertising. The Group also sponsors a variety of local cultural and sporting events in order to enhance its brand recognition.

## **Competition**

The telecommunications industry is competitive and consumers generally have a choice of mobile and fixed line operators from which to select services. The Group is a global telecommunications services provider and faces significant competition in most of the markets in which it operates. In Europe, the Group's largest competitor is Vodafone and in Latin America, the Group's largest competitor is América Móvil. Newer competitors, including handset manufacturers, MVNOs, internet companies and software providers, are also entering the market and offering integrated communications services.

The Group competes in its market on the basis of the price of its services; the quality and range of features; the added value the Group offers with its service; additional services associated with those main services; the reliability of its network infrastructure and its technological attributes; and the desirability of its offerings, including bundled offerings of one type of service with another and, in the case of the mobile industry, in most of the markets offerings that include subsidised handsets.

To compete effectively with its competitors, the Group needs to successfully market its products and services and to anticipate and respond to various competitive factors affecting the relevant markets, such as the introduction of new products and services, different pricing strategies and changes in consumer preferences. See "*Risk Factors – Risks Relating to the Issuer and the Guarantor – Telefónica's competitive position in some markets could be affected by the evolution of competition and market consolidation.*"

## **Strategic Partnerships**

### ***China Unicom (Hong Kong) Limited ("China Unicom")***

Since 2005 the Group has a stake in China Unicom and its predecessor company. On 6 September 2009, it entered into a strategic alliance agreement with China Unicom, which provided, among other things, for cooperation, joint procurement of infrastructure and client equipment, common development of mobile service platforms, joint provisions of service to multinational customers, roaming, research and development, sharing of best practices and technical, operational and management know-how, joint development of strategic initiatives in the area of network evolution, joint participation in international alliances and exchanges of senior management. In furtherance of this strategic alliance, the Group entered into a subscription agreement with China Unicom, pursuant to which it increased its voting interest in the share capital of China Unicom to 8.06 per cent. and China Unicom obtained a 0.87 per cent. voting interest in its share capital in October 2009.

On 23 January 2011, the Group entered into an agreement to enhance the strategic alliance with China Unicom, under which the Group agreed to strengthen and deepen its strategic alliance in certain business areas, and committed to investing the equivalent of U.S.\$500 million in ordinary shares of the other party.

Such investments took place along 2011. In recognition of China Unicom's stake in the Group's share capital, the Group committed to propose, in accordance with the prevailing legislation and its by-laws, the appointment of a member of its Board of Directors nominated by China Unicom.

China Unicom completed the acquisition of Telefónica shares on 28 January, 2011, giving it ownership of 1.37 per cent. of Telefónica's capital.

The Telefónica Group purchased China Unicom shares during 2011 for an amount of EUR 358 million. At 31 December 2011, the Telefónica Group held a 9.57 per cent. stake in China Unicom.

On 10 June 2012, Telefónica's wholly-owned subsidiary Telefónica Internacional, S.A.U. and a subsidiary of China United Network Communications Group Company Limited entered into an agreement for the acquisition by the latter of 1,073,777,121 shares of China Unicom owned by Telefónica, equivalent to 4.56 per cent. of its share capital.

On 21 July 2012, such agreement was complemented by a supplemental agreement for the acquisition of additional shares by China United Network Communications Group Company Limited. The transaction was completed on 30 July 2012.

In subsequent years, Telefónica has continued to sell down its stake in China Unicom.

As of 31 December 2017 the Group held a 0.59 per cent. stake in the share capital of China Unicom and China Unicom held a 1.24 per cent. stake in the Group share capital. Mr. César Alierta, former chairman of Telefónica, is a member of the Board of Directors of China Unicom while Mr. Wang Xiaochu, Chairman and Chief Executive Officer of China Unicom, continues to be a member of the Group's Board of Directors.

Telefónica maintains its commitment to the strategic partnership with China Unicom, strengthened through cooperation in digital areas such as the big data joint venture between both companies, which is now a market leader of telco location-based big data services in the urban planning sector in China.

### **Legal Proceedings**

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 they are present.

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

The following unresolved legal proceedings or those underway in 2018 are highlighted (see Note 22 to the 2018 Consolidated Financial Statements for details of tax-related cases).

#### ***Appeal against the decision by Agência Nacional de Telecomunicação ("ANATEL") regarding the inclusion of interconnection and network usage revenues in the Fundo de Universalização de Serviços de Telecomunicações ("FUST")***

Vivo Group operators (currently Telefônica de Brasil), together with other cellular operators, appealed ANATEL's decision of 16 December 2005, to include interconnection and network usage revenues and expenses in the calculation of the amounts payable into the FUST (*Fundo de Universalização de Serviços de Telecomunicações*) – a fund which pays for the obligations to provide Universal Service– with retroactive application from 2000. On 13 March 2006, Regional Federal Court no. 1 granted a precautionary measure which stopped the application of ANATEL's decision. On 6 March 2007, a ruling in favour of the wireless operators was issued, stating that it was not appropriate to include the revenues received by transfer from other operators in the taxable income for the FUST's calculation and rejecting the retroactive application of ANATEL's decision. On 26 January 2016, ANATEL filed an appeal to overturn this decision with Brasilia Regional Federal Court no. 1, which was also dismissed. On 10 May 2017 ANATEL appealed to the higher courts on the merits of the case.

At the same time, Telefônica Brasil and Telefónica Empresas, S.A., together with other wireline operators through ABRAFIX (Associação Brasileira de Concessionárias de Serviço Telefônico Fixo Comutado) appealed ANATEL's decision of 16 December 2005, also obtaining the precautionary measures requested. On 21 June 2007, Federal Regional Court no. 1 ruled that it was not appropriate to include the interconnection and network usage revenues in the FUST's taxable income and rejected the retroactive

application of ANATEL's decision. ANATEL filed an appeal to overturn this ruling on 29 April 2008, before Brasilia Regional Federal Court No. 1, which was dismissed on 10 May 2016. ANATEL filed an appeal against this dismissal.

The fixed operators filed an appeal to clarify that revenues obtained through interconnection and dedicated line operation should not be included in the calculation of the amounts payable to the FUST. In addition, the court was also requested to rule on two grounds which had not been analysed in the initial decision: (i) that the FUST has become obsolete, among other reasons, by the advance of mobile telephony; and (ii) that amounts collected are not applied to the purpose for which the FUST was created, since only a very low percentage of the revenues collected by the FUST is used to finance fixed telephony. Although the petition for clarification was dismissed on 23 August 2016, the court noted that the FUST should not be funded with revenues from interconnection and dedicated line operation. ABRAFIX appealed to the higher courts on these two elements that had not been analysed. ANATEL appealed all the holdings of the ruling to the higher courts.

The amount of the claim is quantified at 1 per cent. of the interconnection revenues.

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

On 19 January 2011, the European Commission 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 23 January 2013, the European Commission passed a ruling on the formal proceedings. The ruling imposed a fine on Telefónica of EUR 67 million, 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 9 April 2013, Telefónica filed an appeal for annulment of this ruling with the European Union General Court. On 6 August 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 30 September 2013, Telefónica filed its reply. On 18 December 2013, the European Commission filed its appeal.

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

On 28 June 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 neutralised 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 11 September 2016.

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

On 13 December 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.

***Claim of consumers association "FACUA" against Telefónica de España, S.A.U in connection with the increase of the price of Movistar Fusión***

On 5 September 2016, notification was given to Telefónica de España of a claim filed against it by the consumers association ("FACUA"). Through such claim, the association exercises an action to protect consumers' and users' collective interests stipulated in articles 11 of the Civil Procedure Act (Ley de Enjuiciamiento Civil) and 24.1 of the Consumer and Users Protection Act (Ley General de Defensa de los Consumidores y Usuarios) on the basis of alleged disloyalty towards the consumers, arising from the raising of the prices of the product "Movistar Fusión" from 5 May 2015, by an amount of EUR 5 per month. The claim contains a declaratory statement stating that disloyalty arises from misleading advertising regarding the price rise, and a prohibitory injunction requesting that Telefónica de España be ordered not to apply such price rise and to prohibit its future application to all customers who became customers of Movistar Fusión prior to 5 May 2015. It contains, besides, a third statement, requesting Telefónica de España to be condemned to repay the excess amounts collected as a result of the rise in prices to those customers who have chosen to maintain the service contracted, together with accrued interest on such amount.

The claim was filed for an undetermined amount, given the impossibility of determining a priori the total amount of the claim. On 28 October 2016, Telefónica de España filed its response.

On 5 April 2017, the Court ruled in favour of Telefónica de España, upholding the objection of unsuitable action and ordering the dismissal of the action. FACUA appealed that ruling.

On 21 September 2018, the Court of Appeals dismissed the appeal filed by FACUA, confirming the first instance resolution in favour of Telefónica.

***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 CESKY 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 5 August 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 EUR 23 million) to Venten and 227 million Czech koruna (approximately EUR 8 million) to Lexburg, in each case plus interest.

On 28 December 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 unfavourable 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 17 January 2018, Telefónica filed its response seeking dismissal of such motion for lack of legal basis.

On 14 February 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 5 August 2016 and remanded the case back to the High Court.

***Claim by Entel against Telefónica de Argentina, S.A.***

In 1999, Entel (the National Telecommunications Company of Argentina before its privatisation) sued Telefónica de Argentina, S.A. ("**TASA**"), who was the licensee of the telecom service after the privatisation process, seeking detailed and documented accounting and reimbursement of the amounts that it received from and on behalf of Entel after assuming the telecom service as a licensee, and of the amounts deducted as commissions.

In general terms, the items in dispute were the amounts that TASA charged on behalf of Entel soon after having taken possession as a licensee of the telecom service (i.e. the consumption charges for telecom services from prior customers of Entel, either billed or unbilled, but pending payment at the time of the privatisation). Entel also challenged the commissions that TASA discounted to Entel in exchange for the service of collection of fees on behalf of Entel. Additionally, Entel also claimed several credits received by TASA, which allegedly belonged to Entel and had not been transferred to TASA in the privatisation process.

TASA replied arguing the inadmissibility of the accountability request, since such liquidations had previously been submitted to the Entel Liquidating Commission without being timely challenged.

In 2010, the Court of First Instance ruled in favour of Entel and held TASA accountable to Entel.

After exhausting all legal appeals available, TASA submitted the requested accounting to Entel, which was challenged by the national government on behalf of the liquidated Entel.

Several accounting drafts and cross-claims between the parties followed, with the intervention of a court-appointed expert accountant. After several court decisions, the intervening judge rejected TASA's objections to the accounting presented by the national government and adopted the calculations made by Entel and the court-appointed expert.

Although this judicial decision was appealed, TASA's appeal was dismissed by the Court of Appeals in October 2017, confirming, to a large extent, the accounting of Entel and the court-appointed expert, but also ordering Entel to recalculate interests. Specifically, the resolution of the Court accepted certain concepts that TASA had questioned and the application of a "judicial" interest rate (average passive rate), which implies a daily capitalisation component, in detriment of the rate set forth in the privatisation specifications which set a simple annual interest of 8 per cent. (which had even been used by the court-appointed expert and Entel in their calculations).

On 22 February 2018, Entel submitted the new principal and interest calculations required by the judge, claiming an amount of 1,689 million Argentine pesos (approximately EUR 39 million).

The resolution of the Court of Appeals exhausted the ordinary remedies available. TASA filed an extraordinary appeal, which was rejected in November 2017. TASA has submitted an exceptional appeal before the Argentine Supreme Court, although this appeal does not suspend the potential execution by Entel of prior rulings against TASA.

#### ***Appeal against the resolution of ANATEL to sanction Telefônica Brazil for breaches of the Fixed Telephony Regulation***

In May 2018, Telefônica filed a judicial action for annulment against a resolution issued by ANATEL (National Telecommunications Agency of Brazil) in March 2018 concluding the administrative process for determination of non-compliance with obligations (*Processo Administrativo para Apuração de Descumprimento de Obrigações* or "**PADO**") investigating alleged infractions of the Fixed Telephony Regulation by Telefônica Brasil.

This PADO investigation had been suspended during the negotiations of the Conduct Adjustment Terms (*Termo de Ajustamento de Conduta*) between Telefônica and ANATEL relating to this and certain other PADO investigations. Since the negotiations concluded without agreement, the suspended PADO sanctioning procedures were reactivated and finalised.

In its resolution of March 2018, ANATEL considered that Telefônica Brasil committed several infractions, in particular those related to the inadequate notice of suspension of services to defaulting users, the terms of reactivation of services after payment of outstanding amounts by defaulting users and the disagreement with the terms of refunds claimed by users of the services.

The fine imposed by ANATEL and appealed by Telefônica Brasil is approximately 211 million reais (approximately EUR 48 million), which amounted to approximately 482 million reais after currency value updates and accrued interests as of 31 December 2018 (approximately EUR 109 million).



Telefônica Brasil has appealed the fine imposed by ANATEL based, fundamentally, on the following arguments: (i) ANATEL should have considered a smaller universe of users to determine the fine and (ii) the calculation of the fine is disproportionate and based on insufficient grounds.

Telefônica Brasil has not yet paid the fine, although Telefônica Brasil has guaranteed its payment through a guarantee insurance submitted to the court.

The procedure is in the first instance and a date has not yet been set for the conciliation hearing.

### **Other Proceedings**

As of the date of this Prospectus, 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.

### **Tax Proceedings**

#### ***Inspections in the tax group in Spain***

In 2012, tax inspections for all taxes for the years 2005 to 2007 were completed, with Telefónica signing off a corporate income tax assessment of EUR 135 million, 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 loss carryforwards, Telefónica filed an appeal with the Central Economic-Administrative Court against these adjustments in May 2015, regarding the tax treatment of the interest on own capital (*juros sobre el capital propio*) as dividends.

In July 2015 tax inspections for all taxes for the years 2008 to 2011 were completed, with Telefónica signing off certain corporate income tax assessments and disputing others. This resulted in 2015 in an expense amounting to EUR 206 million. However, this did not require any tax payment, as the adjustments arising from the inspection were offset by unused tax 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 Telefónica filed an appeal with the Central Economic-Administrative Court against the adjustments it disputes, regarding the tax treatment of the interest on own capital (*juros sobre el capital propio*) as dividends, and the criteria to use tax loss carryforwards in the years subject to settlement.

In June 2017 Telefónica received an order of the Audiencia Nacional extending the effects of its ruling from 27 February 2014 from another tax payer to the individual legal status of Telefónica, in connection with the interest on own capital (*juros sobre el capital propio*). As a consequence of the aforementioned, the Audiencia Nacional has voided the corporate income tax assessment 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 Telefónica 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 23 January 2019, Telefónica announced that it 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 for the years 2008 to 2011. Telefónica intends to appeal this resolution (which is pending execution) in respect of such matters that were not resolved in favour of Telefónica.

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

## **Telefónica Brazil**

### ***State taxes***

The Telefónica Group is involved in a range of tax litigation in Brazil over direct and indirect taxes (including those relating to GVT). This includes a number of appeals relating to ICMS tax (a tax similar to VAT, levied on telecommunications services). There is a dispute with the Brazilian tax authorities over which services should be subject to settlement of this tax.

To date the most significant issues have focused on the requirement to collect ICMS on penalties charged to customers for non-compliance, Internet advertising services, and complementary or additional services to the basic telecommunications services such as value-added services, modem rental, and the application of this tax on the basic fee (assinatura básica). In the case of the latter (assinatura básica), a case is still pending before the Supreme Court including Oi, which could affect other companies of the telecommunications sector.

All related procedures are being contested in all instances (administrative and court proceedings). The aggregate amount of the relevant proceedings, updated to take into account interest, fines and other items, is approximately 16,295 million Brazilian reais (approximately EUR 3,672 million, see Note 21 to the 2018 Consolidated Financial Statements). Telefónica Brazil has obtained independent expert reports supporting its position, i.e. that the aforesaid services are not subject to ICMS.

### ***Federal taxes***

Regarding the income tax (federal tax) the tax authorities proposed adjustments in relation to the tax amortisation in the period from 2011 to 2014 of the goodwill generated by Telefónica Brazil's acquisition and merger with Vivo. The tax inspections were conducted from 2016 to 2018 and the accumulated amount at 31 December 2018 was 8,654 million Brazilian reais (approximately EUR 1,950 million). These proceedings are at the administrative stage and no provisions have been made since the potential risk associated with them has been classified as "not probable" and Telefónica Brazil has received independent expert reports that support this view.

## **Telefónica del Perú**

With regard to tax matters in Peru, litigation continues over corporate income tax for 2000 and 2001, payments on account in respect of the year 2000, recoverable balances for 1998 and 1999, and the interest and penalties that should apply to these.

In August 2015, the court of second instance handed down a ruling partially upholding the position of Telefónica del Perú, ruling in its favour on three of the five objections filed by the tax authorities and appealed against to the courts, relating, inter alia, to corporate income tax for 2000 to 2001 (among others). This dispute accounts for more than 75 per cent. of the total amount under litigation, with the objections relating to insolvency provisions, interest on borrowing and leases of space for public telephones. Both the tax authorities and Telefónica del Perú have filed appeals against the decision in higher courts.

The settlements carried out by SUNAT for 2000 and 2001 are in the final stage of the legal process (under review by the Supreme Court) and a ruling has not yet been released as of the date of this Prospectus. In connection with these proceedings in Peru, the Group and its legal advisors consider that the Group's position continues to be based on robust legal arguments.

In January 2019, Telefónica was notified that the Supreme Court handed down a ruling partially upholding its position in relation to certain matters relating to 1998. In particular, on one hand, it has made a final ruling in favour of Telefónica in matters relating to the lease of space for public telephones, and on the other, it has resolved the matter relating to insolvency provisions by annulling the ruling of the court of second instance and returning the case to the court of first instance for it to pass judgment on the matter again.

In parallel to the aforementioned court proceedings, the tax authorities proceeded to collect corporate income tax due for the years 2000 to 2001 and payments on account of corporate income tax in respect of the year 2000. There were successive reductions to the sums claimed in the two cases following appeals filed by Telefónica del Perú against the settlements and due to the precautionary measures imposed.

Telefónica del Perú paid out 286 million Peruvian soles (approximately, EUR 80 million) in 2012 and 2013 pending the final rulings.

In the context of these execution processes, in June 2015 the tax authorities issued Compliance Resolutions demanding payment of 1,521 million Peruvian soles (approximately EUR 431 million). An appeal was filed against this with the Tax Court, and the adoption of precautionary suspension measures duly requested from the legal authorities (as a definitive court ruling on these cases is currently pending). No ruling was made in relation to these appeals in 2018, whilst in January 2018 the Tax Court suspended payment until the final ruling of the Supreme Court.

Given the sentences and rulings handed down in June and August 2015, the Group recognised a provision in its consolidated financial statements, that at 31 December 2018 amounted to 1,697 million Peruvian soles (approximately EUR 439 million). See Note 21 to the 2018 Consolidated Financial Statements.

### **Tax deductibility of financial goodwill in Spain**

The tax regulations added article 12.5 to the Spanish Corporate Income Tax Law (*ley del impuesto sobre sociedades*), which came into force on 1 January 2002. This article regulated the deductibility of tax amortisation of financial goodwill arising from the acquisition of non-Spanish companies, which could be amortised over 20 years at 5 per cent. per annum. Following the entry into force of the Laws 9/2011 of 19 August 2011 and 16/2013 of 29 October 2013, the amount of goodwill amortisation deductible for tax purposes under article 12.5 for the years 2011 to 2015 was reduced from 5 per cent. to 1 per cent. The effect is temporary because the 4 per cent. not amortised during five years (20 per cent. 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 amortising for tax purposes the financial goodwill from its investments, both direct and indirect, in O2, BellSouth and Colt (prior to 21 December 2007) and Vivo (acquired in 2010). The positive accumulated effect in the corresponding settlements of corporate income tax from 2004 to the closing of 31 December 2018, was EUR 1,389 million.

In relation to this tax incentive, the 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 Union companies (for operations carried out before 21 December 2007 in the first decision, and before 21 May 2011 for investments in other countries in the second decision), in its third decision from 15 October 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 this Prospectus, the three decisions continue to be 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 21 December 2016, to reassess the tax incentive. In its ruling of 15 November 2018, the General Court confirmed the applicability of the legitimate expectations principle, but considered the "goodwill amortisation" as state aid not compatible with the common market. This ruling has been appealed before the Court of Justice of the European Union.

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 provisioning the amount of the goodwill amortised for tax purposes, corresponding mainly to the purchase of Vivo, for a total amount of EUR 283 million at 31 December 2018 (EUR 215 million at 31 December 2017).

### **Years open for inspection**

#### ***Years open for inspection in the Group companies***

The years open for review by the tax inspection authorities for the main applicable taxes vary from one consolidated company to another, based on each country's tax legislation, taking into account their respective statute-of-limitations periods. In Spain the taxes from 2013 onwards are open to inspection.

In the other countries in which the Telefónica Group has a significant presence, the years open for inspection by the relevant authorities are generally as follows:

- The last fourteen years in Germany.
- The last nine years in United Kingdom.
- The last seven years in Argentina.
- The last five years in Brazil, Mexico, Uruguay and the Netherlands.
- The last six years in Colombia (except in respect of years in which there were tax losses that are then used to offset tax charges, in which case the period is extended to 12 years).
- The last four years in Peru, Guatemala, Nicaragua and Costa Rica.
- From 2015 onwards. Since 2016, the statute of limitation is six years in Venezuela.
- The last three years in Chile, Ecuador, El Salvador, the United States and Panama.

The tax inspection of the open years is not expected to give rise to additional material liabilities for the Group.

### Major Shareholders

As at the date of this Prospectus, Telefónica had 5,192,131,686 shares outstanding, each having a nominal value of EUR 1.00 per share. All outstanding shares have the same rights.

As at the date of this Prospectus, according to information provided to Telefónica or to the Spanish National Securities Commission (*Comisión Nacional de Mercado de Valores* or the "CNMV"), beneficial owners of 3 per cent. or more of Telefónica's voting stock were as follows:

Name of Beneficial Owner	Percentage of shares carrying voting rights		Percentage of voting rights through financial instruments		Percentage of voting rights
	Direct	Indirect	Direct	Indirect	
	<i>(per cent.)</i>		<i>(per cent.)</i>		<i>(per cent.)</i>
Banco Bilbao Vizcaya Argentaria, S.A. <sup>(1)</sup>	5.26	0.01	0.00	0.00	5.28
CaixaBank, S.A. <sup>(2)</sup>	5.00	0.01	0.00	0.00	5.01
BlackRock, Inc. <sup>(3)</sup>	0.00	4.85	0.00	0.22	5.08

<sup>(1)</sup> Based on the information provided by Banco Bilbao Vizcaya Argentaria, S.A. as at 31 December 2018 for the Group's 2018 Annual Report on Corporate Governance.

<sup>(2)</sup> Based on information provided by CaixaBank, S.A. as at 31 December 2018 for the Group's 2018 Annual Report on Corporate Governance. The indirect shareholding is held by Vidacaixa, S.A. de Seguros y Reaseguros which owns 342,072 shares.

<sup>(3)</sup> On 1 February 2019, BlackRock, Inc. notified the CNMV that its shareholding in Telefónica's share capital was 5.077 per cent. On 6 February 2019 BlackRock, Inc. filed a 13G/A form in the SEC notifying that its shareholding in Telefónica's share capital was 5.4 per cent.

To the extent that Telefónica shares are represented by account in the book-entry form, it does not keep a shareholder registry and its ownership structure cannot be known precisely. Based on the information available to Telefónica there is no individual or corporation that directly or indirectly through one or more intermediaries may exercise any type of control over Telefónica. Nevertheless, Telefónica has certain shareholders whose holdings are considered material.

### Directors and Senior Management of Telefónica

During 2018, Telefónica's Board of Directors met 12 times. As at the date of this Prospectus, Telefónica's Board of Directors had met two times during 2019. As at the date of this Prospectus, Telefónica's directors, their respective positions on its Board and the year they were first appointed were as follows:

Name	Date of Birth	Age	First Appointed	Current Term Ends
<b>Chairman</b>				
Mr. José María Álvarez - Palleto López <sup>(1)</sup>	12/12/1963	55	2006	2021
<b>Vice-Chairmen</b>				

<b>Name</b>	<b>Date of Birth</b>	<b>Age</b>	<b>First Appointed</b>	<b>Current Term Ends</b>
Mr. Isidro Fainé Casas <sup>(1)(2)</sup> .....	10/07/1942	76	1994	2020
Mr. José María Abril Pérez <sup>(1)(3)(6)</sup> .....	19/03/1952	66	2007	2022
<b>Members</b>				
Mr. Ángel Vilá Boix <sup>(1)</sup> .....	29/07/1964	54	2017	2022
Mr. Juan Ignacio Cirac Sasturain <sup>(6)</sup> .....	11/10/1965	53	2016	2020
Mr. José Javier Echenique Landiribar <sup>(1)(4)(7)</sup> .....	20/11/1951	67	2016	2020
Mr. Peter Erskine <sup>(1)(6)(7)</sup> .....	10/11/1951	67	2006	2020
Ms. Sabina Fluxà Thienemann <sup>(7)</sup> .....	26/04/1980	38	2016	2020
Mr. Luiz Fernando Furlán <sup>(7)</sup> .....	29/07/1946	72	2008	2022
Ms. Carmen García de Andrés <sup>(4)(8)</sup> .....	15/12/1962	56	2017	2021
Ms. María Luisa García Blanco <sup>(5)(8)</sup> .....	25/10/1965	53	2018	2022
Mr. Jordi Gual Solé <sup>(2)(5)(6)</sup> .....	12/06/1957	61	2018	2022
Mr. Peter Löscher <sup>(6)(8)</sup> .....	17/09/1957	61	2016	2020
Mr. Ignacio Moreno Martínez <sup>(3)(4)(5)(8)</sup> .....	30/07/1957	61	2011	2021
Mr. Francisco Javier de Paz Mancho <sup>(1)(4)(5)(7)</sup> .....	24/07/1958	60	2007	2022
Mr. Francisco José Riberas Mera.....	01/06/1964	54	2017	2021
Mr. Wang Xiaochu <sup>(9)</sup> .....	24/08/1958	60	2015	2020

- (1) Member of the Executive Commission of the Board of Directors.  
(2) Nominated by CaixaBank, S.A.  
(3) Nominated by Banco Bilbao Vizcaya Argentaria, S.A. (BBVA).  
(4) Member of the Audit and Control Committee.  
(5) Member of the Regulation and Institutional Affairs Committee.  
(6) Member of the Strategy and Innovation Committee.  
(7) Member of the Nominating, Compensation and Corporate Governance Committee.  
(8) Member of the Service Quality and Customer Service Committee.  
(9) Nominated by China Unicom (Hong Kong) Limited.

The principal activities inside and outside the Group of each of the directors of Telefónica are as follows:

<b>Name</b>	<b>Principal activities inside the Group</b>	<b>Principal Activities outside the Group</b>
<b>José María Álvarez- Pallete López</b> .....	Executive Chairman of Telefónica, S.A.	
<b>Isidro Fainé Casas</b> .....	Vice Chairman of Telefónica, S.A.	Chairman of Fundación Bancaria Caixa d' Estalvis i Pensions de Barcelona (la "Caixa")  Chairman of Criteria Caixa, S.A.U.  Honorary Chairman of Naturgy Energy Group, S.A.  Chairman of the Spanish Confederation of Savings Banks ( <i>Confederación Española de Cajas de Ahorros, CECA</i> )  Chairman of European Savings Bank Group (ESGB)  Deputy Chairman of the World Savings Banks Institute (WSBI)  Director of the Bank of East Asia (BEA)  Director of Suez Environnement Company  Chairman of the Spanish Confederation of Directors and Executives ( <i>Confederación Española de Directivos y Ejecutivos, CEDE</i> )  Chairman of the Spanish Chapter of the Club of Rome Chairman of the Circulo Financiero
<b>José María Abril Pérez</b> .....	Vice Chairman of Telefónica, S.A.	

<u>Name</u>	<u>Principal activities inside the Group</u>	<u>Principal Activities outside the Group</u>
<b>Ángel Vilá Boix</b> .....	Chief Operating Officer and Executive Director of Telefónica, S.A.	
<b>Juan Ignacio Cirac Sasurain</b> .....	Director of Telefónica, S.A.	Member of the Advisory Board of the Institute for the Interdisciplinary Information Sciences, Tsinghua University  Director of the Theory Division of Max-Planck Institut for Quantenoptik and member of the Max-Plank Society.  Member of the Advisory Board of the Russian Quantum Center.  Member of the Advisory Board of Annalen der Physik  Member of the Review Panel, QSIT, of the Swiss National Science Foundation.
<b>José Javier Echenique Landiribar</b> .....	Director of Telefónica, S.A.  Director of Telefónica Móviles México, S.A. de C.V.  Director of Telefónica Audiovisual Digital, S.L.U.	Vice Chairman of Banco Sabadell, S.A.  Director of ACS Actividades de Construcción y Servicios, S.A  Director of ACS Servicios, Comunicaciones y Energía S.L.  Director of Grupo Empresarial Ence , S.A.  Trustee of Novia Salcedo Foundation  Member of the Board of Deusto Business School  Member of the Basque Businessmen Circle
<b>Peter Erskine</b> .....	Director of Telefónica, S.A.  Member of the Supervisory Board of Telefónica Deutschland Holding AG	Chairman of the Henley Business School Strategy Board  Member of the Council of the University of Reading  Member of the Reading University's Strategy and Finance Committee
<b>Sabina Fluxà Thienemann</b> .....	Director of Telefónica, S.A.	Vice President and CEO of Iberostar Group  Member of the Regional Advisory Board of BBVA  Member of the Board of Directors of APD Illes Balears  Sponsor of Iberostar Foundation
<b>Luiz Fernando Furlán</b> .....	Director of Telefónica, S.A.  Director of Telefônica Brasil, S.A	Member of the Board of Directors of Brasil Food, S.A. (BRF)
<b>Carmen García de Andrés</b> .....	Director of Telefónica, S.A	Chairwoman of Tomillo Foundation  Member of the Trust of the Young Business Spain Foundation

<u>Name</u>	<u>Principal activities inside the Group</u>	<u>Principal Activities outside the Group</u>
		Treasurer of the Asociación Española de Fundaciones (AEF)
		Member of the Trust of Rais and Xavier de Salas Foundations
		Member of the Board of Directors of the collective initiative <i>Juntos por el Empleo de los más desfavorecidos</i>
<b>María Luisa García Blanco</b> .....	Director of Telefónica, S.A	Partner at the law firm Salama García Blanco
		Member of the Royal Academy of Jurisprudence and Legislation.
<b>Jordi Gual Solé</b> .....	Director of Telefónica, S.A.	Chairman of CaixaBank, S.A.
		Member of the Supervisory Board of ERSTE Group Bank
		Member of the Market Monitoring Group of the Institute of International Finance (IIF)
		Chairman of FEDEA
		Vice President of the Círculo de Economía
		Vice President of the Cotect Foundation
		Trustee of the CEDE Foundation
		Trustee of the Institución Cultural del CIC
		Trustee of the Real Instituto Elcano
		Member of the Board of Trustees of COTEC Foundation
<b>Peter Löscher</b> .....	Director of Telefónica, S.A.	Chairman of the Supervisory Board of Sulzer AG
		Chairman of the Supervisory Board of OMV Aktiengesellschaft
		Member of the Board of Directors of TBG AG, Switzerland
<b>Ignacio Moreno Martínez</b> .....	Director of Telefónica, S.A.	Chairman of Metrovacesa, S.A.
		Member of the Board of Roadis Transportation Holding, S.L.U.
		Senior Advisor of BC Partners for Spain
<b>Francisco Javier de Paz Mancho</b> .....	Director of Telefónica, S.A.	
	Director of Telefónica Móviles de Argentina, S.A.	
	Director of Telefônica Brasil, S.A.	
	Chairman of Telefónica Ingeniería de Seguridad, S.A.	

<u>Name</u>	<u>Principal activities inside the Group</u>	<u>Principal Activities outside the Group</u>
	Director of Telefónica Móviles México, S.A. de C.V.	
<b>Francisco José Riberas Mera</b> .....	Director of Telefónica, S.A.	Chairman and CEO of Gestamp Automoción, S.A.  Member of the Board of Directors of CIE Automotive  Member of the Board of Directors of Global Dominion Access, S.A.  Member of the Board of Directors of Sideacero Group  Chairman of the of the Family Business Institute
<b>Wang Xiaochu</b> .....	Director of Telefónica, S.A.	Chairman of China United Network Communications Group Company Limited  Chairman, Executive Director and CEO of China Unicom (Hong Kong) Limited

The business address of each of the directors of the Guarantor is Distrito Telefónica Ed. Central, Ronda de la Comunicación s/n, 28050 Madrid, España.

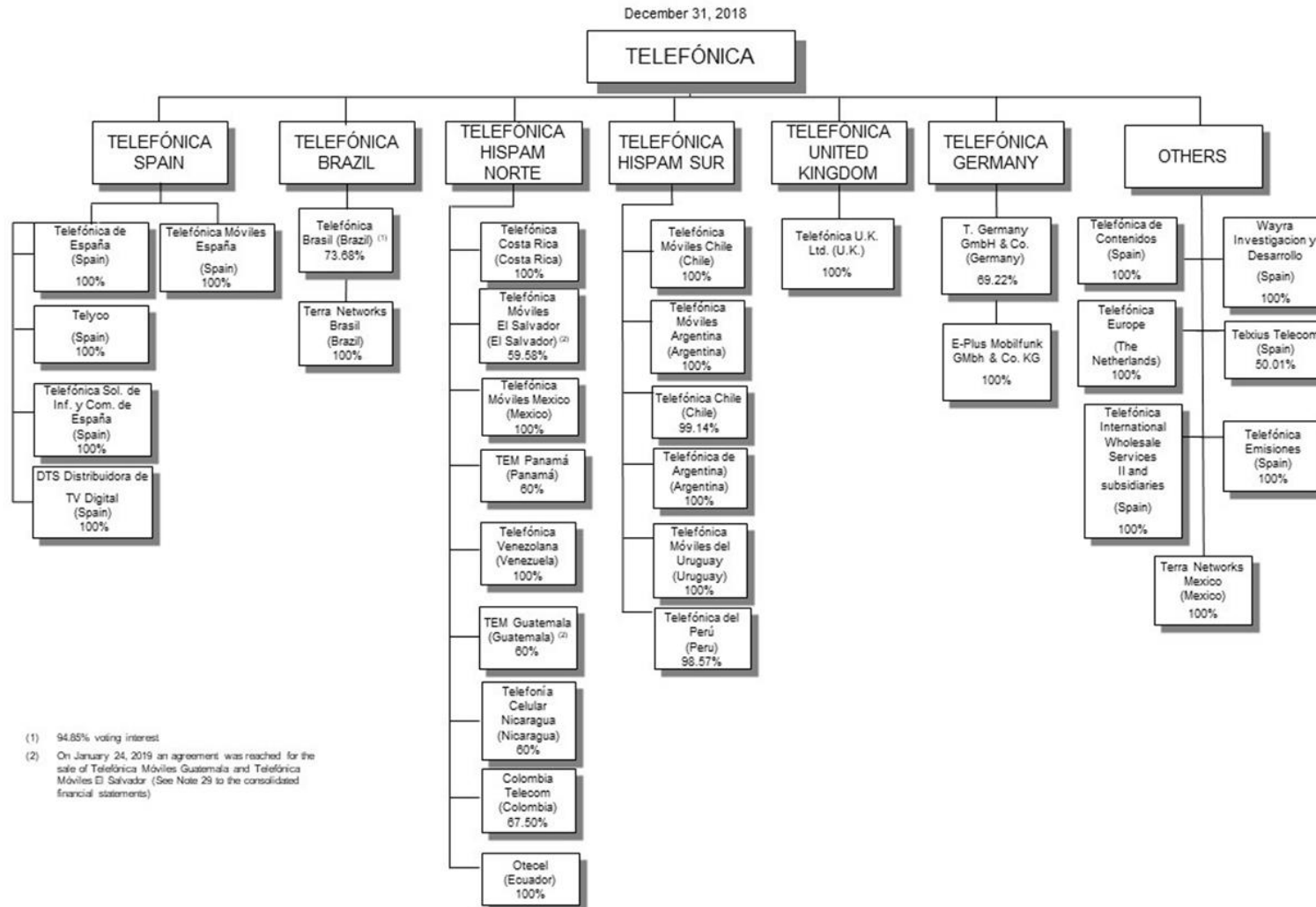
#### **Conflicts of Interest**

As at the date of this Prospectus, there are no current or potential conflicts of interest in relation to members of the Board of Directors between any duties owed to Telefónica and their private interests and other duties.



## Organisational Structure

The following chart shows the organisational structure of the principal subsidiaries of the Telefónica Group at 31 December 2018, including their jurisdictions of incorporation and Telefónica's ownership interest.



## TAXATION

*The following is a general description of certain tax considerations relating to the Securities. It does not purport to be a complete analysis of all tax considerations relating to the Securities whether in those countries or elsewhere. Prospective purchasers of Securities should consult their own tax advisers as to the consequences under the tax laws of the country of which they are resident for tax purposes and the tax laws of the Netherlands and the Kingdom of Spain of acquiring, holding and disposing of Securities and receiving payments of interest, principal and/or other amounts under the Securities. This summary is based upon the law as in effect on the date of this Prospectus and is subject to any change in law that may take effect after such date.*

*Also investors should note that the appointment by an investor in Securities, or any person through which an investor holds Securities, of a custodian, collection agent or similar person in relation to such Securities in any jurisdiction may have tax implications. Investors should consult their own tax advisers in relation to the tax consequences for them of any such appointment.*

### **Dutch Tax**

For the purpose of the paragraph "Taxes on Income and Capital Gains" below it is assumed that, a holder of Securities, being an individual or a non-resident entity, does not have nor will have a substantial interest (*aanmerkelijk belang*), or - in the case of such holder being an entity - a deemed substantial interest, in the Issuer and that no connected person (*verbonden persoon*) to the holder has or will have a substantial interest in the Issuer.

Generally speaking, an individual has a substantial interest in a company if (a) such individual, either alone or together with his partner, directly or indirectly has or is deemed to have or (b) certain relatives of such individual or his partner directly or indirectly have or are deemed to have (i) the ownership of, a right to acquire the ownership of, or certain rights over, shares representing 5 per cent. or more of either the total issued and outstanding capital of such company or the issued and outstanding capital of any class of shares of such company, or (ii) the ownership of, or certain rights over, profit participating certificates (*winstbewijzen*) that relate to 5 per cent. or more of either the annual profit or the liquidation proceeds of such company

Generally speaking, a non-resident entity has a substantial interest in a company if such entity directly or indirectly has (i) the ownership of, a right to acquire the ownership of, or certain rights over, shares representing 5 per cent. or more of either the total issued and outstanding capital of such company or the issued and outstanding capital of any class of shares of such company, or (ii) the ownership of, or certain rights over, profit participating certificates (*winstbewijzen*) that relate to 5 per cent. or more of either the annual profit or the liquidation proceeds of such company. An entity has a deemed substantial interest in a company if such entity has disposed of or is deemed to have disposed of all or part of a substantial interest on a non-recognition basis.

For the purpose of this summary, the term "entity" means a corporation as well as any other person that is taxable as a corporation for Dutch corporate tax purposes.

Where this summary refers to a holder of Securities, an individual holding Securities or an entity holding Securities, such reference is restricted to an individual or entity holding legal title to as well as an economic interest in the Securities or otherwise being regarded as owning Securities for Dutch tax purposes. It is noted that for purposes of Dutch income, corporate, gift and inheritance tax, assets legally owned by a third party such as a trustee, foundation or similar entity, may be treated as assets owned by the (deemed) settlor, grantor or similar originator or the beneficiaries in proportion to their interest in such arrangement.

Where the summary refers to "the Netherlands" or "Dutch" it refers only to the European part of the Kingdom of the Netherlands.

***Investors should consult their professional advisers on the tax consequences of their acquiring, holding and disposing of Securities.***

1. **WITHHOLDING TAX**

All payments of principal and interest by the Issuer under the Securities can be made without withholding or deduction of any taxes of whatever nature imposed, levied, withheld or assessed by the Netherlands or any political subdivision or taxing authority thereof or therein.

2. **TAXES ON INCOME AND CAPITAL GAINS**

**Residents**

***Resident entities***

An entity holding Securities which is or is deemed to be resident in the Netherlands for Dutch corporate tax purposes and which is not tax exempt, will generally be subject to Dutch corporate tax in respect of income or a capital gain derived from the Securities at the prevailing statutory rates (up to 25 per cent. in 2019).

***Resident individuals***

An individual holding Securities who is or is deemed to be resident in the Netherlands for Dutch income tax purposes will be subject to Dutch income tax in respect of income or a capital gain derived from the Securities at the prevailing statutory rates (up to 51.75 per cent. in 2019) if:

- (i) the income or capital gain is attributable to an enterprise from which the holder derives profits (other than as a shareholder); or
- (ii) the income or capital gain qualifies as income from miscellaneous activities (*belastbaar resultaat uit overige werkzaamheden*) as defined in the Income Tax Act (*Wet inkomstenbelasting 2001*), including, without limitation, activities that exceed normal, active asset management (*normaal, actief vermogensbeheer*).

If neither condition (i) nor (ii) applies, such individual will be subject to Dutch income tax on the basis of a deemed return, regardless of any actual income or capital gain derived from the Securities. For 2019, the deemed return ranges from 1.94 per cent. to 5.60 per cent. of the value of the individual's net assets as at the beginning of the relevant fiscal year (including the Securities). The applicable rates will be updated annually on the basis of historic market yields. Subject to application of certain allowances, the deemed return will be taxed at a rate of 30 per cent.

**Non-residents**

A holder of Securities which is not and is not deemed to be resident in the Netherlands for the relevant tax purposes will not be subject to Dutch taxation on income or a capital gain derived from the Securities unless:

- (i) the income or capital gain is attributable to an enterprise or part thereof which is either effectively managed in the Netherlands or carried on through a permanent establishment (*vaste inrichting*) or a permanent representative (*vaste vertegenwoordiger*) taxable in the Netherlands and the holder derives profits from such enterprise (other than by way of the holding of securities); or
- (ii) the holder is an individual and the income or capital gain qualifies as income from miscellaneous activities (*belastbaar resultaat uit overige werkzaamheden*) in the Netherlands as defined in the Income Tax Act (*Wet inkomstenbelasting 2001*), including, without limitation, activities that exceed normal, active asset management (*normaal, actief vermogensbeheer*).

3. **GIFT AND INHERITANCE TAXES**

Dutch gift or inheritance taxes will not be levied on the occasion of the transfer of Securities by way of gift by, or on the death of, a holder of Securities, unless:

- (i) the holder is or is deemed to be resident in the Netherlands for the purpose of the relevant provisions; or
- (ii) the transfer is construed as an inheritance or gift made by, or on behalf of, a person who, at the time of the gift or death, is or is deemed to be resident in the Netherlands for the purpose of the relevant provisions.

4. **VALUE ADDED TAX**

There is no Dutch value added tax payable by a holder of Securities in respect of payments in consideration for the issue or acquisition of the Securities, payments of principal or interest under the Securities or payments in consideration for the disposal of Securities.

5. **OTHER TAXES AND DUTIES**

There is no Dutch registration tax, stamp duty or any other similar tax or duty payable in the Netherlands by a holder of Securities in respect of or in connection with the execution, delivery and/or enforcement by legal proceedings (including any foreign judgement in the courts of the Netherlands) of the Securities or the performance of the Issuer's obligations under the Securities.

6. **RESIDENCE**

A holder of Securities will not be and will not be deemed to be resident in the Netherlands for Dutch tax purposes and, subject to the exceptions set out above, will not otherwise become subject to Dutch taxation, by reason only of acquiring, holding or disposing of Securities or the execution, performance, delivery and/or enforcement of Securities.

**Spanish Tax**

*Applicable law for Spanish tax purposes*

The Guarantor believes that the First Additional Provision of Law 10/2014 (as defined in the Conditions) shall apply to the Securities according to its Section 8, provided that the Securities are issued by a company which is (i) tax resident in the European Union and (ii) whose voting rights are completely held directly by an entity which is resident in Spain for tax purposes.

The Guarantor will comply with the reporting obligations set out in Section 4 of the First Additional Provision of Law 10/2014 in respect of Holders who are taxpayers of the Spanish Individual Income Tax or taxpayers of the Spanish Corporation Tax, as well as taxpayers of the Spanish Non-resident Income Tax ("**NRIT**") who hold the Securities through a permanent establishment located in the Spanish territory.

*Payments made by the Guarantor*

In the opinion of the Guarantor, any payments of principal and interest that do not remunerate the use of funds in Spain made by the Guarantor under the Guarantee should not be subject to taxation in Spain.

However, payments of interest made under the Guarantee to the beneficial owners of the income arising from the Securities (each of them, a "**Holder**", and collectively the "**Holders**") may be subject to Spanish taxation and, hence, to Spanish withholding tax at the then applicable rate (as at the date of this Prospectus, 19 per cent.) to the extent it remunerates the use of funds in Spain. According to Spanish tax legislation, "interest" includes payment of coupons and income deriving from the transfer, redemption or reimbursement of the Securities, on the basis of the positive difference between the amounts obtained in the transfer, redemption or reimbursement of the Securities and their tax basis.

For Non-Spanish tax resident Holders not acting with respect to the Securities through a permanent establishment in Spain, such income should be exempt from Spanish tax in accordance with the First Additional Provision of Law 10/2014 and, therefore, no Spanish withholding may be due.

The application of the above mentioned exemption from Spanish withholding tax is conditional:

- (i) while the Securities are represented by Global Securities and the Global Securities are deposited with a common depositary for Euroclear and/or Clearstream, Luxembourg, upon the submission by the Fiscal Agent, in a timely manner, to the issuer (that is, the Guarantor with respect to any payments of interest under the Guarantee) with a certificate containing certain information relating to the Securities in accordance with section 44 of the Royal Decree 1065/2007, as detailed under the Fiscal Agency Agreement, or
- (ii) while the Securities are represented by Definitive Securities, upon the submission by the Holder to the issuer (that is, the Guarantor with respect to any payments of interest under the Guarantee) prior to the corresponding payment of interest under the Guarantee of a valid certificate of tax residence, duly issued by the tax authorities of the country of tax residence of the Holder, each certificate generally being valid for a period of one year beginning on the date of the issuance.

The Issuer, the Guarantor and the Fiscal Agent have arranged certain procedures to facilitate the collection of information concerning the Securities so that before the close of business on the Business Day (as defined in the Conditions) immediately preceding the date on which any payment of interest, principal or of any amounts in respect of the early redemption of the Securities (each, a "**Payment Date**") is due, the Guarantor must receive from the Fiscal Agent a certificate containing certain information relating to the Securities as prescribed under section 44 paragraph 5 of the Royal Decree 1065/2007. If, despite these procedures, the relevant information is not received by the Guarantor on each Payment Date, the Guarantor will withhold tax at the then-applicable rate (as at the date of this Prospectus, 19 per cent.) from any payment of interest in respect of the relevant Security. Neither the Issuer nor the Guarantor will pay any additional amounts with respect to any such withholding.

Notwithstanding the above, if, before the tenth calendar day of the month following the month in which the relevant income is paid, the Fiscal Agent provides the required information, the Guarantor will reimburse the amounts withheld.

If the First Additional Provision of Law 10/2014 was not deemed applicable to the Securities, the relevant Additional Amounts will be payable according to Condition 8(a) (*Taxation – Additional Amounts*) of the Securities.

Holders not acting with respect to the Securities through a permanent establishment in Spain and entitled to exemption from NRIT, but the payment to whom was not exempt from Spanish withholding tax due to the failure to deliver by the Holder or the Fiscal Agent (as the case may be) of a valid certificate of tax residence of the Holder or certain information relating to the Securities (as the case may be) in a timely manner may apply directly to the Spanish tax authorities for any refund to which they may be entitled. Holders are advised to consult their own tax advisers regarding their eligibility to claim a refund from the Spanish tax authorities and the procedures to be followed in such circumstances.

Furthermore, Non-Spanish tax resident Holders not acting with respect to the Securities through a permanent establishment in Spain may take the position that payments of interest received from the Guarantor under the Guarantee should be characterised as an indemnity under Spanish law and, hence, should have been made free of withholding or deduction on account of any Spanish tax. In such a case, these Holders should apply directly to the Spanish tax authorities for any refund to which they may be entitled.

In connection with Spanish tax resident Holders and Non-Spanish tax resident Holders acting with respect to the Securities through a permanent establishment in Spain, income deriving from the Securities and the Guarantee is subject to tax in Spain. Payments made under the Guarantee which correspond to payments of interest under the Securities may be subject to withholding on account of Spanish taxes.

#### **The proposed financial transactions tax ("FTT")**

On 14 February 2013, the EC published a proposal (the "**Commission's Proposal**") for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**participating Member States**"). However, Estonia has since stated that it will not participate.

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in Securities (including secondary market transactions) in certain circumstances.

Under the Commission's Proposal the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in Securities where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

The FTT proposal remains subject to negotiation between participating Member States and it may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of Securities are strongly advised to seek their own professional advice in relation to the FTT.

### **US Foreign Account Tax Compliance Withholding.**

Under certain provisions of the U.S. Internal Revenue Code of 1986, as amended, and U.S. Treasury regulations promulgated thereunder (commonly referred to as "**FATCA**"), a 30 per cent. withholding tax may apply to certain "foreign passthru payments" made by a foreign financial institution (an "**FFI**"), including an FFI in the chain of ownership between an ultimate beneficial owner and the issuer of an obligation that has entered into an agreement with the U.S. Internal Revenue Service pursuant to which it agrees to certain due diligence, reporting and withholding functions (such an FFI referred to as a "**PFFI**"). FATCA withholding may apply to payments made by a PFFI to (a) an FFI that is not a PFFI and is not otherwise exempt from FATCA and to (b) certain other payees who fail to provide sufficient identifying information (including, in certain cases, regarding their U.S. owners). Certain aspects of the application of these rules are modified by intergovernmental agreements between the United States and certain other countries ("**Intergovernmental Agreements**"), including Spain. The term "foreign passthru payment" is not defined currently and withholding on foreign passthru payments will not apply prior to the date that is two years after the publication of the final regulations defining "foreign passthru payment". It is uncertain how foreign passthru payment withholding will apply under Intergovernmental Agreements, if at all. Given the uncertainty of the FATCA provisions, although the Issuer does not expect FATCA withholding to apply to payments it makes on the Securities, FATCA may impact payments by custodians or intermediaries in the payment chain between the Issuer and the ultimate beneficial owner of the Securities. The Issuer and the Guarantor have no responsibility for any FATCA withholding applied by any such custodians or intermediaries in the ownership chain and would not be required to pay any additional amounts were any amount deducted or withheld from any payment pursuant to FATCA. Investors should consult their own tax advisers with respect to FATCA and its application to the Instruments and should consider carefully the FATCA compliance status of any financial intermediaries in the chain of ownership through which they hold Securities.

## SUBSCRIPTION AND SALE

Banca IMI S.p.A., BNP Paribas, CaixaBank, S.A., Citigroup Global Markets Limited, MUFG Securities EMEA plc, NatWest Markets Plc, Société Générale and UniCredit Bank AG (the "**Joint Bookrunners**") have, in a subscription agreement dated 6 March 2019 (the "**Subscription Agreement**") and made between the Issuer, the Guarantor and the Joint Bookrunners upon the terms and subject to the conditions contained therein, jointly and severally agreed to subscribe for the Securities. The Joint Bookrunners are entitled in certain circumstances to be released and discharged from their obligations under the Subscription Agreement prior to the closing of the issue of the Securities.

### **United Kingdom**

Each Joint Bookrunner has represented, warranted and undertaken that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Securities in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or the Guarantor; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Securities in, from or otherwise involving the United Kingdom.

### **Prohibition of Sales to EEA Retail Investors**

Each Joint Bookrunner has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Securities to any retail investor in the European Economic Area. For the purposes of this provision, the expression "retail investor" means a person who is one (or more) of the following:

- (a) a retail client as defined in point (11) of Article 4(1) of MiFID II; or
- (b) a customer within the meaning of Directive 2002/92/EC (as amended or superseded), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

### **United States of America**

The Securities have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, US persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

The Securities are subject to US tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by US tax regulations. Terms used in this paragraph have the meanings given to them by the United States Internal Revenue Code and regulations thereunder.

Each Joint Bookrunner has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Securities, (a) as part of their distribution at any time or (b) otherwise, until 40 days after the later of the commencement of the offering and the issue date of the Securities, within the United States or to, or for the account or benefit of, US persons, and that it will have sent to each dealer to which it sells Securities during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Securities within the United States or to, or for the account or benefit of, US persons.

In addition, until 40 days after commencement of the offering, an offer or sale of Securities within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

## The Netherlands

Each Joint Bookrunner has represented and agreed that the Securities are not, and may not be, offered to the public in the Netherlands other than to persons or entities which are qualified investors as defined in the Dutch Financial Supervision Act (*Wet op het financieel toezicht*).

## The Kingdom of Spain

Neither the Securities nor this Prospectus have been approved or registered in the administrative registries of the Spanish Securities Markets Commission (*Comisión Nacional del Mercado de Valores*). Accordingly, the Securities may not be offered, sold or distributed, nor may any subsequent resale of the Securities be carried out in Spain, except in circumstances which do not constitute a public offer of securities in Spain within the meaning of Article 35 of the Spanish Securities Market Law approved by legislative Royal Decree 4/2015, of 23 October (*Real Decreto Legislativo 4/2015, de 23 de octubre, por el que se aprueba el texto refundido de la Ley del Mercado de Valores*) (the "**Spanish Securities Market Law**"), Royal Decree 1310/2005 of 4 November (*Real Decreto 1310/2005, de 4 de noviembre*), and supplemental rules enacted thereunder and only to professional clients (*clientes profesionales*) and eligible counterparties (*contrapartes elegibles*) as these terms are defined in the Spanish Securities Market Law.

## Republic of Italy

The offering of the Securities has not been registered with the Commissione Nazionale per le Società e la Borsa ("**CONSOB**") pursuant to Italian securities legislation and, accordingly, no Securities may be offered, sold or delivered, nor may copies of this Prospectus or of any other document relating to any Securities be distributed in Italy, except, in accordance with any Italian securities, tax and other applicable laws and regulations.

Each Joint Bookrunner has represented and agreed that it has not offered, sold or delivered, and will not offer, sell or deliver any Securities or distribute any copy of this Prospectus or any other document relating to the Securities in Italy except:

- (a) to qualified investors (*investitori qualificati*), as defined pursuant to Article 100 of Legislative Decree no. 58 of 24 February 1998 (the "**Financial Services Act**") and Article 34-ter, paragraph 1, letter (b) of CONSOB Regulation No. 11971 of 14 May 1999 (the "**Issuers Regulation**"), all as amended from time to time; or
- (b) in other circumstances which are exempted from the rules on public offerings pursuant to Article 100 of the Financial Services Act and Issuers Regulation.

In any event, any offer, sale or delivery of the Securities or distribution of copies of this Prospectus or any other document relating to the Securities in Italy under paragraphs (a) or (b) above must be

- (i) made by an investment firm, bank or financial intermediary permitted to conduct such activities in Italy in accordance with the Financial Services Act, Legislative Decree No. 385 of 1 September 1993 (the "**Banking Act**") and CONSOB Regulation No. 20307 of 15 February 2018, all as amended from time to time;
- (ii) in compliance with Article 129 of the Banking Act, as amended from time to time, and the implementing guidelines of the Bank of Italy, as amended from time to time; and
- (iii) in compliance with any other applicable laws and regulations, including any limitation or requirement which may be imposed from time to time by CONSOB or the Bank of Italy or other competent authority.

## General

Each Joint Bookrunner has represented, warranted and agreed that, to the best of its knowledge and belief, it has complied and will comply with all applicable laws and regulations in each country or jurisdiction in which it purchases, offers, sells or delivers Securities or possesses, distributes or publishes this Prospectus or any other offering material relating to the Securities. Persons into whose hands this Prospectus comes are required by the Issuer, the Guarantor and the Joint Bookrunners to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Securities or possess,



distribute or publish this Prospectus or any other offering material relating to the Securities, in all cases at their own expense.

## GENERAL INFORMATION

### Authorisation

1. The creation and issue of the Securities has been authorised by a resolution of the Board of Managing Directors of the Issuer dated 20 December 2018. The giving of the Guarantee of the Securities has been authorised by a resolution of the Executive Commission (*Comisión Delegada*) of the Guarantor dated 12 December 2018, acting upon a resolution of the Board of Directors of the Guarantor dated 9 June 2017 and a resolution of the shareholders acting through the General Shareholders' Meeting of the Guarantor dated 9 June 2017.

### Legal and Arbitration Proceedings

2. Save as described in "*Risk Factors – Risks relating to the Issuer and the Guarantor – Telefónica and Telefónica Group companies are party to lawsuits, tax claims, antitrust and other legal proceedings*" on page 17 of this Prospectus, and under "*Description of the Guarantor – Legal Proceedings*" and "*Description of the Guarantor – Tax Proceedings*" on pages 85 through 91 of this Prospectus, there are no governmental, legal or arbitration proceedings, (including any such proceedings which are pending or threatened, of which the Issuer or the Guarantor is aware), which may have, or have had during the 12 months prior to the date of this Prospectus, a significant effect on the financial position or profitability of the Issuer or the Guarantor and its subsidiaries.

### Significant/Material Change

3. Since 31 December 2018 there has been no material adverse change in the prospects of the Issuer and there has been no significant change in the financial or trading position of the Issuer. Since 31 December 2018 there has been no material adverse change in the prospects of the Guarantor and the Group and there has been no significant change in the financial or trading position of the Guarantor and the Group, save for: (i) on 23 January 2019, the Guarantor made a repayment for EUR 100 million of its bilateral loan signed on 20 December 2017; (ii) on 25 January 2019, Telefónica Emisiones, S.A.U. redeemed EUR 150 million of its notes issued on 25 January 2017 and guaranteed by the Guarantor; (iii) on 5 February 2019, Telefónica Emisiones, S.A.U. issued EUR 1,000 million notes guaranteed by the Guarantor under its EMTN Programme. These notes are due on 5 February 2024, pay an annual coupon of 1.06 per cent and are issued at par (100 per cent.). The net proceeds of the notes are to be allocated towards projects aiming at improving the energy efficiency in the network transformation from copper to fiber optic in Spain; (iv) on 18 February 2019, the Guarantor made an early repayment for EUR 500 million of its EUR 1,000 million bilateral loan signed on 26 June 2014 and originally scheduled to mature on 26 June 2019; (v) on 1 March 2019, Telefónica Emisiones S.A.U. issued U.S.\$1,250 million notes guaranteed by the Guarantor under its US Debt Registered Program (filed with the United States Securities and Exchange Commission on 20 April 2018). These notes are due on 1 March 2049, with a coupon of 5.520 per cent., payable semi-annually, issued at par (100 per cent.).

### Auditors

4. The consolidated financial statements of the Guarantor have been audited without qualification for the years ended 31 December 2018 and 31 December 2017 by PricewaterhouseCoopers Auditores S.L. with its registered address at Torre PwC, Paseo de la Castellana, 259B, 28046 Madrid, Spain, registered with the Official Registry of Accounting Auditors ("**ROAC**") under number S0242.

The unconsolidated financial statements of the Issuer have been audited without qualification for the years ended 31 December 2018 and 31 December 2017 by PricewaterhouseCoopers Accountants N.V. with its registered address at Thomas R. Malthusstraat, 5, 1066 JR Amsterdam, the Netherlands, registered in the Netherlands in the Chamber of Commerce, Rotterdam with registration number 34180285. The auditor that signed the auditor's report on behalf of PricewaterhouseCoopers Accountants N.V. is a member of the Netherlands Institute of Chartered Accountants (*Nederlandse Beroepsorganisatie van Accountants*).

### **Documents on Display**

5. Electronic copies of the following documents may be inspected during normal business hours at the offices of the Fiscal Agent and at the registered/head office of the Issuer and the Guarantor for so long as the Securities are listed:
  - (a) the articles of association of the Issuer (together with English translations thereof);
  - (b) the by-laws of the Guarantor (together with English translations thereof);
  - (c) drafts (subject to modification) of the Fiscal Agency Agreement, the Deed of Covenant and the Deed of Guarantee;
  - (d) the audited unconsolidated financial statements of the Issuer for the years ended 31 December 2018 and 2017; and
  - (e) the audited consolidated financial statements of the Guarantor for the years ended 31 December 2018 and 2017.

Each of the translations into English of the Issuer's articles of association and of the by-laws of the Guarantor is a direct and accurate translation of the corresponding document. In the event of any discrepancy between the English language version and the original language version, the original language version shall prevail.

### **Yield**

6. From (and including) the Issue Date to (but excluding) the First Reset Date, the yield on the Securities will be 4.375 per cent. per annum. The yield is calculated at the Issue Date on the basis of the Issue Price and it is not an indication of future yield.

### **Legend Concerning US Persons**

7. The Securities and any Coupons and Talons appertaining thereto will bear a legend to the following effect: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code."

### **Listing**

8. It is expected that the listing of the Securities on the Official List and the admission of the Securities to trading on the regulated market of Euronext Dublin will take place on or about 14 March 2019, subject to the issue of the Temporary Global Security.
9. The Bank of New York Mellon SA/NV, Dublin Branch is acting solely in its capacity as listing agent for the Issuer (and not on its own behalf) in connection with the application for admission of the Securities to the Official List of the Euronext Dublin and trading on the regulated market of Euronext Dublin.

### **Fees**

10. The estimated costs and expenses in relation to admission to trading are approximately EUR 4,540.

### **Legal Entity Identifier**

11. The Legal Entity Identifier (LEI) code of the Issuer is 7245007FZS0M65WUGP67.

### **ISIN, Common Code, CFI and FISN**

12. The Securities have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The ISIN of the Securities is XS1933828433 and the common code is 193382843.

## Conflicts of Interests

13. Certain Joint Bookrunners and/or their affiliates (including parent companies) may have engaged in various general financing and banking transactions with, and provided financial advisory and investment banking services to the Issuer, the Guarantor and their parent and group companies.

In addition, in the ordinary course of their business activities, the Joint Bookrunners and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or the Guarantor, or the Issuer's or the Guarantor's affiliates. Certain of the Joint Bookrunners or their affiliates that have a lending relationship with the Issuer or the Guarantor routinely hedge their credit exposure to the Issuer or the Guarantor consistent with their customary risk management policies. Typically, such Joint Bookrunners and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Securities issued. Any such short positions could adversely affect future trading prices of the Securities issued. The Joint Bookrunners and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments. For the purposes of this paragraph the term "affiliates" includes also the relevant parent companies of the Joint Bookrunners. The Joint Bookrunners will also receive fees for their role in the issuance.

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